

CMS PROPOSES MORE ACCURATE PAYMENT RATES FOR MEDICARE SKILLED NURSING FACILITIES IN FISCAL YEAR 2010

CASE-MIX ADJUSTMENT RECALIBRATION PROPOSED

The Centers for Medicare & Medicaid Services (CMS) today proposed adjustments to fiscal year (FY) 2010 payment rates to better reflect the cost of caring for Medicare beneficiaries in nursing homes.

The rule calls for payments to Medicare skilled nursing facilities to be reduced by \$390 million, or 1.2 percent lower than payments for FY 2009. This adjustment to nursing facility payments is an effort to rebalance an earlier adjustment to the case-mix indexes (CMIs).

The proposed FY 2010 recalibration of the CMIs would result in a reduction in payments to nursing homes of \$1.050 billion, or 3.3 percent. However, this decrease would be largely offset by this fiscal year's proposed update to Medicare payments to skilled nursing facilities. The update—a proposed increase of 2.1 percent or \$660 million for FY 2010—is based on the change in prices of a “market basket” of goods and services included in covered skilled nursing facility stays. The percentage increase in the market basket is used to compute the update factor annually. The combination of the market basket increase and the recalibration of the CMIs yields the 1.2 percent reduction.

Medicare pays skilled nursing facilities on a prospective payment system known as the Skilled Nursing Facility Prospective Payment System (SNF PPS). The SNF PPS uses a resource classification system known as Resource Utilization Groups, version 3 (RUG-III) to assign a RUG payment group that is used to determine a daily payment rate. The RUG-III group reflects a patient's severity of illness and the kind of services that a person requires—something known as “case-mix.”

For FY 2006, CMS made RUG refinements to better account for the resources used in the care of medically complex patients. The refinement package adjusted the CMIs that were calculated based on forecasted utilization under the refined case-mix system. Skilled nursing facilities have been paid based on these refinements since Jan. 1, 2006.

Although the CMI adjustment that accompanied the expansion of the RUG model was intended to ensure that there would be no change in overall spending levels, it instead resulted in a significant increase in Medicare expenditures, because actual utilization under the refined case-mix system differed significantly from the projections on which the adjustment was based. CMS found that patients were being classified into one of the newly created higher paying RUG groups more than 30 percent of the time (as compared to 19 percent projected by CMS), thus triggering Medicare payments far in excess of the original projections.

CMS is now proposing to recalibrate the case-mix weights in order to restore overall payments to their intended levels on a prospective basis. In this manner, payments beginning in 2010 would reflect the intent of the refinements, and payments to providers would more accurately reflect the service needs of Medicare beneficiaries.

In addition to recalibrating and updating the SNF PPS payment rates for FY 2010, this proposed rule would:

- Propose a revised case-mix classification methodology (RUG-IV) and implementation schedule for FY 2011, reflecting updated staff time measurement data derived from the recently-completed Staff Time and Resource Intensity Verification (STRIVE) project;
- Invite comment on a possible new rate component to account for the use of non-therapy ancillaries (as recommended by MedPAC);
- Include information on the transition to the Minimum Data Set, Version 3.0 (MDS 3.0) redesigned nursing home resident assessment instrument, including an implementation schedule; and
- Invite comment on a possible new requirement for the quarterly reporting of nursing home staffing data.

The proposed rule went on display on May 1, 2009 at the Office of the Federal Register's Public Inspection Desk and will be available under "Special Filings," at:
www.federalregister.gov/inspection.aspx.

For further information, see www.cms.hhs.gov/center/snf.asp. Public comments on the proposal will be accepted until June 30, 2009.