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EOHHS/Medicaid Nursing Home Reimbursement Methodology Overview

The current methodology the State employs to reimburse nursing homes is cost-based. We have determined that such a reimbursement structure has not assured that the care the State purchases in nursing homes is uniformly appropriate and of high-quality. The new reimbursement methodology seeks to pay nursing homes higher rates for persons with higher needs. This methodology also seeks to ensure the care and services we are paying for is based on the person's needs and not an individual provider's cost structure.

In recognition of the significant impact this change will have on nursing homes, we are proposing a four-year transition. We expect to begin implementation of the transitional methodology on October 1, 2012 and fully implement the acuity-based model on October 1, 2016.

The conversion from the current cost-based system will be, in the aggregate, revenue neutral. In other words, the State is seeking to spend only the funds that have been appropriated and is not seeking additional funds in order to implement the transition.

Today, the State pays nursing homes one per diem rate for each Medicaid-eligible resident. Under the transitional and final methodologies, each nursing home will receive a different per diem rate for each of their Medicaid-eligible residents. For example, under today's reimbursement structure, a home may have 75 Medicaid-eligible residents. The home receives \$180.00 each day for each resident. Under the transitional and final methodologies, each resident will have a different per diem rate assigned. This is similar to the current Medicare reimbursement approach.

The current requirement that a patient's MDS record be updated every ninety (90) days or in the event of a significant change in condition will remain unchanged.

The rates will be based on cost report data used to establish the 10/1/11 payment rates. We will conduct a rate review in State Fiscal Year 2016 to determine if the original cost components used to establish the base rates are still appropriate. The process for this review will be determined with the nursing homes. This will require the nursing homes to submit cost reports in SFY 2016. A similar review will be conducted every five years.

The transitional methodology includes two policy adjustors intended to mitigate the impact of the movement to an acuity-based methodology. The first policy adjustor seeks to ensure no home experiences a loss in the direct care component of the rate in the first year, and potentially throughout the entire transition period. The second policy adjustor seeks to limit any gain or loss to a maximum of \$5.00 in the first transition year and then phased down in subsequent transition years. This second policy adjustor is exclusive of the direct care policy adjustor. As these policy adjustors directly impact the ability of the State to maintain a revenue neutral approach, the State's ability to implement them will be dependent on the amount of funds available. Our modeling reflects a reimbursement rate reduction of \$6 million that was included in the Governor's FY 2013 budget proposal. If the \$6 million cut were not enacted, any negative fiscal impact on homes would naturally be lessened.

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Transitional Phase: 10/1/2012 – 9/30/ 2016

Year 1: 10/1/2012 – 9/30/2013

A. Per Diem Base Rate¹

Each home will have a base per diem rate that applies to all residents. The base rate will be comprised of the following components.

- **Direct Care** (nursing & other direct labor)
A single direct nursing care rate of **\$97.99** (equal to 101.54% of the day-weighted median costs²)
A single rate for other direct care services of **\$23.16** (equal to 100% of the day-weighted median costs)
- **Indirect Care** (incl. utilities & insurance)
A single per diem base rate of **\$52.22** (equal to 93.48% of the day-weighted median costs)
- **Fair Rental Value**
FRV will be treated as a facility specific component
- **Property Taxes**
Property Taxes will be treated as a facility specific component.
- **Provider Assessment**
We will add 5.82% of the sum of the above components to recognize the provider assessment. Should the Provider Assessment Tax rate change, this add-on will be adjusted accordingly.

B. Adjustments to Base Rate

- **Patient Acuity**
Acuity will be based on the patient specific RUG category. The acuity factor for each patient will be applied only to the \$97.99 direct nursing care base rate.
- **Adjustment to Direct Care**
For those homes that would otherwise experience a loss in the Direct Care component, we will add a policy adjustment to fully compensate for that loss. Estimates may vary from actual experience.
- **Adjustment to Overall Care**
No home will experience a gain or loss greater than **\$5.00** per day exclusive of the direct care adjustment
- **Price Increases³**
Per diem rates will be increased on 10/1 of each year as follows.
 - Direct & Indirect Care: Global Insight Skilled Nursing Facility Market Basket.
 - FRV: Global Insight Nursing Home Capital Cost Index.
 - Taxes: Facility specific tax rates.

¹ Median costs are derived from the cost report data used to establish the 10/1/11 payment rates.

² The cost point whereby half the Medicaid days are at costs higher than this and half with costs lower

³ Subject to budgetary constraints

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Year 2: 10/1/2013 – 9/30/2014

A. Per Diem Base Rate⁴

Each home will have a base per diem rate that applies to all residents. The base rate will be comprised of the following components.

- **Direct Care** (nursing & other direct labor)
 - A single direct nursing care rate of **\$97.99**
 - A single rate for other direct care services of **\$23.16**
- **Indirect Care** (incl. utilities & insurance)
 - A single per diem base rate of **\$52.22**
- **Fair Rental Value**
 - Same as previous year
- **Property Taxes**
 - Same as previous year
- **Provider Assessment**
 - We will add 5.82% of the sum of the above components to recognize the provider assessment. Should the Provider Assessment Tax rate change, this add-on will be adjusted accordingly.

B. Adjustments to Base Rate

- **Patient Acuity**
 - Acuity will be based on the patient specific RUG category. The acuity factor for each patient will be applied only to the direct nursing care base rate.
- **Adjustment to Direct Care**
 - To be determined*
 - Based on a request from LeadingAge RI, we are analyzing the fiscal impact of keeping Direct Care Costs constant with 10/1/2011 amounts.
- **Adjustment to Overall Rate**
 - The overall rate will be adjusted to reflect 75% of the previous year's policy adjustor.
- **Price Increases⁵**
 - Per diem rates will be increased on 10/1 of each year as follows.
 - Direct & Indirect Care: Global Insight Skilled Nursing Facility Market Basket.
 - FRV: Global Insight Nursing Home Capital Cost Index.
 - Taxes: Facility specific tax rates.

C. Quality

By Year 2, the reimbursement methodology will reflect additional payment for meeting specific quality outcomes. These measures will include a major focus on staffing, such as staffing stability. The measures could also recognize other areas, such as health status. These measures will be developed in collaboration with the nursing homes.

D. Dementia Care

By Year 2, the reimbursement methodology may also reflect an adjustment for dementia care. We will work with the nursing homes to determine how this will be implemented.

⁴ Median costs are derived from the cost report data used to establish the 10/1/11 payment rates.

⁵ Subject to budgetary constraints

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Year 3: 10/1/2014 – 9/30/2015

A. Per Diem Base Rate⁶

Each home will have a base per diem rate that applies to all residents. The base rate will be comprised of the following components.

- **Direct Care** (nursing & other direct labor)
 - A single direct nursing care rate of **\$97.99**
 - A single rate for other direct care services of **\$23.16**
- **Indirect Care** (incl. utilities & insurance)
 - A single per diem base rate of **\$52.22**
- **Fair Rental Value**
 - Same as previous year
- **Property Taxes**
 - Same as previous year
- **Provider Assessment**
 - We will add 5.82% of the sum of the above components to recognize the provider assessment. Should the Provider Assessment Tax rate change, this add-on will be adjusted accordingly.

B. Adjustments to Base Rate

- **Patient Acuity**
 - Acuity will be based on the patient specific RUG category. The acuity factor for each patient will be applied only to the direct nursing care base rate.
- **Adjustment to Direct Care**
 - To be determined*
 - Based on a request from LeadingAge RI, we are analyzing the fiscal impact of keeping Direct Care Costs constant with 10/1/2011 amounts.
- **Adjustment to Overall Rate**
 - The overall rate will be adjusted to reflect 50% of the previous year's policy adjustor.
- **Price Increases⁷**
 - Per diem rates will be increased on 10/1 of each year as follows.
 - Direct & Indirect Care: Global Insight Skilled Nursing Facility Market Basket.
 - FRV: Global Insight Nursing Home Capital Cost Index.
 - Taxes: Facility specific tax rates.

C. Quality

The reimbursement methodology will reflect additional payment for meeting specific quality outcomes.

D. Dementia Care

The reimbursement methodology may also reflect an adjustment for dementia care.

⁶ Median costs are derived from the cost report data used to establish the 10/1/11 payment rates.

⁷ Subject to budgetary constraints

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Year 4: 10/1/2015 – 9/30/2016

We will conduct a rate review to determine if the original cost components used to establish the base rates are still appropriate.

A. Per Diem Base Rate⁸

Each home will have a base per diem rate that applies to all residents. The base rate will be comprised of the following components.

- **Direct Care** (nursing & other direct labor)
 - A single direct nursing care rate of **\$97.99**
 - A single rate for other direct care services of **\$23.16**
- **Indirect Care** (incl. utilities & insurance)
 - A single per diem base rate of **\$52.22**
- **Fair Rental Value**
 - Same as previous year
- **Property Taxes**
 - Same as previous year
- **Provider Assessment**
 - We will add 5.82% of the sum of the above components to recognize the provider assessment. Should the Provider Assessment Tax rate change, this add-on will be adjusted accordingly.

B. Adjustments to Base Rate

- **Patient Acuity**
 - Acuity will be based on the patient specific RUG category. The acuity factor for each patient will be applied only to the direct nursing care base rate.
- **Adjustment to Direct Care**
 - To be determined*
 - Based on a request from LeadingAge RI, we are analyzing the fiscal impact of keeping Direct Care Costs constant with 10/1/2011 amounts.
- **Adjustment to Overall Rate**
 - The overall rate will be adjusted to reflect 25% of the previous year's policy adjustor.
- **Price Increases⁹**
 - Per diem rates will be increased on 10/1 of each year as follows.
 - Direct & Indirect Care: Global Insight Skilled Nursing Facility Market Basket.
 - FRV: Global Insight Nursing Home Capital Cost Index.
 - Taxes: Facility specific tax rates.

C. Quality

The reimbursement methodology will reflect additional payment for meeting specific quality outcomes.

D. Dementia Care

The reimbursement methodology may also reflect an adjustment for dementia care.

⁸ Median costs are derived from the cost report data used to establish the 10/1/11 payment rates.

⁹ Subject to budgetary constraints

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Full Implementation: 10/1/2015 – 9/30/2016

A. Per Diem Base Rate

Each home will have a base per diem rate that applies to all residents. The base rate will be comprised of the following components. **These rates may change based on the review conducted in SFY 2016.**

- **Direct Care** (nursing & other direct labor)
 - A single direct nursing care rate of **\$97.99**
 - A single rate for other direct care services of **\$23.16**
- **Indirect Care** (incl. utilities & insurance)
 - A single per diem base rate of **\$52.22**
- **Fair Rental Value**
 - Same as previous year
- **Property Taxes**
 - Same as previous year
- **Provider Assessment**
 - We will add 5.82% of the sum of the above components to recognize the provider assessment. Should the Provider Assessment Tax rate change, this add-on will be adjusted accordingly.

B. Adjustments to Base Rate

- **Patient Acuity**
 - Acuity will be based on the patient specific RUG category. The acuity factor for each patient will be applied only to the direct nursing care base rate.
- **Price Increases¹⁰**
 - Per diem rates will be increased on 10/1 of each year as follows.
 - Direct & Indirect Care: Global Insight Skilled Nursing Facility Market Basket.
 - FRV: Global Insight Nursing Home Capital Cost Index.
 - Taxes Facility specific tax rates.

C. Quality

The reimbursement methodology will reflect additional payment for meeting specific quality outcomes.

D. Dementia Care

The reimbursement methodology may also reflect an adjustment for dementia care.

¹⁰ Subject to budgetary constraints

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Open Issues and Schedule of Meetings:

There are several issues that still need to be addressed:

1. Whether or not overall occupancy and/or Medicaid occupancy rates should be explicitly recognized in the base rate or as an adjustment.
2. Whether or not an adjustment to labor should be made for nursing homes in an urban sector.
3. The State needs to ensure the billing software vendors understand the new methodology.
4. The measures to be used to determine additional quality incentive payments need to be developed
5. The methodology to recognize additional costs associated with dementia need to be developed.
6. Determine the process to review the rate components in SFY 2016.

Schedule of General Update Meetings:

May 22, 2012	3:00 PM
June 26, 2012	3:00 PM
July 24, 2012	3:00 PM
August 28, 2012	3:00 PM
September 25, 2012	3:00 PM

Location to be determined

In between the general update meetings, smaller workgroup meetings on Quality and Dementia will be held.