# Medicare Skilled Nursing Facility Prospective Payment System

Payment Rule Brief — PROPOSED RULE

Program Year: FFY 2018

### **Overview and Resources**

On May 4, 2017, the Centers for Medicare and Medicaid Services (CMS) released the federal fiscal year (FFY) 2018 proposed payment rule for the Skilled Nursing Facility (SNF) Prospective Payment System (PPS). The proposed rule reflects the annual updates to the Medicare fee-for-service (FFS) SNF payment rates and policies. CMS also issued an advance notice of proposed rule-making (ANPRM) to solicit public comments on potential options for revising the SNF PPS payment methodology.

A copy of the proposed rule *Federal Register* (FR) and other resources related to the SNF PPS are available on the CMS website at <a href="http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/SNFPPS/index.html">http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/SNFPPS/index.html</a>.

An online version of the proposed rule is available at https://federalregister.gov/a/2017-08521.

The ANPRM is available at <a href="https://federalregister.gov/a/2017-08519">https://federalregister.gov/a/2017-08519</a>.

Program changes proposed by CMS will be effective for discharges on or after October 1, 2017, unless otherwise noted. Comments on the proposed rule and ANPRM are due to CMS by June 26, 2017 and can be submitted electronically at <a href="http://www.regulations.gov">http://www.regulations.gov</a> by using the website's search feature to search for file codes "1679-P" and "1686-ANPRM" respectively.

## **SNF Payment Rates**

FR pages 21017-21022, 21031

Incorporating the proposed updates with the effect of a budget neutrality adjustment, the table below shows the proposed urban and rural SNF federal per-diem payment rates for FFY 2018 compared to the rates currently in effect:

	Urban SNFs		
Rate Component	Final FFY	Proposed	Percent
	2017	FFY 2018	Change
Nursing Case-Mix	\$175.28	\$177.16	
Therapy Case-Mix	\$132.03	\$133.44	+1.1%
Therapy Non-Case-Mix	\$17.39	\$17.58	+1.1%
Non-Case-Mix	\$89.46	\$90.42	

Rural SNFs		
Final FFY	Proposed	Percent
2017	FFY 2018	Change
\$167.45	\$169.24	
\$152.24	\$153.87	.1 10/
\$18.58	\$18.78	+1.1%
\$91.11	\$92.09	

CMS is proposing to continue the 128% add-on to the per-diem payment for patients with Acquired Immune Deficiency Syndrome (AIDS).

The Medicare Access and CHIP Reauthorization Act (MACRA) mandated the annual marketbasket update for FFY 2018, after applying the productivity adjustment, to be 1 percent.

The table below provides details of the proposed updates to the SNF payment rates for FFY 2018:

	SNF Rate Proposed Updates and Budget Neutrality Adjustment
Marketbasket Update	+2.7%
Affordable Care Act (ACA)-Mandated Productivity Reduction	-0.4 percentage points
MACRA Mandated 1.0% Marketbasket Update	-1.27%
Wage Index/Labor-Related Share Budget Neutrality	1.0003
All Other Budget Neutrality	+0.04%
Overall Rate Change	+1.1 %

# **Revising and Rebasing of the SNF Market Basket**

FR pages 21016-21017, 21029-21039, 21041

CMS is proposing to revise and rebase the SNF market basket for FFY 2018 from a base year of FFY 2010 to FFY 2014. Specifically, the FFY 2018 market basket would reflect 2014 Medicare-allowable total cost data. The FFY 2010 base year as opposed to the FFY 2014 base year in calculation of market basket would result in the same market basket for FFY 2018.

## Wage Index and Labor-Related Share

FR pages 21022-21026, 21039-21041

The wage index, which is used to adjust payment for differences in area wage levels, is applied to the portion of the SNF rates that CMS considers to be labor-related. CMS is proposing to use FFY 2014 cost report wage data to establish the labor share for SNF payments. The proposed labor-related share for FFY 2018 is 70.8% compared to 68.8% in FFY 2017.

CMS is proposing to apply a budget neutrality factor of 1.0003 for FFY 2018 to ensure that aggregate payments made under the SNF PPS are not greater or less than would otherwise be made if wage adjustments had not changed.

A complete list of the wage indexes to be used for payment in FFY 2018 is available on the CMS website at http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/SNFPPS/WageIndex.html.

#### **RUGS-IV**

FR pages 21019-21022

CMS classifies residents into resource utilization groups (RUGs) that are reflective of the different resources required to provide care to SNF patients. The RUGs classification reflects resident characteristic information, relative resource use, resident assessment, and the need for skilled nursing care and therapy. RUGs-IV, the current version, was implemented beginning FFY 2011. The patient assessment tool, the Minimum Data Set (MDS) 3.0, is used to assign patients to RUG-IV categories. Each of the 66 RUGs recognized under the SNF PPS have associated nursing and/or therapy case-mix indexes (CMIs). These CMIs are applied to the federal perdiem rates. CMS will not make any changes to RUGs-IV groupings in FFY 2018. The RUG-IV case-mix adjusted federal rates and associated indexes for both urban and rural SNFs are listed in Tables 4 and 5 on Federal Register pages 21020-21022.

## **SNF Value-Based Purchasing Program**

FR Pages 21080-21087

**Background:** For FFYs 2019 and beyond, CMS is required by the Protecting Access to Medicare Act of 2014 (PAMA) to implement a VBP (Value-Based Purchasing) program for SNFs under which value-based incentive payments are made to the SNFs.

#### SNF VBP Measures

FR pages 21080-21081

In the FFY 2016 Final Rule, CMS adopted the Skilled Nursing Facility 30-Day All-Cause Readmission Measure, (SNFRM) (NQF #2510) as the sole measure to be used in the SNF VBP Program. In the FFY 2017 Final Rule, CMS finalized that they will replace the SNFRM measure in the SNF VBP Program with the SNF 30-Day Potentially Preventable Readmission measure (SNFPPR) as soon as is practical. In the FFY 2018 Proposed Rule, CMS stated that the best opportunity for transition from the SNFRM to the SNFPPR will be with the FFY 2021 program year, but is requesting additional comments on this.

CMS is also considering if they should account for social risk factors in the SNF VBP program, and if so, how and which factors.

## Performance Standards and Scoring

FR pages 21081- 21086

In the FFY 2017 final rule, CMS finalized achievement standards for SNF VBP quality measures as follows:

Performance Standard	Value
Achievement Threshold	25 <sup>th</sup> percentile of national SNF performance on the quality measure during the applicable baseline period
Benchmark	Mean of the top decile of SNF performance on the quality measure during the applicable baseline period
Achievement Range	SNFs would receive points on a scale between achievement threshold and benchmark

Similar to the Hospital VBP program, SNFs will receive achievement points if they meet or exceed the achievement threshold for the specified measure, and could increase their achievement score based on higher levels of performance.

The final values for the achievement threshold and benchmark for the SNFRM measure for the FFY 2019 program are:

Measure ID	Performance Standards	
SNFRM	Achievement threshold	
	0.79590	
	Benchmark	
	0.83601	

CMS is proposing performance standards for the SNFRM measure for the FFY 2020 program year as follows:

Measure ID	Estimated Performance Standards	
SNFRM -	Achievement threshold	
	0.80218	
	Benchmark	
	0.83721	

As previously adopted, CMS will always publish the numerical values of the achievement threshold and benchmark no later than 60 days prior to the beginning of the performance period; but if necessary, outside of notice-and-comment rulemaking will be used to accomplish this requirement.

The improvement threshold is defined as each specific SNF's performance on the specific measure during the applicable baseline period. SNFs' performance would be measured during both the baseline and performance periods, and points for improvement would be awarded by comparing SNFs' performance to the improvement threshold.

One year of data is used to calculate measure rates, shown in the table below for FFY 2019:

Baseline period	Performance Period	Payment Period
January 1, 2015 – December 31, 2015	January 1, 2017 – December 31, 2017	FFY 2019

CMS is proposing a transition from calendar year to federal fiscal year baseline and performance periods for FFY 2020 shown in the table below:

Baseline period	Performance Period	Payment Period	
October 1, 2015 – September 30,	October 1, 2017 – September 30,	FFY 2020	
2016	2018		

CMS finalized a scoring methodology for the SNF VBP Program using a 0 to 100 point scale for achievement scoring and a 0 to 90 point scale for improvement, similar to that of the Hospital VBP Program. However, in the FFY 2018 proposed rule, CMS is proposing to round scores on the achievement and improvement scales to the nearest ten-thousandth of a point, rather than the nearest whole number in order to avoid ties.

The equation for SNF achievement scores is below. SNFRM scores will be inverted so that a higher rate represents better performance:

SNF Achievement Score = 
$$([9 \times \frac{(SNFs'Perf.Period\ Inverted\ Rate-Achievement\ Threshold)}{(Benchmark-Achievement\ Threshold)})] + 0.5) \times 10$$

The equation for SNF improvement scores is:

Under the PAMA, the SNF VBP program will take the higher of achievement and improvement scores in calculating the SNF performance score.

In calculation of performance scores, CMS is concerned about SNFs with zero readmissions because readmission rates of zero is the desired outcome. Risk-adjustment of readmission rates of zero creates increased rates which may result in a penalty under the program. As a result, CMS is requesting comments on how to accommodate SNFs with readmission rates of zero.

After performance scores are calculated, they need to be converted to dollar impacts, and therefore CMS is proposing a logistic exchange function to translate SNF performance scores into value-based incentive payments under the SNF VBP Program beginning in FFY 2019. Use of a logistic exchange function would ensure that all statutory requirements by the PAMA are met, including:

- SNFs in the lowest 40 percent of rankings receive a reduced payment;
- There is an appropriate distribution of value-based incentive payment percentages; and
- The total amount of value-based incentive payments for all SNFs for a FFY would be between 50% and 70% of the amounts withheld from SNF's claims, resulting in a program that is not budget neutral.

Under the PAMA, 2% of SNF's adjusted federal per diem rate will fund the value-based incentive payments for a given FFY. CMS is proposing to return 60% of these reductions to payments back to SNFs as value-based incentive payments each program year.

The logistic exchange function that CMS is proposing to use for FFY 2019 is:

$$y_i = \frac{1}{1 + e^{-0.1(x_i - 50)}}$$

Where  $x_i$  is the SNF's performance score.

### Reporting/Review, Correction and Appeals Process

FR pages 21086 - 21087

Since October 1, 2016, CMS has been required by PAMA to provide quarterly feedback reports to SNFs on their performance on the readmission or resource use measure (see below). CMS is finalizing a two-phase data review and collection process for SNFs' measure and performance data that will be made public.

#### Phase One: Review and Correction of SNF's Quality Measure Information:

CMS previously finalized that they will provide quarterly confidential feedback reports to SNFs on their performance on the program's measures. Corrections to any quarterly reports provided during a calendar year will be accepted until the following March 31.

#### Phase Two: Review and Correction of SNF Performance Scores and Ranking:

CMS proposes to inform each SNF of its payment adjustments as a result of the SNF VBP Program no later than 60 days prior to the fiscal year involved. In this report, CMS intends to provide SNFs with their SNF performance scores and ranking following phase one. Because SNFs will have had the opportunity to verify and correct their quality measure, CMS is proposing that phase two correction requests be limited only to corrections to the SNF performance score's calculation and ranking and that requests be made no later than 30 days following the date that the report was posted.

Lastly, CMS is proposing to begin publishing SNF VBP performance information under the SNF VBP Program on *Nursing Home Compare* no later than October 1, 2017. CMS is also proposing to rank SNFs for the FFY 2019 program year and to publish that ranking after August 1, 2018.

# **SNF Quality Reporting Program (QRP)**

FR pages 21041-21080

The Improving Medicare Post-Acute Care Transformation (IMPACT) Act of 2014 mandates the implementation of a quality reporting program for SNFs. As previously finalized, beginning in FFY 2018, the IMPACT Act requires a 2 percentage point penalty for those SNFs that fail to submit required quality data to CMS.

CMS is considering methods to account for social risk factors in the SNF QRP such as income, education, race and ethnicity, employment, disability, community resources, and social support. CMS is seeking comment on how to incorporate social risk factors and which social risk factors should be incorporated.

## Summary Table of Domains and Measures Previously Finalized for the SNF Quality Reporting Program

Domain	Measures	Payment Determination Year
Skin Integrity and Changes in Skin Integrity	Percent of Residents or Patients with Pressure Ulcers that are New or Worsened (Short-Stay) (NQF #0678)	FFY 2017+
Incidence of Major Falls	Application of Percent of Residents Experiencing One of More Falls with Major Injury (Long Stay) (NQF #0674)	FFY 2017+
Functional Status, Cognitive Function, and Changes in Function and Cognitive Function	Application of Percent of Patients or Residents With an Admission and Discharge Functional Assessment and a Care Plan that Addresses Function (NQF#2631; endorsed on July 23,2015)	FFY 2017+
Resource Use and Other Measures	Total Estimated Medicare Spending per Beneficiary (MSPB)	FFY 2018+
Resource Use and Other Measures	Discharge to Community	FFY 2018+
Resource Use and Other Measures	Potentially Preventable 30-Day Post Discharge Readmission Measure	FFY 2018+
Medication Reconciliation	Drug Regimen Review Conducted with Follow-Up for Identified Issues	FFY 2020+

CMS is proposing to remove the current Percent of Residents or Patients with Pressure Ulcers That Are New or Worsened (Short Stay) (NQF #0678) measure and replace it with a modified version of the measure, Changes in Skin Integrity Post-Acute Care: Pressure Ulcer/Injury, for the FFY 2020 SNF QRP.

In addition, CMS is proposing to adopt four more function outcome measures on resident functional status for FFY 2020:

- Application of Inpatient Rehabilitation Facility (IRF) Functional Outcome Measure: Change in Self-Care Score for Medical Rehabilitation Patients (NQF #2633);
- Application of IRF Functional Outcome Measure: Change in Mobility Score for Medical Rehabilitation Patients (NQF #2634);
- Application of IRF Functional Outcome Measure: Discharge Self-Care Score for Medical Rehabilitation Patients (NQF #2635); and
- Application of IRF Functional Outcome Measure: Discharge Mobility Score for Medical Rehabilitation Patients (NQF #2636).

Several measures are also under consideration for the SNF QRP program for future years: (1) Application of Percent of Residents Who Self-Report Moderate to Severe Pain; (2) Application of Percent of Residents or Patients Who Were Assessed and Appropriately Given the Seasonal Influenza Vaccine; (3) Percent of SNF Residents Who Newly Received an Antipsychotic Medication; and (4) Modification of the Discharge to Community Measure.

To comply with the IMPACT act, in order to enable access to longitudinal information and to facilitate coordinated care, CMS is proposing that SNFs begin reporting standardized patient assessment data with respect to five specified patient assessment categories required by law for the FFY 2020 SNF QRP, including:

- **Functional status**
- Cognitive function

- Special services, treatments, and interventions
- Medical conditions and comorbidities
- Impairments

## Request for Information on CMS Flexibilities and Efficiencies

FR pages 21090

CMS is issuing a Request for Information on how Medicare can contribute to making the healthcare delivery system less bureaucratic and complex, and how they can reduce burden to clinicians, providers, and patients in a way that increases the quality of care and decreases costs.

## Advanced Notice of Proposed Rulemaking (ANPRM)

FR pages 20980 - 21012

Along with the FFY 2018 SNF PPS proposed rule, CMS issued an ANPRM to solicit comments on revisions to the SNF PPS payment methodology. Specifically, CMS is considering replacing the SNF PPS' existing case-mix classification model, Resource Utilization Groups, Version 4 (RUG-IV), to improve its accuracy, with a new model, Resident Classification System, Version I (RCS-I).

#### FR pages 20981 - 20984

Currently, CMS case-mix assigns patients under the SNF PPS program into payment classification groups, called RUGs, based on various resident characteristic and the type and intensity of therapy services provided to the resident. There are several concerns with the current methodology. The basis of one concern is that a resident may be classified into more than one group and only the higher paying of these groups is used for payment purposes. This methodology provides SNFs with a financial incentive to provide higher paying therapy to patients, even when it is unnecessary. Therefore, this will ensure that the amount of therapy paid for by Medicare accurately reflects beneficiaries' needs.

#### FR pages 20984 - 21000

Similar to the RUG-IV, the RCS-I would be composed of both case-mix and non-case-mix adjusted components:

- Physical therapy (PT)
- Occupational therapy (OT)
- Speech-language pathology (SLP) services
- Nursing services and non-therapy ancillaries (NTAs).

However, the RCS-I would consist of four case-mix adjusted components (PT/OT, SLP, nursing, and NTA), while the RUG-IV only consists of two (therapy and nursing). These additional components would create a more resident-centered case-mix adjustment.

In the RCS-I model, all residents would be classified into only one case-mix group per classification (PT/OT, SLP, nursing, and NTA). The RUG-IV system determines therapy payments based only on the amount of therapy provided, while the RCS-I would classify residents based on three resident characteristics that are predictive of PT/OT utilization: resident comorbidities, use of extensive services, and resident age. Therefore, RCS-I would provide a better measure of resource use. The same characteristics are used for RUG-IV as well, but for a different purpose.

#### FR pages 21000 - 21004

CMS also is considering other policies to improve the SNF PPS. Currently under the SNF PPS, each RUG is paid at a constant per diem rate, regardless of how many days a resident is classified in that particular RUG. Constant per diem rates do not track variations in resource use throughout a SNF stay and therefore allocates too few resources for SNF providers at the beginning of a stay. CMS is considering adjustments to account for the effect

of length of stay on per diem costs as well as a separate adjustment schedule and index for the different components of RCS-I to reflect the change in resource utilization over the course of a stay.

## FR pages 21004 – 21007

In addition, CMS is considering modifications to the interrupted stay policy as well as placing 25% limits on concurrent therapy and group therapy in order to better align with the RCS-I model. Lastly, CMS is considering how to best implement RCS-I and the impact of doing so.

CMS intends to propose these changes in the FFY 2019 SNF PPS proposed rule.

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