

JULY 29, 2011

MEDICARE TO CUT \$3.87 BILLION IN SKILLED-NURSING FACILITY PAY

Effective fiscal year (FY) 2012, The Centers for Medicare & Medicaid Services (CMS) final rule on *Prospective Payment System and Consolidated Billing for Skilled Nursing Facilities for FY 2012*, released July 29, reduces Medicare skilled nursing facility (SNF) Prospective Payment System (PPS) payments by 11.1%. CMS states this action was taken to "better align Medicare payments with costs" and correct an unintended spike in payment levels.

The unintended spike in payment levels was generated by an adjustment in the case-mix index calibration for FY 2011 based on forecasted utilization during the change to Resource Utilization Groups Version 4 (RUG-IV) classifications. In an attempt to ensure the new RUG-IV would not change the overall spending levels from the previous year, the adjustment resulted in a significant increase in Medicare expenditures during FY 2011.

Shifts in the utilization of therapy modes under the new classification system was the primary cause of the increased expenditures. The final rule addresses changes to SNF therapy reimbursement requirements and introduces a new Change of Therapy (COT) Other Medicare Required Assessment (OMRA) to capture changes in a patient's therapy status that would be sufficient to affect the patient's RUG-IV classification and payment.

CMS points out the recalibration of the case-mix indices will result in a reduction of \$4.47 billion in payments to SNFs. However, a FY 2012 update to the Medicare payments to SNFs of \$600 million will partially offset the reduction. This update reflects an increase in the "market basket" of goods and services mandated by the Affordable Care Act.

Even with the 11.1% reduction, the FY 2012 SNF PPS payment rates will be 3.4% higher than the FY 2010 rates. The recalibration was done to correct the unintended spike in FY 2011 payments and reflect the intent of RUG-IV to more accurately pay SNF providers based on the services needs of Medicare beneficiaries in their care.

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