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200 Independence Avenue, SW
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Contact: CMS Public Affairs
(202) 690-6145

CMS Proposes Options for 2012 Payment Rates For Medicare Skilled Nursing Facilities *Case-Mix Adjustment Recalibration under Review*

The Centers for Medicare & Medicaid Services today issued a proposed rule that discusses options the agency is considering for purposes of setting the 2012 Medicare payment rates for skilled nursing facilities (SNFs).

One option being considered reflects the standard rate update methodology which would provide an increase of \$530 million, or 1.5 percentage points. The increase is derived from applying the 2012 market basket index of 2.7 percent reduced by 1.2 percentage points to account for greater efficiencies in the operation of nursing homes. This provision was called for in the Affordable Care Act.

The other option CMS is considering adjusts for an unexpected spike in nursing home payments during FY 2011. Under this option, CMS would restore overall payments to their intended levels on a prospective basis which would require reducing FY 2012 payments to Medicare skilled nursing facilities by \$3.94 billion, or 11.3 percent lower than payments for FY 2011.

Medicare pays skilled nursing facilities using a prospective payment system known as the SNF PPS. The SNF PPS uses a case-mix classification system known as Resource Utilization Groups, version four (RUG-IV) that is used to determine a daily payment rate. Each RUG-IV group is assigned a case mix index (CMI) that reflects relative differences in patient acuity. In this way, the RUG-IV group reflects the kind of services that a person requires according to medical need and the intensity of treatment.

For FY 2011, CMS implemented RUG-IV, which includes refinements to better account for the resources used in the care of medically complex patients and therapy patients. In implementing RUG-IV, CMS adjusted the RUG-IV CMIs based on forecasted utilization under the refined case-mix system to ensure that the transition to RUG-IV did not trigger a change in overall payment levels. Skilled nursing facilities have been paid based on these refinements since Oct. 1, 2010.

Although the CMI adjustment that accompanied the transition to the RUG-IV model was intended to ensure there would be no change in overall spending levels, it instead appears to have resulted in a significant increase in Medicare expenditures. CMS has come to this conclusion because actual utilization under the refined case-mix system has differed significantly from the projections on which the adjustment was based. For example, using initial data that reflect actual RUG-IV claims experience, CMS has now found that patients are being classified into one of the highest paying RUG-IV therapy groups more than 40 percent of the time (as compared to less than 10 percent as originally projected by CMS), thus triggering Medicare payments far in excess of the original projections.

Pending confirmation of this preliminary assessment, CMS will be reviewing data from actual claims under the RUG-IV system as it becomes available. CMS will then evaluate the necessity of recalibrating the case-mix weights in the FY 2012 final rule.

In addition to discussing the SNF PPS payment rate update for FY 2012, this proposed rule would:

- Propose to implement section 6101 of the Affordable Care Act, which requires Medicare SNFs and Medicaid nursing facilities to disclose certain information in a standardized format to HHS and other entities regarding the ownership and organizational structure of their facilities; and
- Propose to revise the definition of group therapy and to require allocation of group therapy minutes in assigning RUG-IV payment groups; and
- Propose a new Medicare-required assessment to be completed by SNFs when changes occur in the intensity of therapy. Propose to modify the required schedule for completing the MDS 3.0; and
- Propose a revision to the policy regarding “line-of-sight” supervision of therapy students.

The proposed rule went on display on April 28 at the *Federal Register’s* Public Inspection Desk and will be available under “Special Filings,” at: http://www.ofr.gov/OFRUpload/OFRData/2011-10555_PL.pdf or <http://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 27.

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