

PROPOSED NURSING FACILITY PRICE-BASED PAYMENT METHODOLOGY FAQs

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Q1. What is the timeframe for DMAS to implement a new price-based payment methodology?

A1. On January 9, 2014, the DMAS Nursing Facility Medicaid Payment Workgroup unanimously voted in favor of implementing a fully prospective price-based payment methodology starting July 1, 2014. The DMAS workgroup is comprised of representatives of all three associations representing nursing facilities– VHCA, VHHA and VANHA. The 2014 General Assembly will consider a budget amendment to implement the new methodology.

Q2. How will the rates under the new price-based payment methodology differ from the current cost-based system?

A2. The proposed Nursing Facility Price-Based Payment Methodology includes the following:

- Fully prospective operating rates for direct and indirect costs
- Based on costs from a base year inflated to the rate year
- Adjusted for regional cost differences
- Direct costs are “neutralized” using raw case mix rather than normalized case mix
- The rate for direct costs is based on an adjustment factor of 105% of the Medicaid day-weighted median for freestanding nursing facilities by peer group and the rate for indirect costs is based on an adjustment factor of 100.7% of the Medicaid day-weighted median for indirect costs for freestanding nursing facilities by peer group
- There will be a price-based spending floor
- The direct rate component will be adjusted on each claim by the resident’s current Medicaid RUGs score (similar to the determination of Medicare rates)

- The final rate will add prospective payment for capital , NATCEPs (nurse aide training), and criminal records checks

Q3. How was the nursing facility price-based payment model developed?

A3. The price-based payment model was developed using the 2011 NHDB direct and indirect operating costs per day. Direct costs were neutralized by raw facility case mix and inflated to SFY15. An adjustment factor was calculated as a percentage of Medicaid day-weighted median of free-standing nursing facilities by peer group to determine price.

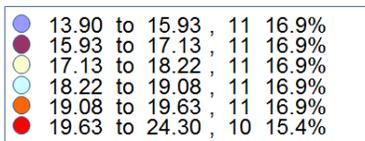
Q4. What are the peer groups for the price-based payment methodology?

A4. The peer groups for price-based payment calculations are a combination of Medicare wage regions and Medicaid rural and bed size classifications based on similar costs.

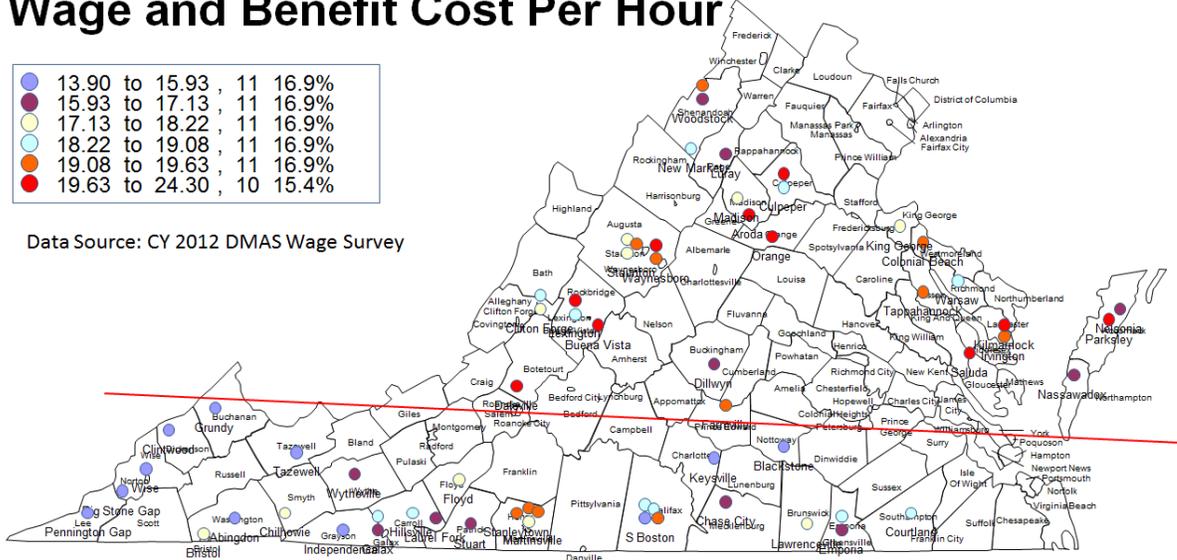
<u>Direct Peer Groups</u>	<u>Indirect Peer Groups</u>
<ul style="list-style-type: none"> • Northern Virginia MSA 	<ul style="list-style-type: none"> • Northern Virginia MSA
<ul style="list-style-type: none"> • Other MSAs 	<ul style="list-style-type: none"> • Rest of State – Greater than 60 Beds
<ul style="list-style-type: none"> • Northern Rural 	<ul style="list-style-type: none"> • Other MSA
<ul style="list-style-type: none"> • Southern Rural 	<ul style="list-style-type: none"> • Northern Rural • Southern Rural
	<ul style="list-style-type: none"> • Rest of State – 60 Beds or Less

See attached map that shows Northern Rural and Southern Rural.

Virginia Rural Average Nursing Facility Wage and Benefit Cost Per Hour



Data Source: CY 2012 DMAS Wage Survey



Q5. What are price-based spending floors?

A5. **All facilities receive full price if costs, inflated to SFY 2015 are at or above 95% of the price. Facilities with projected costs below 95% of the price have an adjusted price equal to the price minus the difference between their projected cost and 95% of the unadjusted price. By limiting the potential gain of low cost facilities, it is possible to implement higher adjustment factors for other facilities at a lower overall expenditure level and reduce the amount of transition losses for higher cost facilities.**

Q6. Will there be a transition to the new price-based payment system?

A6. **There will be a four year transition. Rates will be a blend of the facility's current cost-based rate and new price-based rate in 25-percent increments. The cost-based rate component will be prospectively established based on the current cost-based methodology with PFY11 cost report inflated to the rate period. Current cost-based rates include a facility case mix adjustment for the direct cost component. DMAS will remove the case mix adjustment from the direct cost component of the cost-based rate because the case mix adjustment will be determined on an individual claim basis.**

During the first transition year for the period July 1, 2014 through October 31, 2014, DMAS shall case mix adjust each direct cost component of the rates using the average facility case mix from the two most recent finalized quarters (September and December 2013) instead of adjusting this component claim by claim.

Q7. What RUGS grouper will DMAS use for case mix purposes?

A7. **Initially, DMAS will continue to use the RUGS III – 34 Medicaid grouper and associated weights. DMAS with input from the workgroup will consider implementing RUGs IV-48 Medicaid Grouper and associated weights in year two of the four year phase-in period. RUGs IV - 48 is a more refined grouper with updated weights, but DMAS only started collecting RUG IV - 48 information in June 2013. DMAS will need more complete RUGs IV - 48 information before it can determine either the normalization to RUG 34 weights or the potential facility impact.**

Q8. Will rates be updated annually?

A8. **Rates will be increased annually by inflation forecast by IHS Global Insight unless modified by the General Assembly. DMAS will rebase rates in SFY18 and every three years thereafter using the most recent calendar year settled cost reports for freestanding nursing facilities for the base year.**

Q9. How will the price-based payment methodology impact FRV rates?

A9. **DMAS will continue to reimburse freestanding nursing facilities for its capital costs through FRV. In order to make FRV prospective with the state fiscal year, providers will be required to submit calendar year FRV reports. FRV rates for the upcoming fiscal year will be based on the**

prior calendar year information aged to the state fiscal year and using RS Means factors and rental rates corresponding to the fiscal year. DMAS will make mid-year FRV rate adjustment for new beds or a major renovation.

Q10. Will there be any additional state funding for Medicaid rates?

A10. The proposed budget includes full funding for nursing facilities for the first time since FY08. When fully transitioned, however, an additional \$10 million in funding is needed for the proposed changes in the operating payments. This additional funding is achieved by reducing the FRV rental rate floor from 9.0% to 8.0% over four years.

Q11. How can I contact DMAS if I have additional questions regarding changes to the nursing facility payment methodology, including changes to FRV?

A11. For all questions regarding changes to the nursing facility payment methodology, including FRV, you may contact DMAS at the following address NFPayment@dmavirginia.gov