PDPM – A Game Changer: Will It Affect Lean Financing

HMAC – June 13, 2019

WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

Create Opportunities

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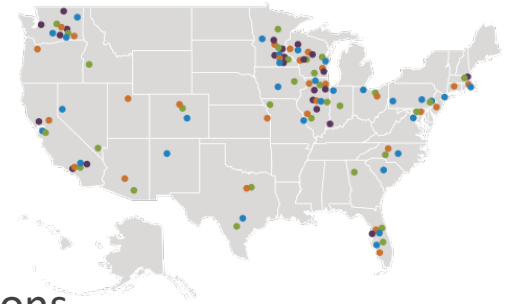
About CLA

- A professional services firm with three distinct business lines
  - Wealth Advisory
  - Outsourcing
  - Audit, Tax, and Consulting
- More than 6,400 employees
- Offices coast to coast
- Serving 8,300+ health care organizations



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Speaker Introduction

- Deb Freeland is a principal in CLA's health care practice specializing in reimbursement services for senior living facilities and hospitals. She has extensive experience handling the distinctive issues facing health care organizations in today's challenging environment.

Learning Objectives

At the end of this session, you will be able to:

- Understand how PDPM links payment to residents' conditions and care needs, rather than volume of services provided
- What does PDPM mean for key risks with HUD financing
- Explore the financial implications of this significant payment change from a revenue and expense perspective
- Explore the overall potential changes to the industry including Medicare Advantage and Medicaid program changes

PDPM Prospective Payment System

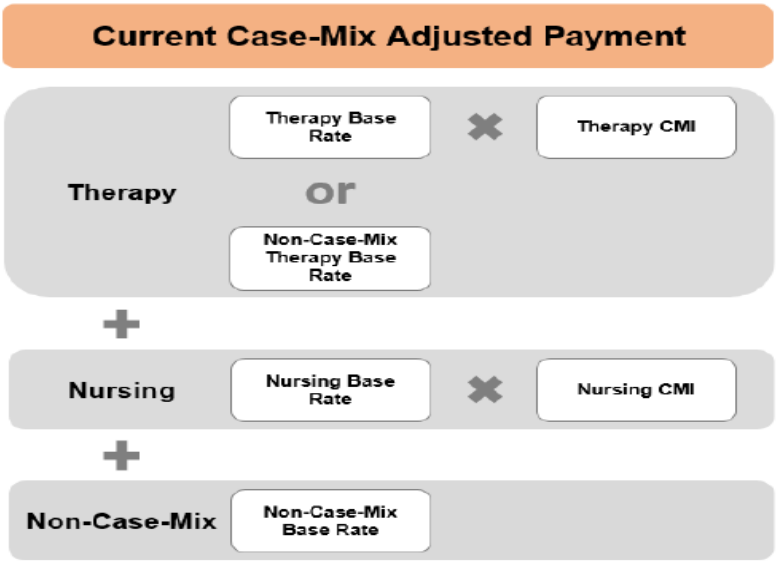
Why PDPM?

"The PDPM would be a significant shift in how SNFs are paid and, we believe, a very positive one. It reflects our belief that we should not be paying providers in ways that drive overuse of services. Instead, we should pay providers based on the patients they treat, while assessing quality fairly."

Secretary Alex M. Azar, Secretary of Health and Human Services, AHCA/NCAL Congressional Briefing. June 4, 2018.

Illustration of RUG-IV Payment

Figure 1: Illustration of RUG-IV Payment



Factors Which Effect RUGs Classification

- Therapy (PT, OT, ST) minutes – Primary Driver of Rate – Rewards overutilization of therapy
- Activities of Daily Living (ADL) Score
- Certain Special Treatments
- Certain Diagnoses/Conditions
- Rehab Nursing Programs
- Depression/Mood Problem
- Behavior Problem
- Cognitive Impairment

What is PDPM?

- PDPM removes the use of therapy minutes to assess residents for a reimbursement level.
- PDPM is based on clinical and diagnosis information rather than amount of service needed.
- Creates a separate payment component for non-therapy ancillary (NTA) services, using resident characteristics to predict utilization.
- Enhances payment accuracy based on clinical aspects of care.

What is PDPM (con't)?

- PDPM consists of five case mix adjusted payment components
  - Physical Therapy (PT)
  - Occupational Therapy (OT)
  - Speech Language Pathology (SLP)
  - Nursing
  - Non-Therapy Ancillary (NTA)
- A non-case mix component for services that don't vary based on resident characteristics

PDPM Replaces RUG-IV SNF Payment Model on October 1, 2019

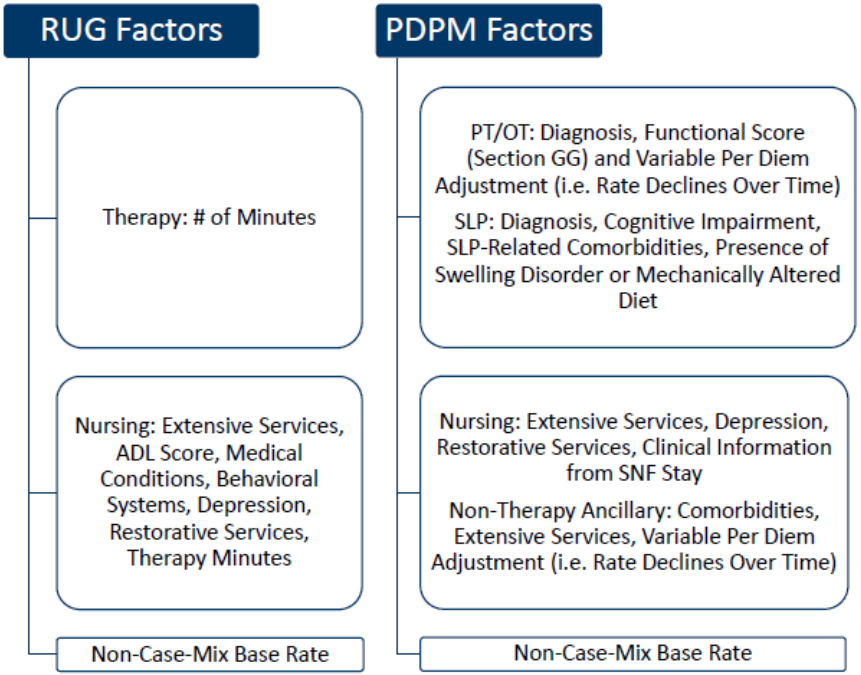
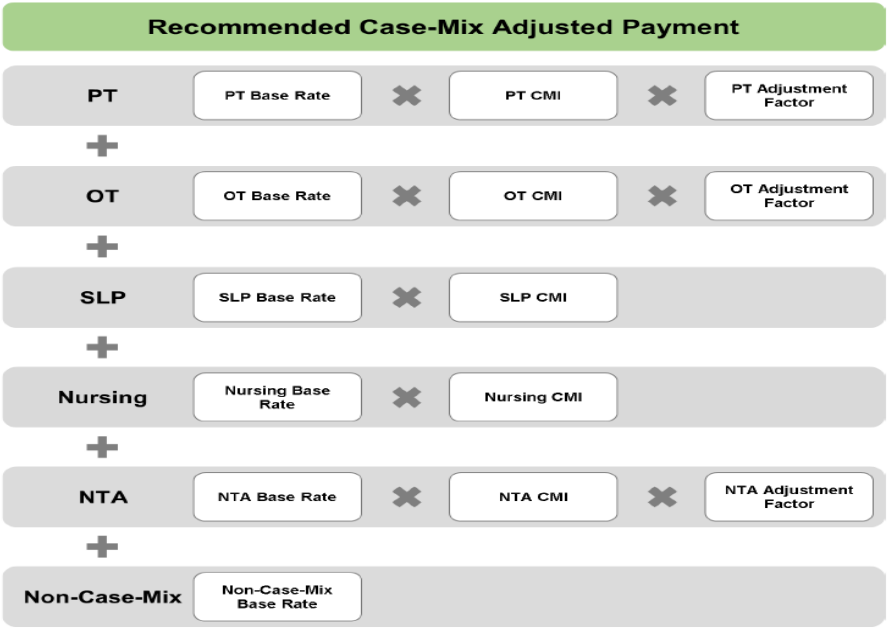


Illustration of Payment under PDPM

Figure 3: Illustration of Payment under PDPM



Macro Financial Considerations

Budget neutral

- Behavior changes

More winners than losers

- 8,101 of 13,769 providers analyzed by CMS are expected to gain, primarily due to patient characteristics in source data

Therapy cost and utilization

- Varying provider perspectives

PDPM Base Rates vs RUGs Base Rates

PDPM

TABLE 3: FY 2020 Unadjusted Federal Rate Per Diem--URBAN

Rate Component	PT	OT	SLP	Nursing	NTA	Non-Case-Mix
Per Diem Amount	$61.16	$56.93	$22.83	$106.64	$80.45	$95.48

TABLE 4: FY 2020 Unadjusted Federal Rate Per Diem—RURAL

Rate Component	PT	OT	SLP	Nursing	NTA	Non-Case-Mix
Per Diem Amount	$69.72	$64.03	$28.76	$101.88	$76.86	$97.25

Urban - $423.49/Rural - $438.50

RUG-IV

TABLE 4: FY 2019 Unadjusted Federal Rate Per Diem--URBAN

Rate Component	Nursing - Case-Mix	Therapy - Case-Mix	Therapy - Non-Case-mix	Non-Case-Mix
Per Diem Amount	$181.50	$136.71	$18.01	$92.63

TABLE 5: FY 2019 Unadjusted Federal Rate Per Diem--RURAL

Rate Component	Nursing - Case-Mix	Therapy - Case-Mix	Therapy - Non-Case-mix	Non-Case-Mix
Per Diem Amount	$173.39	$157.65	$19.23	$94.34

Urban - $428.85/Rural - $444.61

Source: https://https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/SNFPPS/Spotlight.html

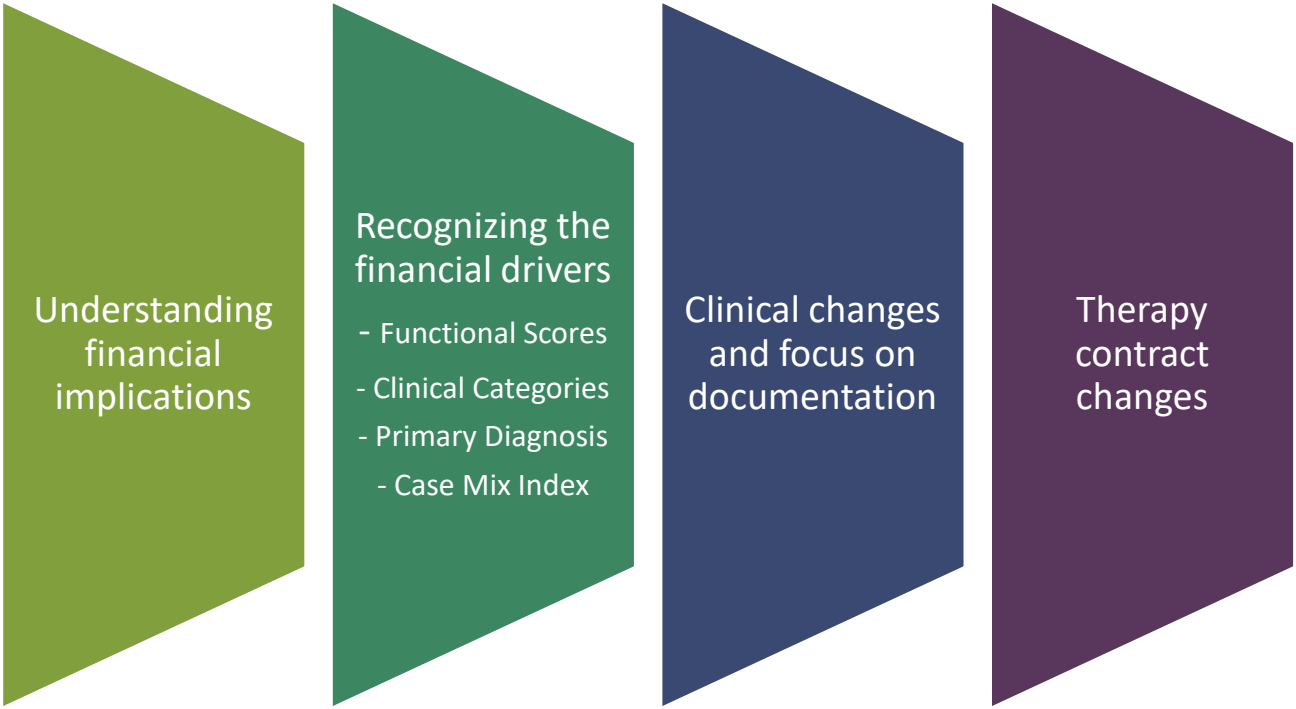
Big Change - Variable Payments

Constant payments do not accurately reflect medical needs and resources used.

Two aspects of variable payment:

- PT/OT rate
  - After 20 days, PT/OT portion of rate declines by 2 percent every 7 days
- Non-Therapy Ancillary (NTA) rate
  - On day 4 the NTA portion of rate declines by 67 percent remaining at that rate through rest of the stay

Leading Practices in Preparing for PDPM



Understanding Financial Implications and Recognizing the Financial Drivers

Financial Modeling

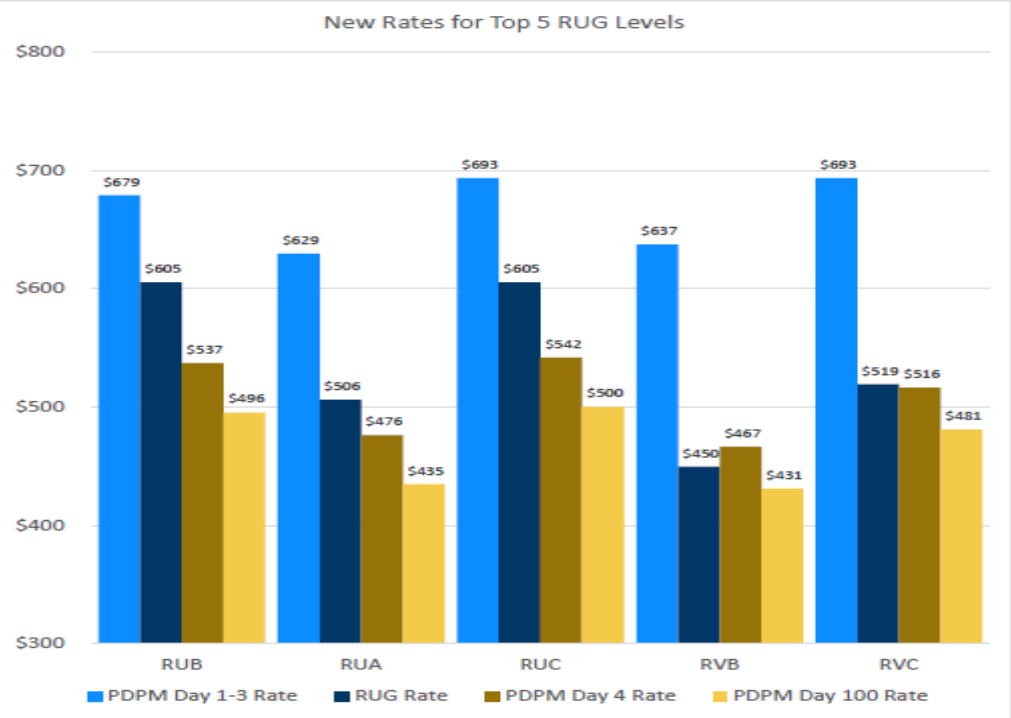
Exploration of top five RUG levels

Revenue modeling-provider example

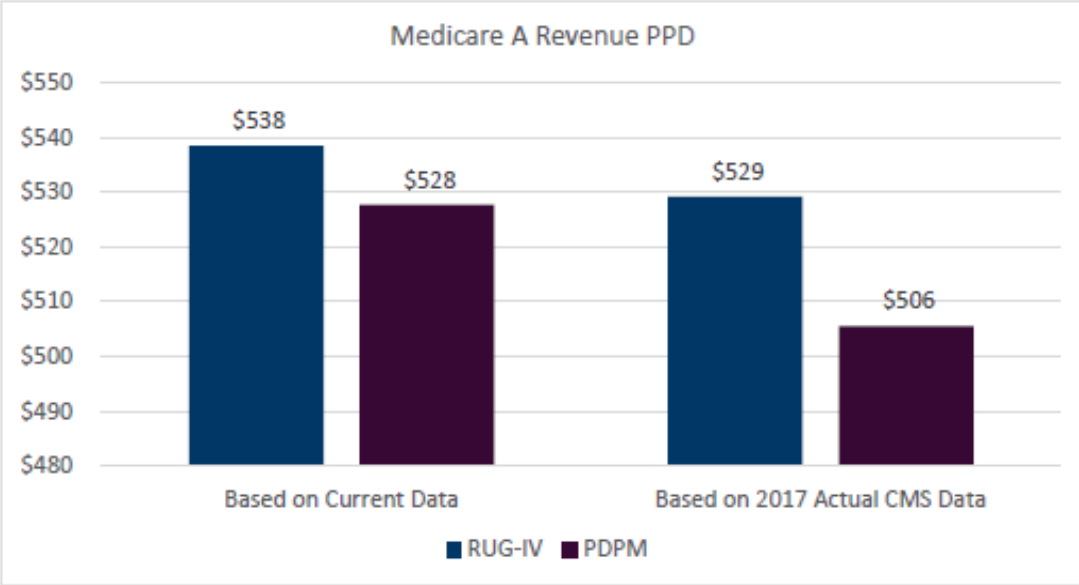
Sensitivity Analysis

- Therapy CMI
- Comorbidity
- Length of Stay

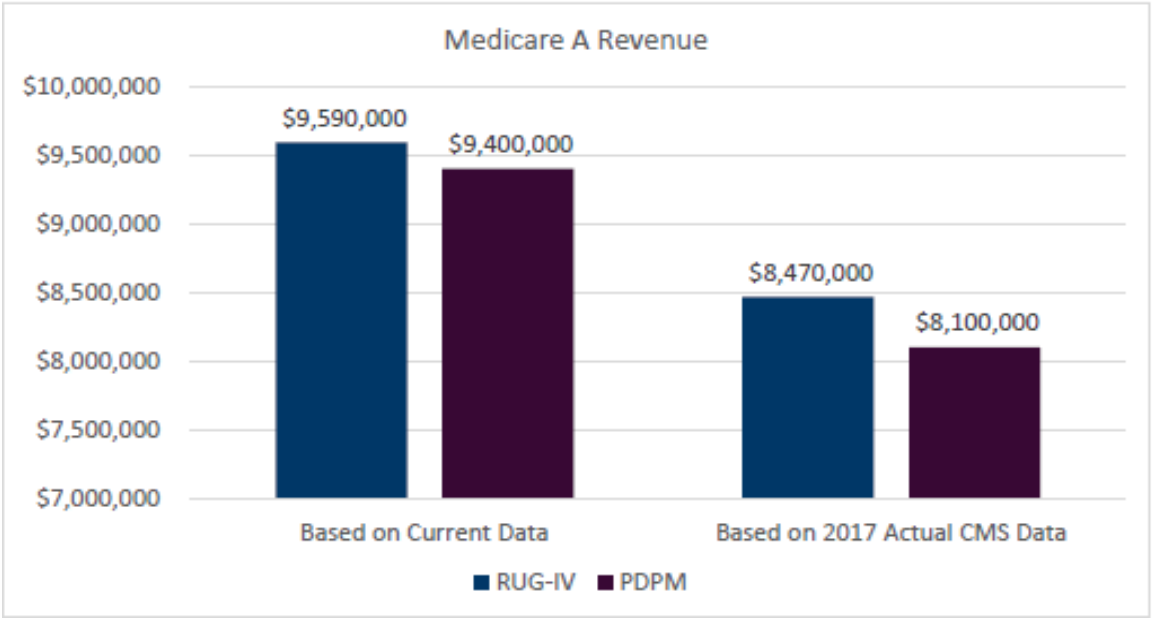
Exploration of Top Five RUG levels



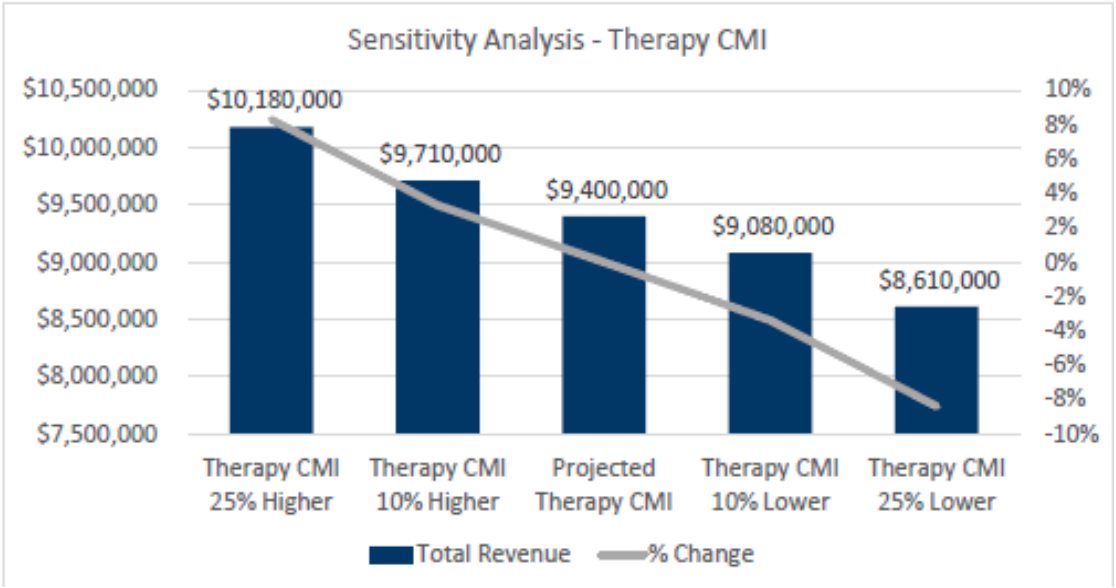
Revenue Modeling – Provider Example



Revenue Modeling – Provider Example



Sensitivity Analysis – Provider Example



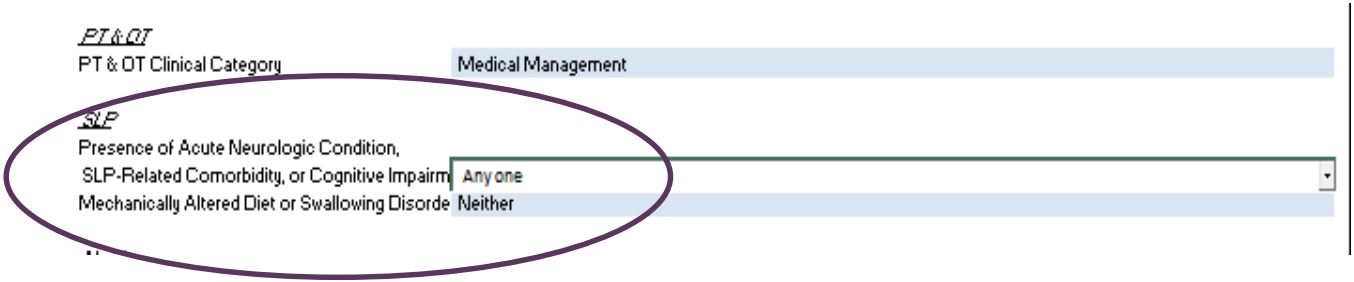
SLP Therapy Case Mix Index (CMI) Impact - Example

PT & OT	
PT & OT Clinical Category	Medical Management
SLP	
Presence of Acute Neurologic Condition,	
SLP-Related Comorbidity, or Cognitive Impairm	None
Mechanically Altered Diet or Swallowing Disorde	Neither

PDPM Estimated Per Diem Calculation

	PT	OT	SLP	Nursing	NTA	Non-Case-Mix	Rate	Days x Rate
Case-Mix Group	TK		SA	HBC1	NE			
Function Score Level	C, G, K, or O			BC				
Case-Mix	1.52	1.54	0.68	1.85	0.96			
Base Rate	$ 59.33	$ 55.23	$ 22.15	$ 103.46	$ 78.05	$ 92.63	$ 410.86	
Variable Per Diem Adjustment	100.00%	100.00%	N/A	N/A	130.00%	N/A		
Case-Mix Adjusted Per Diem Payment	$ 90.31	$ 84.89	$ 15.04	$ 191.74	$ 97.90	$ 92.63	$ 572.52	
PDPM Rate (after wage index: 1.0295)	**$ 92.97**	**$ 87.40**	**$ 15.48**	**$ 197.40**	**$ 100.79**	**$ 95.36**	**$ 589.41**	**$ 11,788**

SLP Therapy CMI Impact - Example



PDPM Estimated Per Diem Calculation

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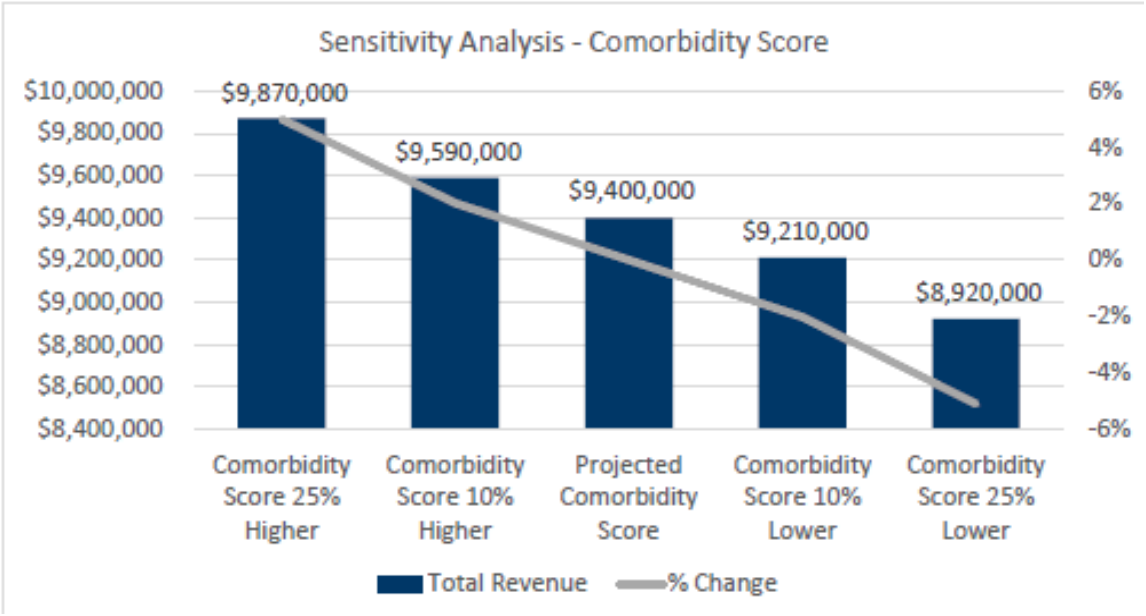
Case-Mix Adjusted Per Diem Payment	$ 90.31	$ 84.89	$ 32.30	$ 191.74	$ 97.90	$ 92.63	$ 589.78	
PDPM Rate (after wage index: 1.0295)	**$ 92.97**	**$ 87.40**	**$ 33.25**	**$ 197.40**	**$ 100.79**	**$ 95.36**	**$ 607.18**	**$ 12,144**

$17.97/day increase

Sensitivity Analysis



Impact of Co-Morbidity Selection - Example

NTA Comorbidity Score

Conditions/Extensive Service 1	I2900 - Active Diagnoses: Diabetes Mellitus (DM) Code (2 points)
Conditions/Extensive Service 2	

	PT	OT	SLP	Nursing	NTA
Case-Mix Group	TB		SB	HBC2	NE
Function Score Level	B, F, J, or N			BC	
Case-Mix	1.69	1.63	1.82	2.23	0.96
Base Rate	$ 59.33	$ 55.23	$ 22.15	$ 103.46	$ 78.05
Variable Per Diem Adjustment	100.00%	100.00%	N/A	N/A	130.00%
Case-Mix Adjusted Per Diem Payment	$ 100.51	$ 89.90	$ 40.25	$ 230.83	$ 97.90

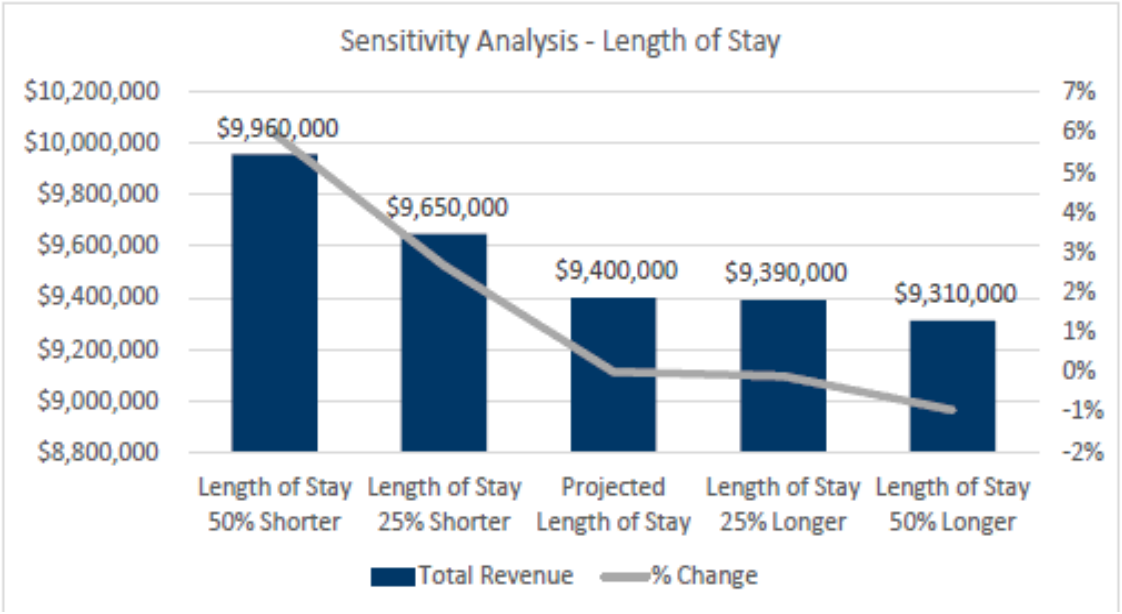
Impact of Co-Morbidity Selection - Example

NTA Comorbidity Score	
Conditions/Extensive Service 1	I2900 - Active Diagnoses: Diabetes Mellitus (DM) Code (2 points)
Conditions/Extensive Service 2	I6200 - Active Diagnoses: Asthma COPD Chronic Lung Disease Code (2 points)
Conditions/Extensive Service 3	I8000 - Morbid Obesity (1 points)
Conditions/Extensive Service 4	

	PT	OT	SLP	Nursing	NTA	Non-Case-Mix	Rate
Case-Mix Group	TB		SB	HBC2	ND		
Function Score Level	B, F, J, or N			BC			
Case-Mix	1.69	1.63	1.82	2.23	1.34		
Base Rate	$ 59.33	$ 55.23	$ 22.15	$ 103.46	$ 78.05	$ 92.63	$ 410.86
Variable Per Diem Adjustment	100.00%	100.00%	N/A	N/A	130.00%	N/A	
Case-Mix Adjusted Per Diem Payment	$ 100.51	$ 89.90	$ 40.25	$ 230.83	$ 135.91	$ 92.63	$ 690.02

Potential Increase of $38.01 in NTA component

Sensitivity Analysis



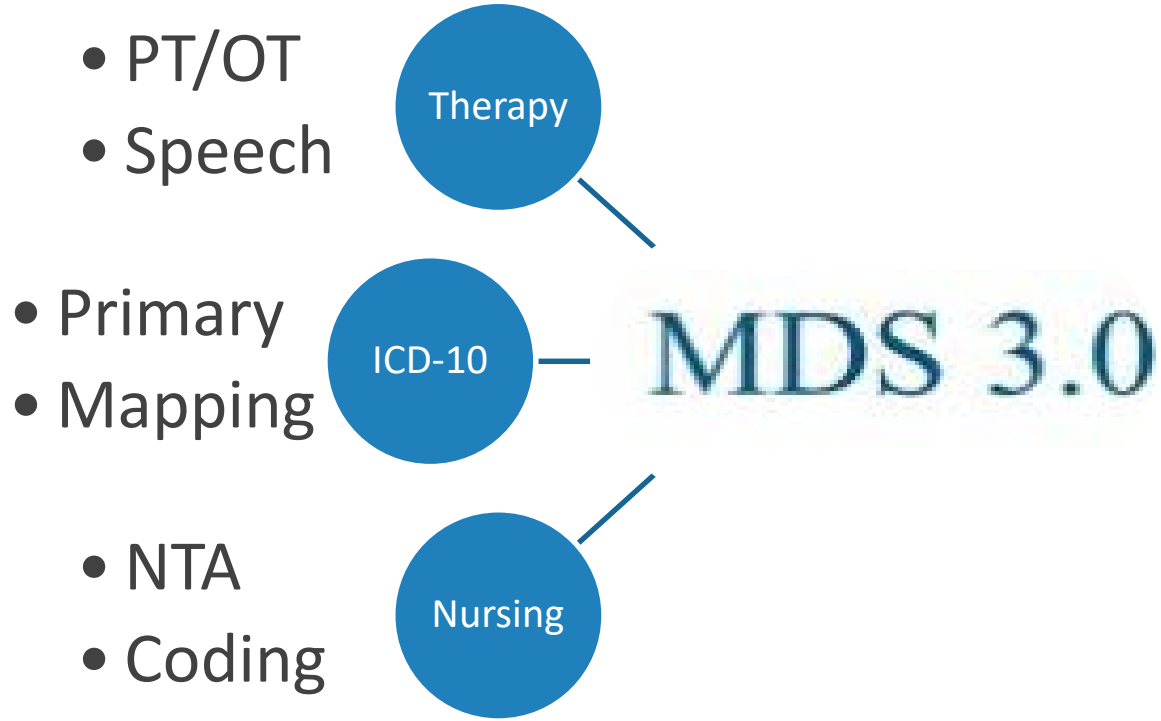
Clinical and Therapy Changes

Clinical and therapy implications on PDPM calculation

Calculation of PDPM payment

- Similar to RUGs, PDPM takes components from the MDS and diagnoses to determine payment
- A main difference is how therapy payment is determined
- The MDS assessment and ICD-10 CM coding accuracy are critical to success
- The nursing component has remained mostly the same along with the non-case mix adjusted component.

Clinical Considerations Overview



Diagnosis and Coding is Critical

- Hospital Discharges
  - Discharge summary sufficient today but may require more in depth review under PDPM
  - Surgery information from hospital is new and critical
- SNF Admits
  - SNF clinical diagnoses
  - MDS coordinator codes based on MDS items and ICD-10 codes

Clinical Reason for SNF Stay

- Comes from hospital discharge summary
- Needs to be listed on UB04 and the MDS Section I, especially I8000 section
- Also listed on the Medicare certification and daily skilled notes by both nursing and therapy
- Accuracy of MDS data will be key and include more staff involvement in MDS determination

Clinical Readiness

- MDS still drives the process
- Documentation accuracy and timeliness critical
- ICD-10 coding more important than ever
- Data collection from Medicare day 1 through the 5 day Assessment Reference Date (no later than day 8) is key to successful payment foundation

Clinical Readiness continued

- Evaluate nursing RUGS
- Evaluate MDS accuracy
- Educate entire IDT
  - PDPM
  - MDS Section GG
  - ICD-10
- Restorative

Operational Readiness

- What changes have you made
- What changes do you plan to make
- Who will be a part of the team to make the change seamless
- Reliability and validity of your delivery of care and practice patterns

Therapy Contract Changes

- Now is the time to start thinking about renegotiating contracts
- How will delivery of therapy change with ability to utilize group/concurrent therapy
  - Concurrent – therapist provides different therapy to two individuals at the same time
  - Group – One therapist performing same therapy for four patients at the same time
- Focus now on how therapy practices may be modified with focus on obtaining functional outcomes

Therapy Contract Considerations

- Focus on individual needs of resident
  - Overuse of minutes under RUGs vs under utilization of therapy under PDPM
  - Clear documentation necessary
  - Include therapist as part of the interdisciplinary team and the admission process

Potential Therapy Contract Terms

- Adjustable rate based upon adjustable portion of the PDPM rate
- Cost pass-through from therapy company
- Percentage of reimbursement based on payment
- Episodic payment similar to bundled payment

Billing Under PDPM

- Still utilize the Health Insurance Prospective Payment System (HIPPS) code from assessment
- Should have minimal impact on cash flow
- Billing practices related to the use of the HIPPS code and revenue codes on the UB-04 will remain the same under PDPM
- Principal diagnosis on SNF claim should match I0020B

Impact on Other CMS Initiatives and Payers

Five Star Rating Impact??

- No direct impact
- Indirect impact on Quality Measures used in 5-Star Rating
  - "Percentage of SNF residents whose functional abilities were assessed and functional goals were included in their treatment plan"

What is NOT Changing?

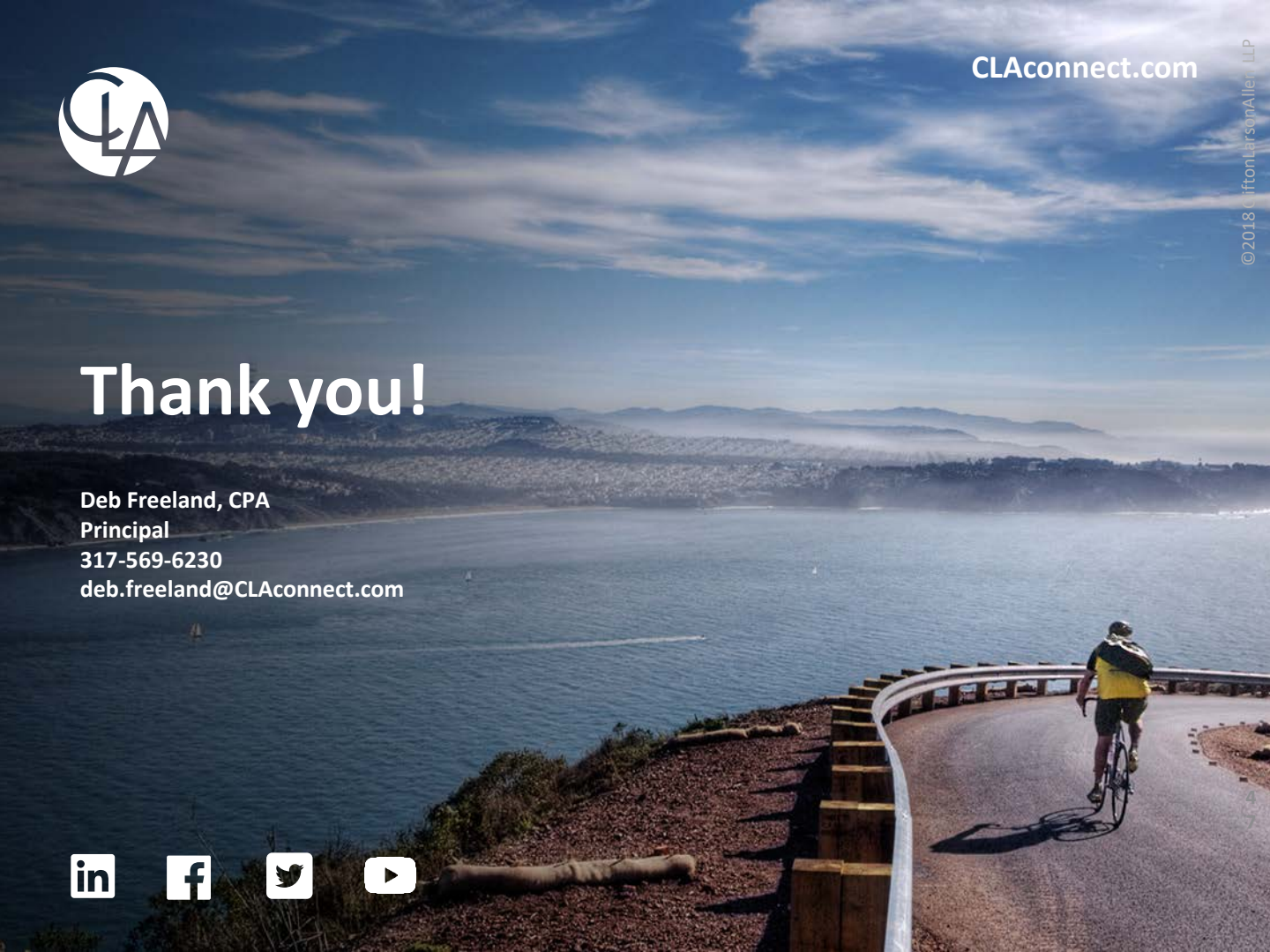
- SNF responsibilities still remain under PDPM
  - Needs for daily skilled care
  - Requirements of Participation
  - Survey and Certification
  - Annual Payment Rate Update
    - ◊ Market Basket
    - ◊ Wage Index
  - Consolidated Billing
  - SNF Quality Program
    - ◊ VBP and QRP

Impact Beyond 10/1/19

- Length of Stay (LOS) adjustment will reward shorter stays for therapy patients
  - Opportunity to serve more clinically complex patients
  - Opportunity to participate in bundles or ACOs with lower LOS
- Medicare Advantage plans may adopt new system
- Medicaid programs that rely on RUGs will need to adapt

Are Operators Ready for PDPM?

- Has the organization trained the clinical staff on PDPM changes?
- Have therapy contract renegotiations started?
- Does management understand the potential financial implications?
- What operational/strategical changes might the organization be making for PDPM?
  - Hiring more staff?
  - Serving more clinically complex patients?
- Has the organization considered impact on other payer sources?



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Thank you!

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