

## Spotlight: CMS Proposes Significant Changes to Medicare Skilled Nursing Facility Payment System

### COMMENTS DUE BY JUNE 26

**Overview.** On April 27, the Centers for Medicare & Medicaid Services (CMS) issued a proposed rule ([published in the May 8 Federal Register](#)) that would make significant changes to the Medicare prospective payment system (PPS) for skilled nursing facilities (SNFs). These changes, scheduled to take effect on October 1, 2019, may have implications for states that base Medicaid nursing facility (NF) payment, at least in part, on the SNF PPS case mix adjustment methodology used in the current Medicare SNF payment system. In addition, a new SNF financial incentive aimed at reducing hospital readmissions for SNF residents is scheduled to take effect on October 1, 2018 as part of the SNF Value-Based Purchasing (VBP) program. States and health plans that serve dually eligible beneficiaries and are developing VBP approaches for Medicaid NFs may want to take this new Medicare SNF VBP initiative into account. A [CMS Fact Sheet](#) has more information on the proposed rule and the SNF VBP program.

**Proposed changes to the Medicare SNF payment system.** CMS is proposing to base Medicare SNF payments primarily on patient characteristics and care needs, rather than have payments rely significantly on the amount of physical, occupational, and speech therapy provided to patients, as in the current system. (See pp. 21040-21061 in the May 8 *Federal Register* for a detailed discussion of how the proposed new SNF Patient-Driven Payment Model [PDPM] will work.) The PDPM is also designed to reduce administrative burden by substantially reducing the number of required patient assessments.

As CMS notes, the current system provides incentives for SNFs to deliver therapy to beneficiaries based on financial considerations, rather than the most effective course of treatment. While most of the changes to the Medicare SNF payment system that CMS is proposing involve therapies, prescription drugs, and other post-acute services that SNFs provide during a covered Medicare Part A SNF stay, and not to the longer-term nursing care services provided as part of Medicaid NF benefits, there are some changes being proposed that may have relevance for Medicaid NF payment systems that are based on the current Medicare RUG-IV case mix system. ***CMS is specifically soliciting comments from states on “on the impact of these policy proposals on state Medicaid programs.” (May 8 Federal Register, p. 21074)***

**Potential state implications.** States that use Minimum Data Set (MDS) assessments and/or Resource Utilization Groups (RUGs) classifications for Medicaid nursing facility payment purposes should carefully consider any potential impacts from potential changes described in the proposed rule. For example:

- **Potential impact of changes in RUGs-based case mix categories and frequency of MDS assessments on state Medicaid payment and claims processing systems.** If state NF payment systems are tied very closely to the RUGs categories used for payment purposes in SNFs and/or to the Medicare SNF MDS assessments, modifications to those elements of the

SNF payment system could require changes in Medicaid payment and claims processing systems. MDS assessments for SNF residents are currently quite frequent (on or around days 5, 14, 30, 60, and 90), reflecting to some extent the variations in therapy use that may occur during a SNF stay. With the proposed move to base SNF payment primarily on patient characteristics and care needs, which are less subject to change over short periods, CMS is proposing less frequent assessments (an initial assessment, with reassessments if there are significant changes in status, and at discharge) for the new PDPM system. (See pp. 21061-21065 of the May 8 *Federal Register* for details.)

- **Potential impact on Medicaid upper payment limit (UPL) calculations.** In 2015, the [Medicaid and CHIP Payment and Access commission reported](#) that 22 states were making UPL supplemental payments to Medicaid NFs. Some states make higher UPL-based payments to government-owned NFs, which states are allowed to put in a separate UPL category. While CMS is assuming that the proposed rule will be implemented in a budget neutral way so that aggregate SNF payments will be unchanged, there will be increases and decreases for specific types of residents and types of facilities. CMS estimates that if the proposed PPS changes are implemented in a budget neutral manner, SNF payments to government-owned facilities, which make up about 5 percent of all SNFs, would increase by 4.2 percent. (See Table 38 on pp. 21077-21079 of the May 8 *Federal Register*.) This could allow higher UPL-based payments for these facilities.

**SNF Value-Based Incentive Payments.** Beginning on October 1, 2018, the SNF VBP program will make either positive or negative incentive payments to SNFs based on the program's hospital readmissions measure. This claims-based, all-cause 30-day hospital readmissions measure will be used to determine how much each facility's rate for the upcoming fiscal year should be adjusted up or down. (For details, see pp.21084-21089 of the May 8 *Federal Register*.) This new SNF VBP program and the availability of facility-specific hospital readmissions data will provide opportunities for states to enhance their Medicaid NF VBP programs. To date, State Medicaid NF VBP systems have generally focused on measures other than hospitalizations, which Medicare covers for dually eligible Medicaid NF residents. (For details, see ICRC's November 2017 TA tool [Value-Based Payment in Nursing Facilities: Options and Lessons for States and Managed Care Plans](#)). Now that this VBP measure of hospital readmissions is being used in SNFs, states and health plans serving dually eligible beneficiaries in Medicaid NFs and Medicare SNFs have the opportunity to make it a part of any VBP payment they establish for dually eligible beneficiaries in these facilities.

**CMS will accept comments from states and others on the proposed rule until 5 PM on June 26, 2018. Please see [Regulations.gov](#) for information on how to submit comments.**

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