

## **Options for reforming the SNF PPS**

**ISSUE:** MedPAC and others have raised two fundamental problems with the prospective payment system (PPS) for skilled nursing facilities (SNF). First, it does not adequately distribute payments for nontherapy ancillary (NTA) services (such as drugs, IV medications, and respiratory therapy). Second, the system encourages providers to furnish therapy services, even those of marginal value. In 2000, the Congress directed the Secretary to study different systems for categorizing patients that account for variation in resource use across patients. CMS funded extensive research to explore ways to more accurately pay for SNF care and implemented refinements in 2006. CMS stated that the refinements represented an incremental—not a major—improvement and it would continue to examine alternatives to the PPS. The Commission has stated that these refinements did not go far enough in addressing the fundamental problems with the PPS.

Over the next year, the Commission will examine the key options CMS explored that could form the basis of further SNF reforms. These alternatives can be organized by the problem they attempt to solve: the inaccurate payments for NTA services; the incentives to furnish therapy services; and the lack of an outlier policy to defray the costs of exceptionally high cost stays.

**KEY POINTS:** Staff will present information on the alternatives CMS's researchers explored including those that would:

- Pay more accurately for nontherapy ancillary services,
- Replace the current therapy component with one that does not encourage therapy provision, and
- Create an outlier policy.

**ACTION:** We would like the Commission to discuss, in broad terms, the policy options staff should pursue.

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