



Medicare: Issue of the Day

July 30, 2004

BETTER BENEFITS – MORE CHOICES

*Good News about the Medicare Prescription Drug, Improvement
and Modernization Act of 2003!*

MEDICARE INCREASES NURSING HOME PAYMENT RATES

- ❖ The Centers for Medicare & Medicaid Services (CMS) yesterday announced an **update to the Medicare payment rates for skilled nursing facilities** that will result in an **estimated \$440 million increase in Medicare payments** in fiscal year 2005. The increase reflects a **2.8 percent annual update** in payment rates.
 - ❖ CMS is also taking further steps to improve nursing home quality including enhancements in enforcement and oversight activities.
 - ❖ CMS is also strengthening its publicly reported information on nursing home quality. (Go to www.medicare.gov/nhcompare for more information about nursing home inspection reports)
- ❖ Under Medicare's skilled nursing facility prospective payment system (SNF PPS), each facility is paid a daily rate based on the relative needs of individual Medicare patients, adjusted for local labor costs.
 - ❖ The daily rate **covers the costs of furnishing all covered nursing facility services**, including routine services such as room, board, nursing services, and some medical supplies; related costs such as therapies, drugs and lab services; and capital costs including land, buildings and equipment.
- ❖ CMS uses a skilled nursing facility “*market basket*” to measure inflation in the prices of an appropriate mix of goods and services included in covered skilled nursing facility stays. The **price of items in the market basket is measured each year, and Medicare payments are adjusted accordingly**.
- ❖ In addition, CMS applies an adjustment to account for forecast error whenever the difference between the forecasted and actual change in the market basket exceeds a 0.25 percentage point threshold.
- ❖ For fiscal year 2003 (the most recently available fiscal year for which there is final data), the estimated increase in the market basket index was 3.1 percentage points, while the actual increase was 3.3 percentage points, resulting in only a 0.2 percentage point difference. Accordingly, as the difference between the forecasted and actual amounts of change does not exceed the 0.25 percentage point threshold, the payment rates for FY 2005 do not include a forecast error adjustment.
- ❖ This update notice also reflects the decision by CMS to retain the current classification system that establishes daily payment rates to skilled nursing facilities based on the needs of

Medicare beneficiaries. This decision will result in nursing homes **continuing to receive an estimated \$1 billion in temporary add-on payments next year**. The individual classification groups are known as the Resource Utilization Groups or RUGs.

- ❖ CMS continues to work to refine the classification, or case-mix, system, in order to more accurately reimburse nursing homes.
- ❖ The refinements ultimately would help to **ensure that Medicare pays appropriately for patients that require more complicated care**. However, after careful review of the available data, CMS determined that the research is not sufficiently advanced at the present time to implement refinements this year. **CMS continues to work with the Urban Institute**, a non-partisan economic and social policy research group, to develop appropriate case mix refinements.
- ❖ The payment updates are included in a notice that will be published in the July 30 *Federal Register*.