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CMS PROPOSES MORE ACCURATE PAYMENT RATES FOR MEDICARE SKILLED NURSING FACILITIES IN FISCAL YEAR 2009

Recalibration of Case-Mix Adjustment

The Centers for Medicare & Medicaid Services today announced its proposal for new, more accurate fiscal year (FY) 2009 payment rates for Medicare skilled nursing facilities that more closely reflect differences in patient care needs.

“CMS is committed to providing high quality care to those in skilled nursing facilities and to paying those facilities properly for that care,” said Acting Administrator Kerry Weems. “The proposed adjustments to the payment rates for next year reflect that policy.”

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 known as Resource Utilization Groups (RUGs) to help determine a daily payment rate. The RUGs reflect a patient’s severity of illness and the kind of services that a person requires—something known as “case-mix.”

In 2006, CMS made refinements to the case-mix indices (CMIs) to better account for the resources used in the care of medically complex patients. The refinement package included two adjustments to the CMIs that were calculated based on forecasted utilization under the refined case-mix system. Skilled nursing facilities have been paid based on these projections since the beginning of 2006.

The expansion of the RUG model was to be budget neutral, but actually resulted in increased Medicare expenditures. CMS found that patients were being classified into one of the newly created RUG groups more than 30 percent of the time (as compared to 19 percent as previously estimated by CMS), thus triggering Medicare payments that are far higher than was originally projected.

CMS is now proposing to recalibrate the case-mix weights in order to reestablish budget neutrality on a prospective basis. CMS is also proposing to recalibrate the second part of the refinement package that accounted for the use of non-therapy ancillary services. In this manner, payments going forward would reflect the intent of the refinements, and payments to providers would more accurately and better reflect the service needs of Medicare beneficiaries. CMS would also then have in place an accurate and more precise baseline which it could use in anticipation of any additional program enhancements that may be made in future years. These may include enhancements such as payment incentives for quality care and further updates to the case-mix model that would be needed to account for changes in patient needs and industry practice.

The proposed FY 2009 recalibration of these adjustments to better reflect the resources used by beneficiaries would result in a reduction in payments to nursing homes of \$770 million, 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 3.1 percent for 2009—is based on the change in prices of a “market basket” of goods and services included in covered skilled nursing facility stays. The price of the items in the basket is measured every year and Medicare payments are adjusted accordingly.

The proposed 3.1 percent market basket increase for FY 2009 would yield \$710 million in increased payments to skilled nursing facilities. Taken together with the proposed recalibration of the CMI, skilled nursing facilities could expect to see a slight decrease in payments of \$60 million, or 0.3 percent.

“We are confident that with the payment rates we are proposing today, the nation’s skilled nursing facilities would be able to continue to provide high-quality services to those who need critical skilled nursing facility care services,” Weems said.

Public comments on the proposal will be accepted until June 30, 2008.