

FINAL MEDICARE SKILLED NURSING FACILITY PPS UPDATE FOR FY 2010

The Centers for Medicare and Medicaid Services (CMS) published a *Final Rule* updating the Prospective Payment System for Skilled Nursing Facilities (SNF PPS) in the August 11, 2009 *Federal Register* (pages 40288 – 40395). Most updates in this rule (as discussed below) are effective for fiscal year (FY) 2010: October 1, 2009 through September 30, 2010. All page references are for the August 11, 2009 *Federal Register*. Note that swing bed services at all rural hospitals (except for critical access hospitals) continue to be reimbursed under the SNF PPS.

1. **FEDERAL PER DIEM RATES:** Federal per diem rates are prospective payment rates applicable to Medicare Part A SNF services. These rates apply to all costs (routine, ancillary, and capital-related) of covered inpatient SNF services, other than costs associated with approved educational activities. The per diem rates currently consist of four components: nursing casemix, therapy casemix, therapy non-casemix, and non-casemix. The per diems have been updated by the full SNF market basket index of 2.2 percent or \$690 million for FY 2010. The urban and rural federal per diem rate components are in Tables 2 and 3 on page 40293. The update is based on the change in prices of a market basket of goods and services included in covered skilled nursing facility stays.

CMS is considering the addition of a fifth component to the per diems for non-therapy ancillary (NTA). The most costly NTA expense category is drugs and biologicals for which detailed data is not available. SNFs submit less detailed billing for ancillary services furnished during a Medicare covered stay; usually reporting summary data that shows total dollar amounts for each ancillary service category, such as radiology and pharmacy. CMS will re-evaluate current data requirements and consider whether collecting more detailed claims information on a regular basis will allow more accurate payment rates for NTA services.

2. **FY 2010 CASEMIX CLASSIFICATION:** The SNF PPS currently uses a refined 53-group version of the RUG-III casemix classification system to differentiate residents based on intensity of resource use, and calculates payment weights or indices for each patient category. The original 44-group model was expanded with services effective on and after January 1, 2006. The nine-group addition undertaken in 2006 was designed to better account for the higher costs of patients requiring both rehabilitation and certain high intensity medical services. New case-mix indices were constructed for the refined RUG-53 system using staff time measurement studies collected during the 1990s and originally used in creating the initial SNF PPS.

The RUG-III system was standardized to ensure parity in payments under the 44-group and 53-group models. The parity adjustment was intended to ensure that estimated total payments under the refined 53-group model would be equal to those payments that would have been made under the 44-group model that it replaced. An analysis using 2001 data indicated that total payments would decrease under the 53-group system. An adjustment was applied to the RUG-53 casemix weights to prevent this expected reduction.

Recent analysis has showed that, rather than achieving budget neutrality the RUG-53 model significantly overpaid the SNFs. For FY 2010, CMS estimates expenditures to be \$1.05 billion higher than intended. FY 2010 casemix weights have been recalibrated to restore the intended

parity to the 2006 case-mix refinements on a prospective basis. This recalibration results in a reduction in payments to nursing homes of \$1.050 billion, or 3.3 percent.

3. **CASEMIX-ADJUSTED FEDERAL RATES:** The urban and rural federal per diem rate components are multiplied by payment indices (or weights) which are specific to each component and RUG-53 group. Individual casemix adjusted components are then calculated to obtain a casemix-adjusted per diem urban and rural rate for each RUG-53 group. Payment indices reflect the amount of nursing and therapy time that is associated with caring for patients in each RUG-53 group and reflect the resource intensity of each group relative to all RUG-53 groups. The per diem rate components have been updated for FY 2010 and the individual payment indices have been changed as described above. Casemix-adjusted federal rates and associated indices for each RUG-53 category can be found in Table 4 for urban facilities and Table 5 for rural facilities on pages 40298 - 40300.
4. **WAGE ADJUSTMENT:** A portion of the payment rate is attributable to wage-related costs and is adjusted by the facility-specific wage index. Tables 6 and 7 identify the labor and non-labor components of each casemix adjusted federal per diem rate on pages 40301-40303. For FY 2010, the SNF PPS is using the full CBSA-based wage index values. Wage index values can be found in Tables A and B (pages 40365 – 40385). In FY 2010 (for purposes of wage-adjustment) 69.84% of SNF costs are considered labor related. This is a slight increase from the FY 2009 labor-related portion of 69.783%.
5. **AIDS ADJUSTMENT:** Section 511 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) mandated a 128% increase in the per diem adjusted payment rates for SNF residents with AIDS, identified with ICD-9-CM diagnosis code 042 (HIV disease). This adjustment remains in effect for FY 2010.
6. **CONSOLIDATED BILLING:** As has been past practice, updates to the SNF consolidated billing lists will be made available after the CPT and HCPCS code set updates for 2010 have been announced. Updates to the SNF consolidated billing lists are expected to be posted to the CMS web site in December 2009.
7. **FY 2011 CASEMIX AND MDS CHANGES:** CMS recently completed a multi-year data collection and analysis of staff time measurements under the Staff Time and Resource Intensity Verification (STRIVE) project. STRIVE data has been used to update the RUG-III case-mix classification system for FY 2011. This revised system will be the RUG-IV. At the same time an updated new resident assessment instrument (the Minimum Data Set Version 3.0 [MDS 3.0]), will be introduced to collect the clinical data that will be used for case-mix classification under RUG-IV. The coordinated introduction of the RUG-IV and MDS 3.0 reflects current medical practice and resource use in SNFs across the country, and will enhance the accuracy of the SNF PPS.

CMS intends to include rural hospital swing beds in the transition to the MDS 3.0. Implementation of the RUG-IV and MDS 3.0 will not occur until October 1, 2010 to allow all stakeholders adequate time for the system updates and staff training needed to assure a smooth transition.

8. **FUTURE CHANGES:** As you should be aware, CMS is conducting a major demonstration project, the Post Acute Care Payment Reform Demonstration (PAC-PRD). Under this major initiative, the agency intends to analyze the costs and outcomes across all post-acute care providers. The intended outcome is to use the data collected in this demonstration to evaluate a potential integrated payment model centered on beneficiary needs and service utilization (including the use of non-therapy ancillaries) across various settings. Data collection began in 2008 and is expected to continue for three years. CMS feels that future changes to the SNF PPS will need to be evaluated as a part of the integrated post acute care strategy.

9. **IMPACT ANALYSIS OF POLICY CHANGES:** CMS estimates that the total impact of the policy changes and rate updates for FY 2010 SNF payments compared to FY 2009 SNF payments is a decrease of \$360 million or 1.1 percent. The final 1.1 percent decrease is composed of the casemix recalibration reduction of \$1.050 billion or 3.3 percent; which is largely offset by the full SNF market basket increase of 2.2 percent.

A projection of the impact of changes for FY 2011 due to the introduction of the RUG–IV model shows no change in total payments, but there are distributional changes expected in FY 2011 due to the proposed RUG–IV classification system. It is estimated that some facilities will experience payment increases while others experience payment decreases. For example, providers in the urban New England and urban Middle Atlantic regions show projected increases of 1.3 percent, while providers in the urban South Atlantic show projected decrease of .06 percent. Rural New England has a projected decrease of 1.3 percent, rural Middle Atlantic shows a projected increase of .06 percent, and the rural South Atlantic has a projected decrease of .09 percent.

FOR FURTHER INFORMATION

If you have questions regarding the Skilled Nursing Facility Prospective Payment System changes described above, or if you need software to assign the appropriate casemix measures and calculate reimbursement, please contact our Client Services Department at 1-800-999-DRGS (3747). *Industry Insights*, as well as source documents and relevant statistics can be located on the Ingenix web site under News & Events: <http://www.ingenix.com/News/Industnews/>.