



## Impact of Fiscal Year 2012 Skilled Nursing Facility Final Rule on Payments to Nursing Facilities

### Summary of Findings

- Avalere Health estimates that the correction (or reduction in Resource Utilization Group (RUG-IV) payment rates) in fiscal year (FY) 2012 Skilled Nursing Facilities (SNFs) prospective payment system (PPS) final rule **will reduce payments to nursing facilities by more than \$60 billion over 10 years.**
- In addition, we estimate that the change in the final rule regarding allocation of group therapy minutes will **reduce payments to nursing facilities by \$19 billion over 10 years**, above and beyond the payment rate correction/reduction in the final rule.

### Results

We estimated the reduction in payments from the correction by applying the percentage payment increase under RUG-IV for FY 2011 reported by the Centers for Medicare and Medicaid Services (CMS) – in the FY 2012 final rule – to the March 2011 Congressional Budget Office (CBO) baseline spending for SNFs over the period from FY 2012 to FY 2021. We then assumed that the payment reduction in the final rule will have the intended effect of returning SNF spending to that baseline level. **This would result in a decrease of over \$60 billion in payments to SNFs over that 10-year period.**

The final rule also includes a change to the allocation of group therapy minutes for purposes of assigning patients to RUG-IV payment categories. The number of therapy minutes is one of the key factors in determining the payment category for a SNF Medicare patient. In general, the higher the number of therapy minutes, the higher the daily Medicare payment. Currently, the full number of minutes in a group therapy session is allocated to each of the patients – e.g., all four participants in a 30-minute group therapy session are credited with 30 minutes for purposes of assignment to a RUG-IV category. Under the final rule, however, beginning in FY 2012, minutes in a group therapy session will be divided by the number of participants for purposes of assignment to a RUG-IV group – the four patients in a 30-minute group therapy session will be credited with 7.5 minutes each.

Avalere worked with PointRight, an independent consulting firm (see note on methods below), to determine the impact of this group therapy change on the distribution of Medicare patients by RUG-IV categories. PointRight compared the actual distribution of patients in its database for the first quarter of FY 2011 with the estimated distribution if the group therapy policy were in effect, assuming a shift in minutes from group to individual therapy in response to the change. Avalere applied the reduced RUG-IV payment rates in the FY 2012 final rule to the actual and estimated distributions to arrive at the dollar impact. We adjusted this dollar impact downward to account for an even greater shift of minutes from group to individual therapy than assumed by PointRight. The estimated impact, a 3.5 percent reduction in Medicare payments to nursing facilities, applied to the March 2011 CBO baseline, translates to a reduction in payments of **\$19 billion over 10 years.**

## Economic Impact of the Final Rule by State

To estimate the impact of the FY 2012 SNF final rule on economic activity at the state level, Avalere used its economic impact model. The model applies state economic multipliers, specific to the nursing facility sector and calculated by the Bureau of Economic Analysis (BEA) at the Department of Commerce, to nursing facility expenditures in order to determine the contribution of the nursing facility sector to state economic activity/output.

We calculated nursing facility Medicare revenue by state from the FY 2009 Medicare cost reports (FY 2009 is the most recent year available) and trended that revenue forward to FY 2012 using CMS Office of the Actuary assumptions for Medicare revenue/spending growth and the FY 2011 RUG-IV payment increase reported by CMS in the final rule. We then applied the estimated percentage impacts of the final rule (from the payment rate reduction and the group therapy change) to projected FY 2012 Medicare revenue by state.

To arrive at the economic impact, we assumed that 60 percent of the reduction in Medicare payments will translate into lower nursing facility spending on wages and purchases of goods and services, with the remaining 40 percent having the effect of reducing the industry-wide overall margin (e.g., profit for the for-profit facilities). We applied the BEA economic multiplier for the nursing facility sector in the state to the 60 percent of the reductions assumed to affect nursing facility expenditures in order to estimate the impact of the final rule changes on that state's economic output.

According to our projections, the 10 states below will experience the greatest reduction in economic activity as a result of the changes in FY 2012 SNF final rule:

State	Reduction in 2012 Economic Activity	Reduction in 2012 Medicare Revenue
CA	\$ 664,126,043	\$ 484,303,976
FL	\$ 562,277,767	\$ 447,766,072
TX	\$ 497,051,127	\$ 349,013,543
NY	\$ 388,157,488	\$ 321,184,165
IL	\$ 417,326,260	\$ 296,873,006
OH	\$ 365,714,361	\$ 275,018,696
NJ	\$ 336,882,309	\$ 253,211,200
PA	\$ 324,996,275	\$ 237,175,084
MA	\$ 239,633,374	\$ 189,355,659
MI	\$ 234,271,159	\$ 185,593,655
National	\$6,795,013,510	\$5,291,980,651

NOTE: The national revenue number calculated from the Medicare cost reports, which are submitted (often with a lag) by facilities, differs from the national spending number reported by CMS (i.e., for FY 2009). Accordingly, the national reduction in Medicare payments for purposes of the economic impact model is somewhat different from the dollar impact of the rule calculated using CBO baseline numbers.

## **A Note on Methods**

PointRight specializes in analyzing SNF patient assessments (which capture therapy minutes provided) and has a proprietary database that includes patient assessments from a quarter of all nursing facilities.