

September 12, 2022

Skilled Nursing Facility PPS Final Rule for FY 2023

The Centers for Medicare & Medicaid Services (CMS) on July 29 issued its fiscal year (FY) 2023 [final rule](#) for the skilled nursing facility (SNF) prospective payment system (PPS).

KEY HIGHLIGHTS

CMS finalized policies to:

- Increase aggregate SNF payments by net 2.7%, or \$904 million, in FY 2023, relative to FY 2022.
- Implement a 2.3% cut (which is included in the net 2.7% increase mentioned above), that CMS says is necessary to help ensure that implementation of the Payment-driven Payment Model (PDPM) case-mix system is budget neutral.
- Cap annual decreases in wage index updates.
- Adopt one new quality measure on the rate of influenza vaccination for staff for FY 2024, one year earlier than proposed.
- Resume reporting certain measures and patient data that were delayed due to the COVID-19 public health emergency (PHE); effective in October 2023.
- Adopt three new quality measures for the SNF Value-based Purchasing (VBP) program starting in FYs 2026 and 2027.

WHAT YOU CAN DO

- Share this advisory with your senior management team to examine the impact these payment changes will have on your organization in FY 2023.

AHA TAKE

In addition to the annual payment update required by law, the rule finalized a substantial behavioral offset that CMS states is necessary to ensure the budget-neutral implementation of the new PDPM case-mix system. While AHA is concerned about the size of the offset, we do appreciate that, instead of the proposed one-year implementation of the cut, the agency finalized a two-year phase-in to mitigate the cut's single year impact. Given the ongoing impact of the COVID-19 pandemic on SNFs and nursing homes, this phase-in approach helps to avoid substantially amplifying current clinical and financial instabilities.

Highlights from the rule follow.

SNF PPS PAYMENT CHANGES

CMS estimates that this final rule would increase payments under the SNF PPS by \$904 million in FY 2023, relative to FY 2022. This takes into account both the annual payment update and the one-time budget neutrality offset for the first year of PDPM implementation.

FY 2023 Payment Update. The rule increases net payments to SNFs by 5.1% in FY 2023 relative to FY 2022. This includes a 3.9% market-basket update offset by a statutorily-mandated cut of 0.3 percentage points for productivity. It also includes a 1.5 percentage point increase to counter the agency's market basket error in FY 2021. The forecast error was determined by comparing the projected versus actual market basket that year; it was 1.5 percentage points, which exceeds the 0.5 percentage point threshold required to trigger this correction.

Recalibrating the PDPM Parity Adjustment. CMS reports that during the transition to the new case-mix system, PDPM, which began on Oct. 1, 2019, a significant increase in overall SNF PPS payment occurred, relative to what would have been paid under the prior case-mix system. In this rule, CMS sets forth a methodology for offsetting this amount during FY 2023.

In order to calculate FY 2020 aggregate spending under PDPM versus what would have been paid under the prior case-mix system, known as RUG-IV, CMS ran data through both the prior and current case-mix systems to compare aggregate SNF PPS spending levels. In response to the SNF field's priority of calculating budget neutrality using PDPM data with low or no PHE impact, CMS did so using two six-month periods from FYs 2020 and 2021 with the lowest presence of COVID-19 cases. It also excluded stays with either a COVID-19 waiver or COVID-19 diagnosis. In doing so, the agency utilized its own definition of the COVID-19 population, which aligns with the definition used by publicly available datasets from CMS's Office of Enterprise Data and Analytics (OEDA).

This analysis yielded a budget neutrality cut of 4.6%. CMS will implement the parity adjustment with a 2-year phase-in period — a 2.3% cut in FY 2023 and another in FY 2024.

Labor-related Share

CMS will increase the labor-related share by 0.4 percentage points, from 70.4% in FY 2022 to 70.8% in FY 2023. The changes to the components of the labor share are illustrated in Table 1 below. This update will be applied in a budget-neutral manner, using a 1.0005 adjustment.

Table 1: Labor-related Share, FY 2022 and FY 2023

	Relative Importance, Labor-related Share, FY 2022	Relative Importance, Labor-related Share, FY 2023
Wages and salaries	51.4	51.9
Employee benefits	9.5	9.5
Professional fees: Labor-related	3.5	3.5
Administrative & facilities support services	0.6	0.6
Installation, maintenance & repair services	0.4	0.4
All other: Labor- related services	2.0	2.0
Capital-related	3.0	2.9
Total	70.4	70.8

Area Wage Index

CMS will maintain the same wage index methodology for FY 2023. Specifically, the agency would use the same year’s pre-reclassified inpatient PPS hospital wage data, unadjusted for other policies including occupational mix and the rural floor. In addition, the SNF wage index for FY 2023 will be calculated using hospital wage data from cost reports beginning in FY 2019. CMS notes that to instead use wage data from SNF cost reports would require audits that would burden SNFs and require a commitment of resources that is not feasible at this time.

In addition, as proposed, CMS adopts a permanent policy that would cap wage index decreases from year-to-year at 5%. CMS anticipates that this cap would rarely be used, but, when needed, would improve the stability of this payment system.

SNF QUALITY REPORTING PROGRAM (QRP)

As mandated by the Affordable Care Act, SNFs receiving Medicare payments have been required to participate in the SNF QRP since 2014. The Improving Medicare Post-Acute Care Transformation (IMPACT) Act required that, starting FY 2019, providers must report standardized patient assessment data elements (SPADEs) as part of the SNF QRP. Failure to comply with these requirements results in a 2-percentage point reduction to the SNF’s annual market-basket update. CMS finalized the adoption of one new measure in the SNF QRP as well as the revision of the compliance date for data

collection on two previously adopted measures and several SPADEs. The SNF QRP will consist of 16 measures for FY 2025, as described in Table 2.

Table 2: Finalized Measures for the SNF QRP, FY 2025

Data Source	Measure
National Healthcare Safety Network (NHSN)	COVID-19 Vaccination Coverage Among Healthcare Personnel
	Influenza Vaccination Coverage Among Healthcare Personnel
SNF Minimum Data Set (MDS)	Application of Percent of Residents Experiencing One or More Falls With Major Injury (Long Stay)
	Application of Percent of Long-Term Care Hospital Patients with an Admission and Discharge Functional Assessment and a Care Plan that Addresses Function
	Change in Self-Care Score for Medical Rehabilitation Patients
	Change in Mobility Score for Medical Rehabilitation Patients
	Discharge Self-Care Score for Medical Rehabilitation Patients
	Discharge Mobility Score for Medical Rehabilitation Patients
	Drug regimen review conducted with follow-up for identified issues
	Changes in Skin Integrity Post-Acute Care: Pressure Ulcer/Injury
	Transfer of Health Information to Provider*
	Transfer of Health Information to Patient*
Claims	Medicare Spending per Beneficiary (MSPB) for Post-acute Care SNF QRP
	Discharge to Community
	Potentially Preventable 30-day Post-discharge Readmission Measure
	SNF Healthcare-associated Infections Requiring Hospitalization

*=Data collection delayed due to COVID-19 PHE; data collection required beginning Oct. 1, 2022

Adoption of Influenza Vaccination among Health Care Personnel (HCP) Measure.

CMS will adopt the CDC-developed Influenza Vaccination Coverage among Healthcare Personnel (HCP) measure; the agency proposed to adopt the measure for beginning with the FY 2025 SNF QRP, but will instead add the measure to the program one year earlier, for FY 2024. CMS accelerates the addition of this measure to the program as the agency believes “it has the potential to increase influenza vaccination coverage in SNFs.”

The timeline for data submission does not change. As proposed, SNFs will be required to enter a single summary report into the National Healthcare Safety Network (NHSN)’s module at the end of each annual measure reporting period, beginning with the Oct. 1, 2022-March 31, 2023 flu season with a data submission deadline of May 15, 2023. Performance on this measure will be publicly reported beginning with the October 2023 Care Compare refresh, or as soon as technically feasible.

The measure assesses the percentage of HCP who receive an influenza vaccination any time from when it first became available through March 31 of the following year. “Healthcare personnel” — that is, the denominator of the measured rate — is defined as anyone physically present in the health care facility for at least one working day between Oct. 1 and March 31 of the following year, regardless of clinical responsibility or patient contact. The denominator is calculated separately for three categories: employees (those on the SNF’s payroll), licensed independent practitioners affiliated with but not paid by the SNF, and adult students/trainees and volunteers. SNFs also have the option of reporting other contract personnel, but are not required to do so.

SNFs will record the numerator of the measure in five categories:

1. HCP who received a vaccination at the facility;
2. HCP who reported in writing or provided documentation that they received a vaccination elsewhere;
3. HCP who were determined to have a medical contraindication, including severe allergic reaction to eggs or other components of the vaccine or a history of Guillain-Barre syndrome within six weeks after a previous influenza vaccination;
4. HCP who were offered but declined the vaccination; and
5. HCP with unknown vaccination status.

SNFs are currently required to report COVID-19 vaccination coverage among HCP through NHSN as part of the SNF QRP. In addition, CMS notes that “several thousand nursing homes” (about 17% of all CMS-certified nursing homes) voluntarily reported weekly influenza vaccination coverage through NHSN during the 2020-2021 influenza season.

Revised Compliance Date for Previously Finalized Measures. CMS will require SNFs to begin data collection on two previously finalized measures and several SPADEs beginning Oct. 1, 2023. SNFs were originally scheduled to begin required data collection on the measures, Transfer of Health Information to the Patient and Transfer of Health Information to the Provider, and certain SPADEs beginning Oct. 1, 2020. In May 2020, CMS issued an interim final rule acknowledging the effects of the COVID-19 PHE and extending the timeline for these requirements until Oct. 1 of the year that is at least two full fiscal years after the end of the PHE.

In response to comments urging CMS to maintain the delay in compliance date due to the ongoing pressures of the PHE, CMS explains that the agency has offered SNFs significant flexibilities throughout the PHE by granting waivers of regulatory requirements, and has provided guidance and assistance to help SNFs during the pandemic. In addition, CMS believes that “providers may already be recording for their own purposes” data related to the previously finalized but delayed SPADEs, which address social determinants of health. CMS also finalized the accelerated timeline for required reporting for IRFs and LTCHs in its FY 2022 rules, so the agency believes that SNFs, too, have the capacity to begin collecting and reporting these data.

CMS notes that it plans to release a draft of the updated version of the assessment tool used for data collection “in early 2023,” which will, according to the agency, provide sufficient lead time to prepare for the Oct. 1 data collection start date. CMS also promises to provide training and technical assistance.

SNF VALUE-BASED PURCHASING PROGRAM

In addition to updates to the SNF VBP program for the FY 2023 program year, CMS finalized several revisions to the program for future years.

Application of Measure Suppression Policy for FY 2023. CMS will again suppress the use of performance data from the single quality measure currently used in the SNF VBP Program, Skilled Nursing Facility 30-Day All-Cause Readmission Measure (SNFRM). In the FY 2022 SNF PPS final rule, CMS suppressed the SNFRM for the FY 2022 program year due to the impact of the COVID-19 pandemic on health care personnel, patient volumes and case mix.

As with the FY 2022 program year, CMS will use the previously finalized performance period (FY 2021) and baseline period (FY 2019) to calculate performance on the SNFRM; CMS will provide quarterly confidential feedback reports on this performance and publicly report SNFRM rates. However, CMS will not use this data for scoring and payment adjustments. Instead, CMS will assign all participating SNFs a score of zero, resulting in all SNFs receiving an identical payment multiplier. CMS will continue the policy of reducing each SNF’s per diem rate by 2 percentage points and then award back 60% of that 2% withhold (the Protecting Access to Medicare Act of 2014, which established the SNF VBP program, directed CMS to pay out 50% to 70% of the withhold; CMS finalized the 60% payback in previous rulemaking), resulting in a uniform payment update of 1.2%.

Technical Updates to SNFRM to Risk Adjust for COVID-19 Patients. Because of the high prevalence of COVID-19 in SNF patients and the influence of history of COVID-19 on readmission rates, CMS will update the technical specifications of the SNFRM to account for patients with COVID-19. Beginning with the FY 2023 program year, patients diagnosed with COVID-19 at any time within 12 months prior to or during the prior proximal hospital stay will remain in the measure’s cohort, but CMS will add a variable to the risk adjustment model that accounts for the clinical differences in outcomes for these patients.

In coming to this conclusion, CMS considered several options for how to account for COVID-19 in the SNFRM, including removing readmissions from the outcome for patients with a primary or secondary diagnosis of COVID-19 during the readmission hospital stay. However, CMS determined that adding the risk adjustment variable would be the option most likely to maintain the statistical integrity of the model, prevent decreases in sample size and allow the measure to appropriately adjust for clinical differences in these patients.

Measure Additions for Future Years. As authorized under the Consolidated Appropriations Act of 2021, the secretary may add up to nine new measures in the SNF VBP program. As such, CMS will adopt two new quality measures for the program beginning with the FY 2026 program year: Skilled Nursing Facility Healthcare Associated Infections Requiring Hospitalization (SNF HAI) and Total Nursing Hours per Resident Day Staffing. CMS will adopt an additional measure, Discharge to Community, beginning with the FY 2027 program year.

The SNF HAI measure uses hospital claims data to estimate the risk-standardized rate of HAIs that are ostensibly acquired during SNF care and result in hospitalization. The measure is currently used in the SNF QRP; details on this measure can be found in AHA's FY 2022 SNF PPS Proposed Rule [Regulatory Advisory](#).

The Total Nursing Hours per Resident Day Staffing Measure is a structural measure that uses auditable electronic data reported to CMS' Payroll Based Journal system to calculate total nursing hours per resident day. Staff includes registered nurses, licensed practical nurses and certified nurse aides, and hours include clinical and administrative duties as well as training. Both facility employees and contract staff are included, but private duty, hospice staff and feeding assistants are not. Resident days are calculated based on a count of daily resident census derived from MDS assessments, and is case-mix adjusted based on RUG-IV distribution. The measure is currently included in the Five-Star Quality Rating System, but is not part of the SNF QRP and is not endorsed by NQF.

The Discharge to Community measure assesses the rate of SNF patients who are discharged to the home (with or without home health services) without an unplanned readmission to an acute care hospital or long-term care hospital (LTCH) and remain alive in the 31 days following discharge. The measure is endorsed by NQF and is currently used in the SNF QRP; details on this measure can be found in AHA's FY 2017 SNF PPS Proposed Rule [Regulatory Advisory](#).

Performance and Baseline Periods. In previous rulemaking, CMS finalized a policy to establish performance and baseline periods as one year from the previous program year's periods; under this policy, the baseline period for the SNFRM for the FY 2025 program year would be FY 2021. However, CMS is concerned about using COVID-19-impacted data from this year for scoring and payment purposes; FY 2020 data would also be affected by COVID-19, including the 6-month data reporting exception granted by the agency during that year. Thus, the agency will use a baseline period of FY 2019 for the FY 2025 program year.

CMS will use the following performance and baseline periods for the newly adopted measures as seen in Table 3.

Table 3. Performance Periods for New Measures

Measure	Performance Period Length	Initial Performance Period	Initial Baseline Period
SNF HAI	One year	FY 2024	FY 2022
Total Nursing Hours per Resident Day	One year	FY 2024	FY 2022
Discharge to Community	Two years	FY 2024-FY2025	FY 2021-FY 2022

Final FY 2025 Performance Standards. CMS published the final performance standards for the FY 2025 program year using FY 2019 as the baseline period. Based on previously finalized methodology, CMS establishes the following standards for performance on the SNFRM:

- Achievement Threshold: 0.79139
- Benchmark: 0.82912

Case Minimum Requirements. CMS will adopt case and measure minimums to determine SNF eligibility for participation in the SNF VBP program. Currently, SNFs with low volumes are assigned a performance score rather than having a score calculated based on their actual performance. However, CMS believes replacing the current policy with case and measure minimums will ensure that the agency applies program requirements only to SNFs for which it can calculate reliable measure rates and performance scores.

Under the finalized policy, SNFs will have to meet a minimum number of cases for each VBP measure and will have to have a minimum number of measures in order to participate for that program year. If a SNF does not have sufficient volume to meet these minimums, it will be excluded from the program for that program year; this means that the SNF will not receive a VBP performance score and will receive its full federal per diem rate (rather than be subject to the 2% withhold and payback adjustment). Beginning with the FY 2023 program year, SNFs will have to have a minimum of 25 eligible stays for the SNFRM during the performance period. CMS estimates that this would exclude 15% of all SNFs from the VBP program.

SNFs will also have to have a minimum of 25 eligible stays for the SNF HAI measure and the Total Nurse Staffing Hours measure, and have the minimum number of cases for two of the three measures that will be included in the program beginning FY 2026. Beginning FY 2027, SNFs will also need to have a minimum 25 eligible stays for the Discharge to Community measure, and will need three of the four measures included in the program to be eligible for a payment update.

Scoring Updates. CMS will update the scoring methodology to reflect the adoption of additional quality measures into the VBP program. Currently, SNFs can score between

0 to 100 points on achievement on the SNFRM or 0 to 90 points for improvement compared to baseline performance (whichever is higher). This score is then translated into an incentive payment multiplier using an exchange function.

Beginning FY 2026, CMS will provide 0-10 points for achievement or 0-9 points for improvement (whichever is higher) on each measure. CMS will then sum the points for the three measures (four beginning FY 2027) and normalize this sum — in other words, CMS will convert each SNF's score of 0-30 points (0-40 beginning FY 2027) to a scale of 0-100 points. For example, if a SNF scored 9 points on the SNFRM, 9 points on the SNF HAI measure and 9 points on the Total Nurse Staffing Hours measure for the FY 2026 program year, those 27 points — out of a total of 30 possible, each measure weighted equally — will translate to 90 points on a scale of 0-100. CMS will then use the logistic exchange function to translate that score into a payment incentive multiplier.

Validation. As required by the Consolidated Appropriations Act of 2021, CMS will adopt a validation process for the SNF VBP program beginning with the FY 2023 program year. CMS currently validates SNFRM measure data via Medicare Administrative Contractors, but is considering additional validation methods for when the three additional measures proposed for adoption in this rule are added to the program.

FURTHER QUESTIONS

For questions about payment provisions, contact Joanna Hiatt Kim, AHA's vice president of policy, at jkim@aha.org; for quality-related questions, contact Caitlin Gillooley, AHA's director of policy, at cgillooley@aha.org.