



*Advising the Congress on Medicare issues*

# Revising the SNF PPS

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# Problems with the SNF PPS

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- Does not accurately target payments for nontherapy ancillary (NTA) services
- Financial incentive to furnish therapy services
- No outlier policy

# Presentation overview

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- Designs to pay for NTA and therapy services
- Outlier policy
- PPS redesign: impact on payments
- Data that would improve payment accuracy

# SNF PPS design

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- Daily payment consists of 3 components

Nursing  
Therapy  
+ Other (room and board)  
Daily payment

- 53 RUGs are used to case-mix adjust payments
- Therapy minutes are used to establish payments

# Comparison of current and revised PPS designs

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## Current PPS

Nursing component  
Therapy component  
+ Other component

Daily payment

## Revised PPS

Nursing component  
**REVISED** therapy component  
**NEW** NTA component  
+ Other component

Daily payment

+ **outlier payment for qualifying stays**

# Characteristics used to predict NTA and therapy costs

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## Patient characteristics

- Physical and mental status
- Ability to perform ADLs
- Diagnoses from prior hospital stay
- Prior nursing home resident

## Stay characteristics

- Broad stay classification
- IV meds or respiratory care (yes/no)
- Number of patient assessments

NTA: adding new component to PPS design would greatly increase accuracy of predicted NTA costs per day

Evaluation measure	Current design	New component
Stay analysis		
Share of costs explained	5%	23%
Share of high-cost cases predicted	25%	45%
Facility-level analysis		
Share of costs explained	13%	31%
NTA CMI coefficient	2.34	1.14

*Data are preliminary and subject to change.*

Therapy: Using patient and stay characteristics would predict therapy costs essentially as accurately as current design

Evaluation measure	Current design	Revised design
Stay analysis		
Share of costs explained	36%	34%
Share of high-cost cases predicted	32%	28%
Facility-level analysis		
Share of costs explained	38%	35%
Therapy CMI coefficient	0.79	1.05

# Outlier policy for ancillary costs per stay

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- Ancillary costs include NTA and therapy costs
- Ancillary costs highly variable and tied to patient differences
- Equal treatment of patients with exceptionally high therapy or NTA costs
- Financial risk at the stay level, not on a day basis

# Example outlier policy

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- \$3,000 fixed loss on ancillary costs per stay
- Pays 80 percent of costs above the fixed loss
- Creates 1.7 percent outlier pool

# Revised PPS would shift payments across SNF groups

SNF group (share of facilities)	Share of cases	Ratio of revised PPS payments to current payments
Hospital-based (11%)	19%	1.20
Freestanding (89%)	81	0.98
Nonprofit (27%)	32	1.07
For profit (68%)	64	0.97
Rural (32%)	21	1.00
Urban (68%)	79	1.00

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# Revised PPS would shift payments across SNFs with different case mixes

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Characteristics of SNF patient mix	Ratio of revised PPS payments to current payments
High share of stays in rehabilitation-only RUGs	0.94
High share of stays in extensive services RUGs	1.15

*Data are preliminary and subject to change.*

# Impact on payments would vary for individual SNFs

SNF characteristic	Share of SNFs whose payments would decrease by at least 10%	Share of SNFs whose payments would increase by at least 10%
Hospital-based	1%	73%
Freestanding	12	7
High share of rehabilitation-only RUGs	26	6
High share of extensive services RUGs	3	55

## Changes in payments that would result from revised design are inversely related to PPS margin

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- 83 percent of facilities that would experience largest decreases (10 percent or more) in payments had PPS margins of at least 10% PPS
- 70 percent of facilities that would experience largest increases (10 percent or more) in payments had PPS margins of -10% or lower

## Outlier payments would be broadly distributed but benefit a smaller group of SNFs

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- Outlier payments would get paid to
  - 2.6 percent of stays
  - 60 percent of SNFs
- SNFs that would benefit from the outlier policy
  - 20 percent of freestanding facilities
  - 28 percent of hospital-based facilities
  - 7 percent of SNFs would see their ancillary payments increase at least 5 percent as a result of outlier payments

# Revised PPS design: summary results

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- New NTA component: more accurate payments
- Revised therapy component: payments would be as accurate
- Outlier payments: offers some financial protection for extraordinary ancillary costs
- Requires no new data to implement

# Better data would enhance PPS design and evaluation

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- Diagnoses and service dates on SNF claims
- Separately record only the services furnished since admission in the patient assessment
- Nursing costs in Medicare cost report