

New Nursing Home Reimbursement Methodology Current Design

The new nursing home reimbursement methodology can be classified as a modified price-based per diem reimbursement model. The conversion from the current cost-based system will be, in the aggregate, revenue neutral.

A. Features of this model include the following expense components:

- Direct Care (nursing & other direct labor)
 - A single direct nursing care base rate equal to 100% of the day-weighted median cost.
 - A single base rate for other direct care services, e.g. social services, recreation. The rate will be equal to 100% of the day-weighted median cost.
 - Day-weighted median costs are derived from the most current cost report data used to establish the 10/1/11 payment rates, adjusted for inflation.

- Indirect Care (incl. utilities & insurance)
 - A single base rate for all facilities equal to 93.48% of the median costs.
 - Day-weighted median costs are derived from the most current cost report data used to establish the 10/1/11 payment rates, adjusted for inflation.

- Fair Rental Value (FRV)
 - FRV will be treated as a modified pass-through component. Five quintile rates have been established based on the weighted average of individual rates within each grouping. The range within each quintile is \$2. Each facility will be paid the FRV rate corresponding to the group into which it falls.

- Property Taxes
 - Property Taxes will be treated as a modified pass-through component. Seven separate per diem rates have been established ranging from \$0, (for facilities that pay no taxes), to \$5.57. The spread within each group is \$1.

- Provider Assessment
 - An add-on equal to 5.82% of the sum of the above components.

B. Other Key Elements

➤ Patient Acuity

Acuity will be based on the patient specific RUG category, i.e. full RUG based system. This will be incorporated into the payment system through the use of a RUG IV grouper, which is designed for Medicaid. Each patient will be assigned one of forty-eight (48) RUG categories by the grouper based on that patient's MDS record. The acuity factor, (RUG weight), will be applied only to the direct nursing care base rate.

➤ Dementia Care (**Identified as an important item by the Industry**)

Concerns have been expressed that the information in the patient's MDS record, used to determine the RUG category, does not adequately recognize the added costs associated with caring for some dementia patients. OHHS will work with the industry to identify the magnitude of these unrecognized costs and factor them into the RUG based system, e.g. policy adjusters.

➤ Quality (**Identified as an important item by the Industry**)

Over the next year, OHHS will work with closely the nursing home industry to 1) identify nationally established quality indicators; 2) develop a quality reporting system; and 3) incorporate, into the reimbursement methodology an incentive payment component, for facilities that demonstrate high quality.

➤ Implementation

To allow for necessary modifications to the MMIS claims processing system and CMS approval, implementation of the new methodology will occur sometime between April 1st and July 1st of 2012.

➤ Transition Period (**Identified as an important item by the Industry**)

To allow facilities to adjust to the new payment methodology full implementation of the direct care and indirect care price-based rates will be phased in over a three year period. Year 1 would be 33% price-based rates and 67% facility specific rates. The price-based / facility specific split in year two would be 67% / 33%, with full implementation, i.e. 100% price-based, in year three.

C. Issues to be addressed (not critical to initial implementation)

- Price update factors, e.g. Global Insight Index, CMS index etc. Price updates must remain dependent upon budgetary funding.
- Adjustments for Medicaid occupancy.