

IMPACT OF MEDICARE RUG REFINEMENTS ON SKILLED NURSING CARE

THE PROBLEM

Medicare beneficiaries in the nation's skilled nursing facilities (SNFs) face potential Medicare cuts of up to \$1.5 billion per year if the Bush Administration chooses to change the current SNF prospective payment system (PPS) in 2005. Medicare cuts of this magnitude will create serious instability in the nation's skilled nursing care system and undermine ongoing efforts to continue to improve quality.

BACKGROUND

In mid-1998 the federal government implemented a new Medicare prospective payment system (PPS) for SNF care, as mandated in the Balanced Budget Act of 1997 (BBA). Flawed implementation of the new system resulted in deep funding cuts, which reduced access to and quality of SNF care and severely constrained the availability of capital. These cuts had a significant and negative impact on the nearly two million Medicare beneficiaries that receive SNF care annually.

In 1999 and 2000, Congress temporarily restored some of the funds cut as a result of flawed BBA implementation:

- 4 percent payment add-ons across all patient categories to adjust for the overall inadequacy of the resource utilization group (RUG) system (BBRA)
- 16.66 percent add-ons for nursing-related costs (BIPA)
- 6.7 percent add-ons for patients requiring intense rehabilitation (BIPA) and 20 percent add-ons for patients requiring complex medical care (BBRA/BIPA)

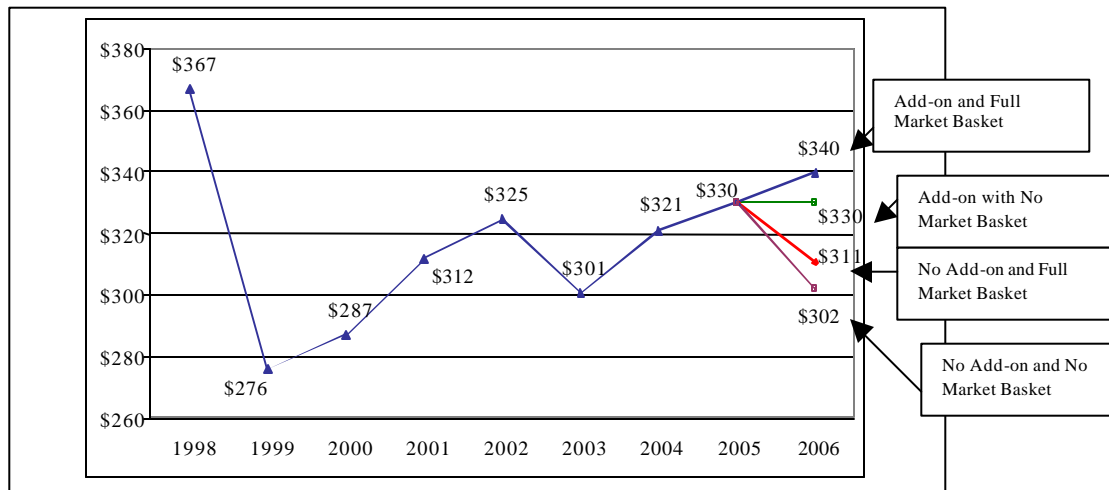
These temporary add-ons helped restore beneficiary access to SNF care, improve quality, revive capital markets, and stabilize SNFs, generally. It should be noted, however, that, even with these add-ons, overall Medicare funding levels for SNF beneficiaries continued to be below BBA projections.

In 2002, Congress did not act to protect the 4 percent and 16.66 percent add-ons. As a result, funding for Medicare beneficiaries needing skilled nursing care was cut approximately \$35 per Medicare patient day on October 1, 2002. These cuts came at a time when the SNF sector was extremely fragile economically. When combined with inadequate Medicaid funding and rapidly escalating liability insurance premiums, the cuts precipitated disruption in sources of private capital and triggered the financial collapse of four significant SNF providers.

THE CURRENT SITUATION

While in October 2003, the Bush Administration restored a portion of the Medicare SNF funding cuts that had taken effect a year earlier, SNF stability is again threatened by potential changes to the Medicare payment system. If the Administration chooses to make so-called "refinements" to the RUGs system, those payment changes could trigger cuts of \$1.5 billion – or \$30 per beneficiary per day.

National Medicare Rates For Skilled Nursing Facilities



RUG System Changes Are Not Required

It is important to note: HHS is not required to make changes to the RUGs system now – or at any time in the future. Further, if the RUGs system is changed, such changes are not required to be budget neutral. The law allows the Administration to fund Medicare SNFs at appropriate levels.

SOLUTION

To avoid a dramatic negative impact on SNF sector stability and to help relieve pressure on state Medicaid programs for nursing home funding, the Administration should:

1. Retain the current RUG system to ensure a stable environment for the delivery of quality skilled nursing care and
2. Reject any system reforms that would lead to cuts in Medicare funding for SNF care.