



Schiavi, Wallace & Rowe, PC

Certified Public Accountants

A newsletter dedicated to long-term care providers.

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Maryland Medicaid PPS – An Update *Is Your Facility Ready for the Transition?*

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New Rate Year Begins without a Rate Increase

Normally at this time of year we are looking forward to Maryland Medicaid rate increases to be effective on July 1 with the beginning of the State's fiscal year. However, due to budget limitations, there will be no rate increase until January 1, 2015. The 1.725% rate increase initially approved by the department to begin in January was increased to 2.5% by the legislature specifically to help the industry deal with the changes coming from the implementation of the new Medicaid PPS (Prospective Payment System).

No Change in Rates July 1 Means no Change in Provider Tax...

The Statewide quality assessment tax is limited to 6% of projected revenues. Since revenues will not increase until January 1, 2015, the Department will also keep provider tax rates at the current levels for the period July 1, 2014 to December 31, 2014. Facilities can expect to see a small provider tax rate increase to coincide with the rate increase beginning January 1.

Delay in Implementation of PPS

Maryland skilled nursing facilities received a small reprieve in the conversion to the new payment system. The implementation date for PPS has been officially postponed from July 1, 2014 to January 1, 2015. The postponement not only allows the department and facilities more time for readiness for this major change in payment structure, it also aligns the new system with the same time-frame as the budget increase. This helps facilities which are losers under PPS, as the new money helps to dilute those losses. In fact, most facilities that have been categorized as "losers" under PPS will have those losses offset by the 2.5% rate increase for the first six months of the phase in, meaning that they will experience flat growth or very small increases rather than rate decreases during this period.

The Phase In

The department has proposed to phase into PPS by 25% every six months—an aggressive schedule designed to move quickly into full PPS. Facilities will receive 25% of their rate under the new system and 75% under the old system for the time period January 1, 2015 to June 30, 2015, with an additional 25% move from old to new each six months thereafter.

The number of winners and losers will change every six months as we phase in until we reach the full PPS rate (originally projected to result in 100 losers). While it is hoped that the losers will have their rate reductions offset by ongoing rate increases, for practical purposes, the best we can hope for is that serious losers—those buildings with projected PPS rates as much as \$15 lower than current rates—will experience an 18 month time period of flat rates, which follows this next six month period of no increases at all. "Loser" facilities need to take this seriously.

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How the Department has Projected Your PPS Rate

You may have seen spreadsheets prepared by the department which project the initial interim rate for your facility under PPS. You need to review these spreadsheets carefully with your accountant or reimbursement consultant as the spreadsheets may not be accurate for your facility.

First, you should duplicate those results for your facility by doing the following calculation:

Pull the following numbers from your shadow rate letter. Take line 7 (Total Rate for All Levels) in the first column “New Methodology Shadow Rate” and multiply it by 25%. Then take line 7 of column 3 (Current Methodology Interim Rate Plus Assumed Settlement Amount) and multiply it by 75%. Add those two results together and multiply by 2.5%. This represents your projected payment rate under PPS for the first six months of the Phase in.

Example - ABC Facility (Rate Year 2014):

	New Methodology Shadow Rate	Current Methodology Interim Rate	Current Methodology Interim Rate Plus Assumed Settlement Amount	Total
Total Rate Line 7	\$221.88	\$230.62	\$237.20	
Phase In	25%		75%	
Subtotal	55.47		177.90	\$233.37
2015 Increase				1.025
Estimated Phase in				\$239.20

Note that this provider would be considered a “loser” under PPS, as the PPS Rate (new methodology shadow rate) of \$221.88 is less than the current interim rate plus assumed settlement amount of \$237.20. However, the State does not consider them in the “loser” category for the first Phase in period as they will have a FY 2015 rate of \$239.20 which is \$2.00 PPD higher than the FY 2014 rate of \$237.20.

As you move forward into the next phase in periods (50% new 50% old) and (75% new and 25% old), this provider’s rate will quickly drop from the \$239.20 calculated above to \$235.28 in the second phase in period, \$231.35 in the third phase in period and \$227.43 at full implementation, absent any additional rate increases.

What could make these rates inaccurate for your facility?

1. A large number of facilities just received their 2013 appraisals. If your facility’s appraisal effective date was March 31, 2009 (refer to line 37 of your shadow rate letter), then the PPS portion of your rate is no longer accurate.
2. The Medicaid only CMI period in your shadow rate letter is from March 2013. However it is the July 1, 2014 CMI that will roll into your first PPS rate January 1. Keep an eye on those patient rosters as we expect “creep” to occur over the next few years, and the relationship of your facility’s CMI to others in the region matters.
3. The “Current Methodology Interim Rate Plus Assumed Settlement Amount” is an estimate that may not be reflective of the value the Department will actually use for your facility. The actual value used to represent your old payment rate will be derived from your 2012 final settlement. Our calculations for our clients are showing swings up to + or – \$15 per day from the amounts used in the shadow rate letters.

*MMDS will
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MDS Clinical Validation Workgroup

The Department has formed a workgroup to review and develop the new clinical validation process to replace our current quarterly patient assessment reviews. MMDS will no longer be used after December 31, 2014.

So what do we think the clinical reviews will look like at this point?

- A sample of MDS will be selected from the patient roster
- A team of nurses will come onsite to review those MDS
- The facility's "error rate" will be calculated as a result of that review and compared to a defined "acceptable" error rate
- There will likely be grace period where facilities are not penalized for error rates
- After that grace period, facilities exceeding the acceptable error rate may have additional surveys
- Errors found will be adjusted in future CMI scores, rather than retroactively applied

What Remains to be Done with the new PPS?

The Department is in the process of drafting regulations this month. There are many details that still need to be outlined. The regulations should address such questions as; what factors would allow a provider to request a new appraisal out of the four year cycle? How will appeals work under the new system? How will ownership changes and new construction be treated?

What Should Your Facility be Doing to Prepare for PPS?

1. Benchmarking: The new PPS system is particularly tough on high cost facilities. The difference between the current routine and admin ceiling and the new PPS "price" is material for all regions. Now is the time to compare your spending to other facilities in the region, and see where you might be able to reduce costs.
2. MDS training: CMI scores from your MDS will be applied to the new system six months in arrears. That means the quarterly roster that begins July 1, 2014 will be used in your first interim rate under the new system in January. Make sure your MDS staff is communicating with nursing regularly and that you take advantage of this implementation delay to give your staff the training that they need.
3. Rate Projections: Calculate your phase in—worse case with no budget increases—and consider other factors that may increase or decrease your shadow rate.
4. Be aware that the shadow rates that you received were based upon a 2012 base year. We know that the State plans to "re-base" every two to four years, and 2013 is already history. So the costs you are reporting now could be in the next base year period. Make sure you know how your costs, and the costs of others in your region, are trending from 2012 to the present. Also now is a good time to take a close look at how you are classifying costs to make sure that you are grouping salaries and other expenses in the proper category.

Questions or Concerns?

At Schiavi, Wallace & Rowe, we are committed to helping facilities deal with the transition. If you need assistance with a benchmarking or rate projection, contact Judy Schiavi at jschiavi@schia-vi-wallace.com. We are planning a seminar in late July once the regulations have been drafted. We will also attend (and hopefully present!) at the HFAM/LIFESPAN joint convention in September.



Proposed Medicare Rate Increase Effective 10/1/14

Based on the May 6, 2014 Federal Register

Based on the proposed rule skilled nursing facility Medicare rates will increase 2% this October. However, the actual change for your facility depends on its location, due to the impact of the area wage index:

<u>Area</u>	<u>Rate Increase</u>
Allegany County	4.51%
Baltimore Metro	2.83%
DC Metro	1.30%
Montgomery County	1.43%
Rural (All Other)	1.90%
Somerset/Wicomico/Worcester	-1.48%
St. Mary's County *	Varies
Washington County	1.10%
Wilmington Metro	1.18%

**New area, previously rural. Due to the change from rural to urban rate updates vary widely. Generally rehab RUGs will experience decreases and others will experience increases.*

Email Dawn Rowe at drowe@schivi-wallace.com for more info.

Please join Schiavi, Wallace & Rowe and HFAM
at our

Annual Reimbursement Update

July 31st

(time to be determined)

To be held at the

Maritime Institute

692 Maritime Blvd, Linthicum Hts, MD 21090

Check back later for updated registration information

Get the latest on:

- ◆ Maryland Medicaid PPS: Rates and Implementation
- ◆ Medicare PPS & plans for the upcoming Value Based Purchasing (Pay for Performance)
- ◆ And more!

Visit www.hfam.org for more information and to register.

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