

**Medicare Prospective Payment System and Consolidated Billing for Skilled Nursing
Facilities for FY 2014 (CMS-1446-P; RIN 0938-AR65)
Summary of Proposed Rule**

The Centers for Medicare & Medicaid Services (CMS) published in the *Federal Register* on May 6, 2013 (78 *FR* 26438-26480)¹ a proposed rule that would update the skilled nursing facility (SNF) prospective payment system (PPS) payment rates for FY 2014; revise and rebase the SNF market basket to reflect FY 2010 costs; and propose a new reporting item, “Distinct Calendar Days of Therapy” for the Minimum Data Set (MDS).

In addition, while not proposing changes at this time, CMS reviews briefly a study on alternative approaches to paying for therapy services in SNFs and seeks input on that issue.

Comments must be received no later than July 1, 2013. CMS notes that it presents this proposed rule in a revised format from previous rules, and offers a crosswalk on *Federal Register* page 26439 between this FY 2014 proposed rule and the FY 2013 update notice.

| Summary of Key Data for Proposed SNF PPS for FY 2014 | | | | |
|---|-------------------|-------------------------|----------------|---------------------|
| Market basket update factor | | | | |
| Market basket increase | | | | +2.3% |
| Forecast error adjustment for FY 2012 | | | | -0.5% |
| Required multi-factor productivity (MFP) adjustment | | | | -0.4% |
| MFP-adjusted update | | | | +1.4% |
| Wage index budget neutrality adjustment | | | | 1.0003 |
| FY 2013, FY 2014 Unadjusted Federal Rates Per Diem a/ | | | | |
| | Urban | | Rural | |
| | FY 2013 | FY 2014 | FY 2013 | FY 2014 |
| Nursing-case-mix adjusted | \$163.58 | \$165.92 | \$156.28 | \$158.52 |
| Therapy-case-mix adjusted | \$123.22 | \$124.98 | \$142.08 | \$144.11 |
| Therapy-non-case-mix adjusted | \$16.23 | \$16.46 | \$17.33 | \$17.58 |
| Non-case-mix adjusted | \$83.48 | \$84.67 | \$85.03 | \$86.25 |
| Projected Impact, 2014 b/ | | | | |
| | Facilities | Update Wage Data | | Total Change |
| Total | 15,376 | 0.0% | | +1.4% |
| Urban | 10,578 | +0.1% | | +1.5% |
| Rural | 4,798 | -0.3% | | +1.1% |
| Government | 830 | +0.2% | | +1.6% |
| Profit | 10,722 | 0.0% | | +1.4% |
| Non-profit | 3,824 | 0.0% | | +1.4% |
| Accounting Statement: FY 2014 Spending Increase c/ | | | | +\$500 million |
| a/ FY 2013 rates increased by MFP-adjusted update and wage index budget neutrality adjustment | | | | |
| b/ See Table 22, page 26469 for more detail on impact by type of facility and region | | | | |
| c/ See Table 23, page 26470 | | | | |

¹ The proposed rule is available at: <http://www.gpo.gov/fdsys/pkg/FR-2013-05-06/pdf/2013-10558.pdf>

SNF Market Basket Update

Market basket increase: CMS proposes to determine the market basket increase for FY 2014 based on the percent increase in a revised and rebased FY 2010-based SNF market basket (see below for summary of the proposed rebasing). The proposed market basket update would be 2.3 percent, based on the first quarter 2013 forecast from Information Handling Services (IHI) Global Insight, Inc. CMS notes that if additional information becomes available, this update could change.

Forecast error adjustment: CMS proposes to continue to provide for an adjustment to account for forecast errors in previous market basket estimates. The threshold for making that adjustment is an error of more 0.5 percentage points. The most recent year for which actual data are available is FY 2012. The FY 2012 market basket increase was 2.7 percent, and the actual was 2.2 percent, with a difference of 0.5 percent. CMS proposes, when the error is exactly at the 0.5 percent threshold, to carry the analysis to the second significant digit. As shown in a copy of Table 1 below, the resulting FY 2012 difference of 0.51 percent merits the forecast error adjustment. As a result, CMS proposes a forecast error adjustment for FY 2014 of -0.5 percent.

| CMS Table 1: Difference Between Forecast and Actual Market Basket Increase for FY 2012 a/ | | | |
|--|-------------------------|---------------|-------------------|
| | FY 2012 Increase | | |
| | Forecast | Actual | Difference |
| SNF market basket (rounded to one significant digit) | 2.7% | 2.2% | -0.5% |
| SNF market basket (rounded to two significant digits) | 2.69% | 2.18% | -0.51% |

Multifactor productivity adjustment: CMS proposes a multifactor productivity (MFP) adjustment, called for under the Affordable Care Act, of -0.4 percent.

Net MFP-adjusted update: CMS proposes an MFP-adjusted update for FY 2014 of 1.4 percent:

| | |
|----------------------------|----------------------|
| Market basket increase: | +2.3 percent |
| Forecast error adjustment: | - 0.5 percent |
| MFP adjustment: | <u>- 0.4 percent</u> |
| Net MFP-adjusted update: | +1.4 percent |

Unadjusted federal rates: Based on that MFP-adjusted update, coupled with the wage index budget-neutrality adjuster of 1.0003 (see below), CMS proposes FY 2014 unadjusted federal rates per diem for each component of the per diem payment for urban and rural areas.

| CMS Tables 2 and 3: Proposed Unadjusted FY 2014 Federal Rate Per Diem, Urban and Rural | | |
|---|--------------|--------------|
| | Urban | Rural |
| Nursing-case-mix adjusted | \$165.92 | \$158.52 |
| Therapy-case-mix adjusted | \$124.98 | \$144.11 |
| Therapy- non-case-mix adjusted | \$16.46 | \$17.58 |
| Non-case mix adjusted | \$84.67 | \$86.25 |

Case-Mix Adjustment

General: CMS proposes to continue to use the Resource Utilization Groups, Version 4 (RUG-IV) case-mix classification system, along with version 3.0 of the Minimum Data Set (MDS 3.0) for collecting the clinical data used for case-mix classification under RUG-IV. CMS lists the case-mix adjusted RUG-IV payments for urban and rural SNFs, along with corresponding case-mix values, in CMS Tables 4 and 5, which are included in the appendix to this summary. CMS tables 6 and 7, also reproduced in the appendix, provide the labor and non-labor related shares.

Patients with AIDS: In addition to the case-mix classifications, CMS notes that the add-on of 128 percent for SNF residents with Acquired Immune Deficiency Syndrome (AIDS) initially required under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 remains in effect. CMS estimates that there are a limited number of patients qualifying for this add-on (4,100 in FY 2011, with a diagnosis code of 042 (Human Immunodeficiency Virus (HIV) Infection). As noted in Table 4, a patient with AIDS in RUG-IV group HC2 would have a case-mix adjusted payment of \$414.72 before application of this special 128 percent add-on adjustment; after the adjustment, the facility would receive a payment of approximately \$945.56.

CMS notes that it intends to change from the ICD-9-CM coding system to the ICD-10-CM coding system starting October 1, 2014. CMS proposes to transition to the use of the ICD-10-CM diagnosis code of B20 for purposes of defining AIDS patients qualifying for this special 128 percent patient increase. CMS notes that both the current ICD-9-CM code 042 and the proposed ICD-10-CM code B20 include AIDS, AIDS-related complex (ARC) and HIV infection, symptomatic. However, the current code 042 also includes AIDS-like syndrome, whereas the new proposed code B20 does not. AIDS-like syndrome denotes a condition other than AIDS that has symptoms resembling those of AIDS, but with a different etiology from the virus that causes AIDS. CMS believes that the proposed ICD-10-CM code B20, in omitting this category of AIDS-like syndrome, more accurately reflects the intended scope of the statutory provision, which is directed at residents who are "...afflicted with acquired immune deficiency syndrome (AIDS)." **CMS solicits comments on this proposal, which would be effective FY 2015,**

Wage Index Adjustment

CMS proposes to continue apply the wage index adjustment to the labor-related portion of the federal rate. CMS proposes to revise the labor-related share to reflect the revised and rebased FY 2010-based SNF market basket (see below). As in the past, it proposes to use a hospital inpatient wage index exclusive of the occupational mix adjustment.

CMS' proposed wage index for FY 2014 is provided in Tables A and B in the Addendum to the proposed rule (starting at page 26471) and can be accessed at <http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/SNFPPS/WageIndex.html>

CMS proposes to continue to compute a budget neutrality adjustment in implementing the update to the wage index as in prior years, and proposes an adjustment of 1.0003 for FY 2014.

CMS notes that on February 28, 2013, the Office of Management and Budget (OMB) announced in OMB Bulletin No. 13-01² revisions to its delineation of Metropolitan Statistical Areas, Micropolitan Statistical Areas, and Combined Statistical Areas, based on the 2010 Census data and standards it had announced in 2010. CMS notes that by the time these changes were issued, the FY 2014 SNF PPS proposed rule was in the advanced stages of development. To allow time to assess the changes, consistent with its proposal for the Inpatient Hospital PPS, CMS intends to propose adoptions of the newest designations and resulting changes in the wage index for FY 2015 notice and comment rulemaking. For FY 2014, CMS proposes to continue to use the same labor market areas that were used for the SNF PPS for FY 2013.

Revising and Rebasings the SNF Market Basket

CMS proposes to revise and rebase the SNF market basket to reflect FY 2010 allowable total cost data (compared with the FY 2004 cost base for the current SNF market basket). CMS proposes to continue its policy of using data from freestanding SNFs in rebasing the market basket because it believes that the freestanding SNF data reflect the actual cost structure faced by the SNF itself.

CMS proposes to add six more cost categories than are included in the FY 2004-based market basket, for a total of 29 cost categories. There are five new categories:

- Medical Instruments and Supplies
- Apparel
- Machinery and Equipment⁷
- Administrative and Facilities Support Services; and
- Financial Services

In addition, CMS is proposing to divide the Nonmedical Professional Fees category into two categories: Labor-Related, and Nonlabor-Related.

CMS reviews in detail its methodology, proposed weights, and proposed price proxies for each of the cost categories. CMS Table 13 (see appendix to this summary) provides a comparison of the proposed FY 2010-based SNF market basket weights with the FY 2004-based weights, and CMS Table 15 (see appendix) provides the proposed price proxies for each of the proposed cost categories.

CMS provides a comparison of the proposed market-basket updates using the proposed FY 2010-based SNF market basket and the current FY 2004-based market basket. On average, the market basket increase is about 0.3 percentage points lower under the rebased FY 2010-based market basket.

² Available at: www.whitehouse.gov/sites/default/files/omb/bulletins/2013/b-13-01.pdf.)

| CMS Table 16: Comparison of Market Basket Increases under Proposed Rebased Market Basket and Current Market Basket | | |
|---|---|------------------------------------|
| | Proposed FY 2010-based Market Basket | FY 2004-based Market Basket |
| Historical data | | |
| FY 2008 | 3.5 | 3.6 |
| FY 2009 | 2.4 | 2.8 |
| FY 2010 | 1.8 | 2.0 |
| FY 2011 | 2.0 | 2.2 |
| FY 2012 | 1.8 | 2.2 |
| Average, FY 2008-2012 | 2.3 | 2.6 |
| Forecast | | |
| FY 2013 | 1.9 | 2.3 |
| FY 2014 | 2.3 | 2.5 |
| FY 2015 | 2.4 | 2.6 |
| Average, FY 2013-2015 | 2.2 | 2.5 |

CMS proposes a labor-related share of 69.764 percent for FY 2014 based on the proposed FY 2010-based index.

| CMS Table 17: Labor-related Relative Importance, FY 2013 and FY 2014 | | |
|---|--------------------------------------|--------------------------------------|
| | Labor-related share | |
| | FY 2013 (FY 2004-based index) | FY 2014 (FY 2010-based index) |
| Wages and salaries a/ | 49.847 | 49.204 |
| Employee benefits a/ | 11.532 | 11.546 |
| Nonmedical professional fees: labor-related | 1.307 | 3.451 |
| Administrative and facilities support services | NA | 0.501 |
| All other: labor-related services | 3.364 | 2.292 |
| Capital-related | 2.333 | 2.770 |
| Total | 68.383 | 69.764 |
| a/ Reflect contract labor costs | | |

Additional issues

SNF Level of Care: Administrative Presumption

CMS proposes to continue to use an administrative presumption that beneficiaries correctly assigned to one of the upper 52 groups in the 66 group RUG-IV groups on the initial 5-day, Medicare-required assessment are automatically classified as meeting the SNF level of care definition up to and including the assessment reference date on the 5-day assessment. This includes all groups encompassed by the following RUG-IV categories:

- Rehabilitation plus Extensive Services;
- Ultra High Rehabilitation;

- Very High Rehabilitation;
- High Rehabilitation;
- Medium Rehabilitation;
- Low Rehabilitation;
- Extensive Services;
- Special Care High;
- Special Care Low; and
- Clinically Complex.

Beneficiaries assigned to one of the lower 14 RUG-IV groups continue to receive an individual level of care determination using existing administrative criteria.

Consolidated Billing:

CMS reviews the consolidated billing requirement for SNFs, and the specific exclusions from that requirement that remain separately billable. That includes exclusion of a number of “high cost, low probability” services identified by Healthcare Common Procedure Coding System (HCPCS) codes, within four categories: chemotherapy items, chemotherapy administration services, radioisotope services and customized prosthetic devices. CMS further notes that the codes targeted for exclusion from consolidated billing represent events that could have devastating financial impacts because their costs far exceed SNF PPS payments.

CMS specifically invites comments identifying HCPCS codes in any of those four service categories representing recent advances that might meet its criteria for exclusion from SNF consolidated billing.

Payment for SNF-Level Swing-Bed Services

CMS notes that critical access hospitals (CAHs) continue to be paid on a reasonable cost basis for SNF-level services furnished under a swing-bed agreement and that all non-CAH swing-bed rural hospitals continue to be paid under the SNF PPS.

Monitoring Impact of FY 2012 Policy Changes:

CMS, in the FY 2012 SNF PPS final rule, stated that it would monitor the impact of certain policy changes. CMS notes that it has posted quarterly memos on these topics at http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/NSFPPS/Downloads/SNF_Monitoring.zip and summarizes the results in three areas:

- Recalibration of the FY 2011 SNF parity adjustment to align overall payments under RUG IV with those under RUG-III;
- Allocation of group therapy time to pay more appropriately for group therapy services based on resource utilization and cost; and
- Implementation of changes to the MDS 3.0 patient assessment instrument, most notably the introduction of the Change-of-Therapy (COT) Other Medicare Required Assessment (OMRA).

After summarizing the results, CMS concludes that it has found no evidence of possible negative impacts that had been anticipated by SNF providers in comments on the FY 2012 final rule, particularly the potential for a “double hit” from the combined impact of the recalibration of the FY 2011 SNF parity adjustment and the FY 2012 policy change. Overall case mix has not changed significantly, which suggests to CMS that the changes, “...while ensuring more accurate payment, have been absorbed into facility practices in such a manner that facilities continue to maintain historical trends in terms of patient case mix.” CMS notes that it will continue its monitoring efforts but will post information to the website only as appropriate (rather than quarterly).

Ensuring Accuracy in Grouping to Rehabilitation RUG-IV Categories

CMS proposes to clarify that classification criteria for the Rehabilitation RUG categories require that the resident receive the requisite number of distinct calendar days of therapy. CMS proposes to add a new item O0420 to the MDS Item Set, “Distinct Calendar Days of Therapy,” effective October 1, 2013. Facilities would be required to record under this item the number of distinct calendar days of therapy provided by all the rehabilitation disciplines over the 7-day look-back period for the current assessment, which would be used to classify the resident into the correct Rehabilitation RUG category. **CMS invites comments on this proposal.**

SNF Therapy Research Project

CMS notes that it has contracted with Acumen, LLC and the Brookings Institution to identify alternatives to the existing methodology used to pay for therapy services received under the SNF PPS. **CMS invites comments and ideas on the existing methodology used to pay for therapy services under the SNF PPS, either as part of comments on this proposed rule or outside the comment period.**

APPENDIX: Copies of Selected Tables from Proposed Rules

| CMS Table | Table Title | Pages |
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| Table 4 | RUG-IV Case-Mix Adjusted Federal Rates and Associated Indexes – Urban | 8-9 |
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| Table 13 | Comparison of the Proposed FY 2010-Based SNF Market Basket Cost Weights and the FY 2004-Based SNF Market Basket Cost Weights | 16-17 |
| Table 15 | Proposed Price Proxies for the FY 2010-Based SNF Market Basket | 18-19 |

**TABLE 4: RUG-IV Case-Mix Adjusted Federal Rates and Associated Indexes
URBAN**

| RUG-IV Category | Nursing Index | Therapy Index | Nursing Component | Therapy Component | Non-case Mix Therapy Comp | Non-case Mix Component | Total Rate |
|-----------------|---------------|---------------|-------------------|-------------------|---------------------------|------------------------|------------|
| RUX | 2.67 | 1.87 | \$443.01 | \$233.71 | | \$84.67 | \$761.39 |
| RUL | 2.57 | 1.87 | \$426.41 | \$233.71 | | \$84.67 | \$744.79 |
| RVX | 2.61 | 1.28 | \$433.05 | \$159.97 | | \$84.67 | \$677.69 |
| RVL | 2.19 | 1.28 | \$363.36 | \$159.97 | | \$84.67 | \$608.00 |
| RHX | 2.55 | 0.85 | \$423.10 | \$106.23 | | \$84.67 | \$614.00 |
| RHL | 2.15 | 0.85 | \$356.73 | \$106.23 | | \$84.67 | \$547.63 |
| RMX | 2.47 | 0.55 | \$409.82 | \$68.74 | | \$84.67 | \$563.23 |
| RML | 2.19 | 0.55 | \$363.36 | \$68.74 | | \$84.67 | \$516.77 |
| RLX | 2.26 | 0.28 | \$374.98 | \$34.99 | | \$84.67 | \$494.64 |
| RUC | 1.56 | 1.87 | \$258.84 | \$233.71 | | \$84.67 | \$577.22 |
| RUB | 1.56 | 1.87 | \$258.84 | \$233.71 | | \$84.67 | \$577.22 |
| RUA | 0.99 | 1.87 | \$164.26 | \$233.71 | | \$84.67 | \$482.64 |
| RVC | 1.51 | 1.28 | \$250.54 | \$159.97 | | \$84.67 | \$495.18 |
| RVB | 1.11 | 1.28 | \$184.17 | \$159.97 | | \$84.67 | \$428.81 |
| RVA | 1.10 | 1.28 | \$182.51 | \$159.97 | | \$84.67 | \$427.15 |
| RHC | 1.45 | 0.85 | \$240.58 | \$106.23 | | \$84.67 | \$431.48 |
| RHB | 1.19 | 0.85 | \$197.44 | \$106.23 | | \$84.67 | \$388.34 |
| RHA | 0.91 | 0.85 | \$150.99 | \$106.23 | | \$84.67 | \$341.89 |
| RMC | 1.36 | 0.55 | \$225.65 | \$68.74 | | \$84.67 | \$379.06 |
| RMB | 1.22 | 0.55 | \$202.42 | \$68.74 | | \$84.67 | \$355.83 |
| RMA | 0.84 | 0.55 | \$139.37 | \$68.74 | | \$84.67 | \$292.78 |
| RLB | 1.50 | 0.28 | \$248.88 | \$34.99 | | \$84.67 | \$368.54 |
| RLA | 0.71 | 0.28 | \$117.80 | \$34.99 | | \$84.67 | \$237.46 |
| ES3 | 3.58 | | \$593.99 | | \$16.46 | \$84.67 | \$695.12 |
| ES2 | 2.67 | | \$443.01 | | \$16.46 | \$84.67 | \$544.14 |
| ES1 | 2.32 | | \$384.93 | | \$16.46 | \$84.67 | \$486.06 |
| HE2 | 2.22 | | \$368.34 | | \$16.46 | \$84.67 | \$469.47 |
| HE1 | 1.74 | | \$288.70 | | \$16.46 | \$84.67 | \$389.83 |
| HD2 | 2.04 | | \$338.48 | | \$16.46 | \$84.67 | \$439.61 |
| HD1 | 1.60 | | \$265.47 | | \$16.46 | \$84.67 | \$366.60 |
| HC2 | 1.89 | | \$313.59 | | \$16.46 | \$84.67 | \$414.72 |
| HC1 | 1.48 | | \$245.56 | | \$16.46 | \$84.67 | \$346.69 |
| HB2 | 1.86 | | \$308.61 | | \$16.46 | \$84.67 | \$409.74 |
| HB1 | 1.46 | | \$242.24 | | \$16.46 | \$84.67 | \$343.37 |
| LE2 | 1.96 | | \$325.20 | | \$16.46 | \$84.67 | \$426.33 |
| LE1 | 1.54 | | \$255.52 | | \$16.46 | \$84.67 | \$356.65 |
| LD2 | 1.86 | | \$308.61 | | \$16.46 | \$84.67 | \$409.74 |
| LD1 | 1.46 | | \$242.24 | | \$16.46 | \$84.67 | \$343.37 |

TABLE 4, Continued

| RUG-IV Category | Nursing Index | Therapy Index | Nursing Component | Therapy Component | Non-case Mix Therapy Comp | Non-case Mix Component | Total Rate |
|------------------------|----------------------|----------------------|--------------------------|--------------------------|----------------------------------|-------------------------------|-------------------|
| LC2 | 1.56 | | \$258.84 | | \$16.46 | \$84.67 | \$359.97 |
| LC1 | 1.22 | | \$202.42 | | \$16.46 | \$84.67 | \$303.55 |
| LB2 | 1.45 | | \$240.58 | | \$16.46 | \$84.67 | \$341.71 |
| LB1 | 1.14 | | \$189.15 | | \$16.46 | \$84.67 | \$290.28 |
| CE2 | 1.68 | | \$278.75 | | \$16.46 | \$84.67 | \$379.88 |
| CE1 | 1.50 | | \$248.88 | | \$16.46 | \$84.67 | \$350.01 |
| CD2 | 1.56 | | \$258.84 | | \$16.46 | \$84.67 | \$359.97 |
| CD1 | 1.38 | | \$228.97 | | \$16.46 | \$84.67 | \$330.10 |
| CC2 | 1.29 | | \$214.04 | | \$16.46 | \$84.67 | \$315.17 |
| CC1 | 1.15 | | \$190.81 | | \$16.46 | \$84.67 | \$291.94 |
| CB2 | 1.15 | | \$190.81 | | \$16.46 | \$84.67 | \$291.94 |
| CB1 | 1.02 | | \$169.24 | | \$16.46 | \$84.67 | \$270.37 |
| CA2 | 0.88 | | \$146.01 | | \$16.46 | \$84.67 | \$247.14 |
| CA1 | 0.78 | | \$129.42 | | \$16.46 | \$84.67 | \$230.55 |
| BB2 | 0.97 | | \$160.94 | | \$16.46 | \$84.67 | \$262.07 |
| BB1 | 0.90 | | \$149.33 | | \$16.46 | \$84.67 | \$250.46 |
| BA2 | 0.70 | | \$116.14 | | \$16.46 | \$84.67 | \$217.27 |
| BA1 | 0.64 | | \$106.19 | | \$16.46 | \$84.67 | \$207.32 |
| PE2 | 1.50 | | \$248.88 | | \$16.46 | \$84.67 | \$350.01 |
| PE1 | 1.40 | | \$232.29 | | \$16.46 | \$84.67 | \$333.42 |
| PD2 | 1.38 | | \$228.97 | | \$16.46 | \$84.67 | \$330.10 |
| PD1 | 1.28 | | \$212.38 | | \$16.46 | \$84.67 | \$313.51 |
| PC2 | 1.10 | | \$182.51 | | \$16.46 | \$84.67 | \$283.64 |
| PC1 | 1.02 | | \$169.24 | | \$16.46 | \$84.67 | \$270.37 |
| PB2 | 0.84 | | \$139.37 | | \$16.46 | \$84.67 | \$240.50 |
| PB1 | 0.78 | | \$129.42 | | \$16.46 | \$84.67 | \$230.55 |
| PA2 | 0.59 | | \$97.89 | | \$16.46 | \$84.67 | \$199.02 |
| PA1 | 0.54 | | \$89.60 | | \$16.46 | \$84.67 | \$190.73 |

**TABLE 5: RUG-IV Case-Mix Adjusted Federal Rates and Associated Indexes -
RURAL**

| RUG-IV Category | Nursing Index | Therapy Index | Nursing Component | Therapy Component | Non-case Mix Therapy Comp | Non-case Mix Component | Total Rate |
|-----------------|---------------|---------------|-------------------|-------------------|---------------------------|------------------------|------------|
| RUX | 2.67 | 1.87 | \$423.25 | \$269.49 | | \$86.25 | \$778.99 |
| RUL | 2.57 | 1.87 | \$407.40 | \$269.49 | | \$86.25 | \$763.14 |
| RVX | 2.61 | 1.28 | \$413.74 | \$184.46 | | \$86.25 | \$684.45 |
| RVL | 2.19 | 1.28 | \$347.16 | \$184.46 | | \$86.25 | \$617.87 |
| RHX | 2.55 | 0.85 | \$404.23 | \$122.49 | | \$86.25 | \$612.97 |
| RHL | 2.15 | 0.85 | \$340.82 | \$122.49 | | \$86.25 | \$549.56 |
| RMX | 2.47 | 0.55 | \$391.54 | \$79.26 | | \$86.25 | \$557.05 |
| RML | 2.19 | 0.55 | \$347.16 | \$79.26 | | \$86.25 | \$512.67 |
| RLX | 2.26 | 0.28 | \$358.26 | \$40.35 | | \$86.25 | \$484.86 |
| RUC | 1.56 | 1.87 | \$247.29 | \$269.49 | | \$86.25 | \$603.03 |
| RUB | 1.56 | 1.87 | \$247.29 | \$269.49 | | \$86.25 | \$603.03 |
| RUA | 0.99 | 1.87 | \$156.93 | \$269.49 | | \$86.25 | \$512.67 |
| RVC | 1.51 | 1.28 | \$239.37 | \$184.46 | | \$86.25 | \$510.08 |
| RVB | 1.11 | 1.28 | \$175.96 | \$184.46 | | \$86.25 | \$446.67 |
| RVA | 1.10 | 1.28 | \$174.37 | \$184.46 | | \$86.25 | \$445.08 |
| RHC | 1.45 | 0.85 | \$229.85 | \$122.49 | | \$86.25 | \$438.59 |
| RHB | 1.19 | 0.85 | \$188.64 | \$122.49 | | \$86.25 | \$397.38 |
| RHA | 0.91 | 0.85 | \$144.25 | \$122.49 | | \$86.25 | \$352.99 |
| RMC | 1.36 | 0.55 | \$215.59 | \$79.26 | | \$86.25 | \$381.10 |
| RMB | 1.22 | 0.55 | \$193.39 | \$79.26 | | \$86.25 | \$358.90 |
| RMA | 0.84 | 0.55 | \$133.16 | \$79.26 | | \$86.25 | \$298.67 |
| RLB | 1.50 | 0.28 | \$237.78 | \$40.35 | | \$86.25 | \$364.38 |
| RLA | 0.71 | 0.28 | \$112.55 | \$40.35 | | \$86.25 | \$239.15 |
| ES3 | 3.58 | | \$567.50 | | \$17.58 | \$86.25 | \$671.33 |
| ES2 | 2.67 | | \$423.25 | | \$17.58 | \$86.25 | \$527.08 |
| ES1 | 2.32 | | \$367.77 | | \$17.58 | \$86.25 | \$471.60 |
| HE2 | 2.22 | | \$351.91 | | \$17.58 | \$86.25 | \$455.74 |
| HE1 | 1.74 | | \$275.82 | | \$17.58 | \$86.25 | \$379.65 |
| HD2 | 2.04 | | \$323.38 | | \$17.58 | \$86.25 | \$427.21 |
| HD1 | 1.60 | | \$253.63 | | \$17.58 | \$86.25 | \$357.46 |
| HC2 | 1.89 | | \$299.60 | | \$17.58 | \$86.25 | \$403.43 |
| HC1 | 1.48 | | \$234.61 | | \$17.58 | \$86.25 | \$338.44 |
| HB2 | 1.86 | | \$294.85 | | \$17.58 | \$86.25 | \$398.68 |
| HB1 | 1.46 | | \$231.44 | | \$17.58 | \$86.25 | \$335.27 |
| LE2 | 1.96 | | \$310.70 | | \$17.58 | \$86.25 | \$414.53 |
| LE1 | 1.54 | | \$244.12 | | \$17.58 | \$86.25 | \$347.95 |
| LD2 | 1.86 | | \$294.85 | | \$17.58 | \$86.25 | \$398.68 |
| LD1 | 1.46 | | \$231.44 | | \$17.58 | \$86.25 | \$335.27 |
| LC2 | 1.56 | | \$247.29 | | \$17.58 | \$86.25 | \$351.12 |
| LC1 | 1.22 | | \$193.39 | | \$17.58 | \$86.25 | \$297.22 |

TABLE 5, Continued

| RUG-IV Category | Nursing Index | Therapy Index | Nursing Component | Therapy Component | Non-case Mix Therapy Comp | Non-case Mix Component | Total Rate |
|------------------------|----------------------|----------------------|--------------------------|--------------------------|----------------------------------|-------------------------------|-------------------|
| LB2 | 1.45 | | \$229.85 | | \$17.58 | \$86.25 | \$333.68 |
| LB1 | 1.14 | | \$180.71 | | \$17.58 | \$86.25 | \$284.54 |
| CE2 | 1.68 | | \$266.31 | | \$17.58 | \$86.25 | \$370.14 |
| CE1 | 1.50 | | \$237.78 | | \$17.58 | \$86.25 | \$341.61 |
| CD2 | 1.56 | | \$247.29 | | \$17.58 | \$86.25 | \$351.12 |
| CD1 | 1.38 | | \$218.76 | | \$17.58 | \$86.25 | \$322.59 |
| CC2 | 1.29 | | \$204.49 | | \$17.58 | \$86.25 | \$308.32 |
| CC1 | 1.15 | | \$182.30 | | \$17.58 | \$86.25 | \$286.13 |
| CB2 | 1.15 | | \$182.30 | | \$17.58 | \$86.25 | \$286.13 |
| CB1 | 1.02 | | \$161.69 | | \$17.58 | \$86.25 | \$265.52 |
| CA2 | 0.88 | | \$139.50 | | \$17.58 | \$86.25 | \$243.33 |
| CA1 | 0.78 | | \$123.65 | | \$17.58 | \$86.25 | \$227.48 |
| BB2 | 0.97 | | \$153.76 | | \$17.58 | \$86.25 | \$257.59 |
| BB1 | 0.90 | | \$142.67 | | \$17.58 | \$86.25 | \$246.50 |
| BA2 | 0.70 | | \$110.96 | | \$17.58 | \$86.25 | \$214.79 |
| BA1 | 0.64 | | \$101.45 | | \$17.58 | \$86.25 | \$205.28 |
| PE2 | 1.50 | | \$237.78 | | \$17.58 | \$86.25 | \$341.61 |

TABLE 6: RUG-IV Case-Mix Adjusted Federal Rates for Urban SNFs, By Labor and Non-Labor Component

| RUG-IV Category | Total Rate | Labor Portion | Non-Labor Portion |
|------------------------|-------------------|----------------------|--------------------------|
| RUX | 761.39 | \$531.18 | \$230.21 |
| RUL | 744.79 | \$519.60 | \$225.19 |
| RVX | 677.69 | \$472.78 | \$204.91 |
| RVL | 608.00 | \$424.17 | \$183.83 |
| RHX | 614.00 | \$428.35 | \$185.65 |
| RHL | 547.63 | \$382.05 | \$165.58 |
| RMX | 563.23 | \$392.93 | \$170.30 |
| RML | 516.77 | \$360.52 | \$156.25 |
| RLX | 494.64 | \$345.08 | \$149.56 |
| RUC | 577.22 | \$402.69 | \$174.53 |
| RUB | 577.22 | \$402.69 | \$174.53 |
| RUA | 482.64 | \$336.71 | \$145.93 |
| RVC | 495.18 | \$345.46 | \$149.72 |
| RVB | 428.81 | \$299.16 | \$129.65 |
| RVA | 427.15 | \$298.00 | \$129.15 |
| RHC | 431.48 | \$301.02 | \$130.46 |
| RHB | 388.34 | \$270.92 | \$117.42 |
| RHA | 341.89 | \$238.52 | \$103.37 |
| RMC | 379.06 | \$264.45 | \$114.61 |
| RMB | 355.83 | \$248.24 | \$107.59 |
| RMA | 292.78 | \$204.26 | \$88.52 |
| RLB | 368.54 | \$257.11 | \$111.43 |
| RLA | 237.46 | \$165.66 | \$71.80 |
| ES3 | 695.12 | \$484.94 | \$210.18 |
| ES2 | 544.14 | \$379.61 | \$164.53 |
| ES1 | 486.06 | \$339.09 | \$146.97 |
| HE2 | 469.47 | \$327.52 | \$141.95 |
| HE1 | 389.83 | \$271.96 | \$117.87 |
| HD2 | 439.61 | \$306.69 | \$132.92 |
| HD1 | 366.60 | \$255.75 | \$110.85 |
| HC2 | 414.72 | \$289.33 | \$125.39 |
| HC1 | 346.69 | \$241.86 | \$104.83 |
| HB2 | 409.74 | \$285.85 | \$123.89 |
| HB1 | 343.37 | \$239.55 | \$103.82 |
| LE2 | 426.33 | \$297.42 | \$128.91 |
| LE1 | 356.65 | \$248.81 | \$107.84 |
| LD2 | 409.74 | \$285.85 | \$123.89 |
| LD1 | 343.37 | \$239.55 | \$103.82 |
| LC2 | 359.97 | \$251.13 | \$108.84 |
| LC1 | 303.55 | \$211.77 | \$91.78 |
| LB2 | 341.71 | \$238.39 | \$103.32 |
| LB1 | 290.28 | \$202.51 | \$87.77 |

TABLE 6, Continued

| RUG-IV Category | Total Rate | Labor Portion | Non-Labor Portion |
|----------------------------|-----------------------|--------------------------|------------------------------|
| CE2 | 379.88 | \$265.02 | \$114.86 |
| CE1 | 350.01 | \$244.18 | \$105.83 |
| CD2 | 359.97 | \$251.13 | \$108.84 |
| CD1 | 330.10 | \$230.29 | \$99.81 |
| CC2 | 315.17 | \$219.88 | \$95.29 |
| CC1 | 291.94 | \$203.67 | \$88.27 |
| CB2 | 291.94 | \$203.67 | \$88.27 |
| CB1 | 270.37 | \$188.62 | \$81.75 |
| CA2 | 247.14 | \$172.41 | \$74.73 |
| CA1 | 230.55 | \$160.84 | \$69.71 |
| BB2 | 262.07 | \$182.83 | \$79.24 |
| BB1 | 250.46 | \$174.73 | \$75.73 |
| BA2 | 217.27 | \$151.58 | \$65.69 |
| BA1 | 207.32 | \$144.63 | \$62.69 |
| PE2 | 350.01 | \$244.18 | \$105.83 |
| PE1 | 333.42 | \$232.61 | \$100.81 |
| PD2 | 330.10 | \$230.29 | \$99.81 |
| PD1 | 313.51 | \$218.72 | \$94.79 |
| PC2 | 283.64 | \$197.88 | \$85.76 |
| PC1 | 270.37 | \$188.62 | \$81.75 |
| PB2 | 240.50 | \$167.78 | \$72.72 |
| PB1 | 230.55 | \$160.84 | \$69.71 |
| PA2 | 199.02 | \$138.84 | \$60.18 |
| PA1 | 190.73 | \$133.06 | \$57.67 |

TABLE 7: RUG-IV Case-Mix Adjusted Federal Rates for Rural SNFs by Labor and Non-Labor Component

| RUG-IV Category | Total Rate | Labor Portion | Non-Labor Portion |
|------------------------|-------------------|----------------------|--------------------------|
| RUX | 778.99 | \$543.45 | \$235.54 |
| RUL | 763.14 | \$532.40 | \$230.74 |
| RVX | 684.45 | \$477.50 | \$206.95 |
| RVL | 617.87 | \$431.05 | \$186.82 |
| RHX | 612.97 | \$427.63 | \$185.34 |
| RHL | 549.56 | \$383.40 | \$166.16 |
| RMX | 557.05 | \$388.62 | \$168.43 |
| RML | 512.67 | \$357.66 | \$155.01 |
| RLX | 484.86 | \$338.26 | \$146.60 |
| RUC | 603.03 | \$420.70 | \$182.33 |
| RUB | 603.03 | \$420.70 | \$182.33 |
| RUA | 512.67 | \$357.66 | \$155.01 |
| RVC | 510.08 | \$355.85 | \$154.23 |
| RVB | 446.67 | \$311.61 | \$135.06 |
| RVA | 445.08 | \$310.51 | \$134.57 |
| RHC | 438.59 | \$305.98 | \$132.61 |
| RHB | 397.38 | \$277.23 | \$120.15 |
| RHA | 352.99 | \$246.26 | \$106.73 |
| RMC | 381.10 | \$265.87 | \$115.23 |
| RMB | 358.90 | \$250.38 | \$108.52 |
| RMA | 298.67 | \$208.36 | \$90.31 |
| RLB | 364.38 | \$254.21 | \$110.17 |
| RLA | 239.15 | \$166.84 | \$72.31 |
| ES3 | 671.33 | \$468.35 | \$202.98 |
| ES2 | 527.08 | \$367.71 | \$159.37 |
| ES1 | 471.60 | \$329.01 | \$142.59 |
| HE2 | 455.74 | \$317.94 | \$137.80 |
| HE1 | 379.65 | \$264.86 | \$114.79 |
| HD2 | 427.21 | \$298.04 | \$129.17 |
| HD1 | 357.46 | \$249.38 | \$108.08 |
| HC2 | 403.43 | \$281.45 | \$121.98 |
| HC1 | 338.44 | \$236.11 | \$102.33 |
| HB2 | 398.68 | \$278.14 | \$120.54 |
| HB1 | 335.27 | \$233.90 | \$101.37 |
| LE2 | 414.53 | \$289.19 | \$125.34 |
| LE1 | 347.95 | \$242.74 | \$105.21 |
| LD2 | 398.68 | \$278.14 | \$120.54 |
| LD1 | 335.27 | \$233.90 | \$101.37 |
| LC2 | 351.12 | \$244.96 | \$106.16 |
| LC1 | 297.22 | \$207.35 | \$89.87 |
| LB2 | 333.68 | \$232.79 | \$100.89 |

TABLE 7, Continued

| RUG-IV Category | Total Rate | Labor Portion | Non-Labor Portion |
|-----------------|------------|---------------|-------------------|
| LB1 | 284.54 | \$198.51 | \$86.03 |
| CE2 | 370.14 | \$258.22 | \$111.92 |
| CE1 | 341.61 | \$238.32 | \$103.29 |
| CD2 | 351.12 | \$244.96 | \$106.16 |
| CD1 | 322.59 | \$225.05 | \$97.54 |
| CC2 | 308.32 | \$215.10 | \$93.22 |
| CC1 | 286.13 | \$199.62 | \$86.51 |
| CB2 | 286.13 | \$199.62 | \$86.51 |
| CB1 | 265.52 | \$185.24 | \$80.28 |
| CA2 | 243.33 | \$169.76 | \$73.57 |
| CA1 | 227.48 | \$158.70 | \$68.78 |
| BB2 | 257.59 | \$179.71 | \$77.88 |
| BB1 | 246.50 | \$171.97 | \$74.53 |
| BA2 | 214.79 | \$149.85 | \$64.94 |
| BA1 | 205.28 | \$143.21 | \$62.07 |
| PE2 | 341.61 | \$238.32 | \$103.29 |
| PE1 | 325.76 | \$227.26 | \$98.50 |
| PD2 | 322.59 | \$225.05 | \$97.54 |
| PD1 | 306.74 | \$213.99 | \$92.75 |
| PC2 | 278.20 | \$194.08 | \$84.12 |
| PC1 | 265.52 | \$185.24 | \$80.28 |
| PB2 | 236.99 | \$165.33 | \$71.66 |
| PB1 | 227.48 | \$158.70 | \$68.78 |
| PA2 | 197.36 | \$137.69 | \$59.67 |
| PA1 | 189.43 | \$132.15 | \$57.28 |

TABLE 13: Comparison of the Proposed FY 2010-based SNF Market Basket Cost Weights and the FY 2004-based SNF Market Basket Cost Weights

| Cost Category | Proposed FY 2010-based SNF Market Basket Weights | FY 2004- based SNF Market Basket Weights |
|--|---|---|
| Total | 100.000 | 100.000 |
| Compensation | 62.093 | 62.755 |
| Wages and Salaries | 50.573 | 51.337 |
| Employee Benefits | 11.520 | 11.418 |
| Nonmedical Professional Fees(1) | - | 1.322 |
| Nonmedical Professional Fees | - | 1.322 |
| Utilities | 2.223 | 1.551 |
| Electricity | 1.411 | 0.919 |
| Fuels, Non-highway | 0.667 | 0.453 |
| Water and Sewerage | 0.145 | 0.179 |
| Professional Liability Insurance | 1.141 | 1.717 |
| Professional Liability Insurance | 1.141 | 1.717 |
| All Other | 27.183 | 25.448 |
| All Other Products | 16.148 | 19.03 |
| Pharmaceuticals | 7.872 | 7.894 |
| Food, Wholesale Purchase | 3.661 | 2.906 |
| Food, Retail Purchase | 1.190 | 3.151 |
| Chemicals | 0.166 | 0.589 |
| Medical Instruments and Supplies(2) | 0.764 | - |
| Rubber and Plastics | 0.981 | 1.513 |
| Paper and Printing Products | 0.838 | 1.394 |
| Apparel (2) | 0.195 | - |
| Machinery and Equipment (2) | 0.190 | - |
| Miscellaneous Products | 0.291 | 1.582 |
| All Other Services | 11.035 | 6.418 |
| Labor-Related Services | 6.227 | |
| Nonmedical Professional Fees: Labor-related (1) | 3.427 | - |
| Administrative and Facilities Support (3) | 0.497 | - |
| All Other: Labor-Related Services(4) | 2.303 | 3.521 |
| NonLabor-Related Services | 4.808 | - |
| Nonmedical Professional Fees: Nonlabor-related (1) | 2.042 | - |
| Financial Services (5) | 0.899 | - |
| Telephone Services | 0.572 | 0.434 |
| Postage | 0.240 | 0.454 |

TABLE 13, Continued

| Cost Category | Proposed FY 2010-based SNF Market Basket Weights | FY 2004- based SNF Market Basket Weights |
|--|---|---|
| All Other: Nonlabor-related Services (4) | 1.055 | 2.008 |
| Capital-related Expenses | 7.360 | 7.207 |
| Total Depreciation | 3.180 | 2.858 |
| Building and Fixed Equipment | 2.701 | 2.437 |
| Movable Equipment | 0.479 | 0.421 |
| Total Interest | 2.096 | 3.037 |
| For-Profit SNFs | 0.869 | 1.197 |
| Non-profit SNFs | 1.227 | 1.84 |
| Other Capital-related Expenses | 2.084 | 1.312 |
| Other | 2.084 | 1.312 |
| <p>(1) For the FY 2010-based SNF Market basket, we are proposing to divide this category into nonmedical professional fees: labor-related and nonmedical professional fees: nonlabor-related.</p> <p>(2) For the FY 2010-based SNF Market basket, we are proposing to create a separate cost category for these expenses to proxy the price growth by a more specific index. These expenses were previously classified under miscellaneous products in the FY 2004-based SNF market basket.</p> <p>(3) For the FY 2010-based SNF Market basket, we are proposing to create a separate cost category for these expenses to proxy the price growth by a more specific index. These expenses were previously classified under labor intensive services cost weight in the FY 2004-based SNF market basket.</p> <p>(4) For the FY 2010-based SNF market basket, we are proposing to revise the labels for the labor- intensive and nonlabor-intensive cost categories to be all other: labor-related and all other: nonlabor-related.</p> <p>(5) For the FY 2010-based SNF market basket, we are proposing to create a separate cost category for these expenses to proxy the price growth by a more specific index. These expenses were previously classified under nonlabor intensive services cost weight in the FY 2004-based SNF market basket.</p> | | |

**TABLE 15: Proposed Price Proxies for the
FY 2010-based SNF Market Basket**

| Cost Category | Weight | Proposed Price Proxy |
|----------------------------------|---------------|--|
| Compensation | 62.093 | |
| Wages and Salaries | 50.573 | ECI for Wages and Salaries for Nursing Care Facilities |
| Employee Benefits | 11.520 | ECI for Benefits for Nursing Care Facilities |
| Utilities | 2.223 | |
| Electricity | 1.411 | PPI for Commercial Electric Power |
| Fuels, Nonhighway | 0.667 | PPI for Commercial Natural Gas |
| Water and Sewerage | 0.145 | CPI - U for Water and Sewerage Maintenance |
| Professional Liability Insurance | 1.141 | CMS Hospital Professional Liability Insurance Index |
| All Other | 27.183 | |
| Other Products | 16.148 | |
| Pharmaceuticals | 7.872 | PPI for Pharmaceuticals for Human Use, Prescription |
| Food, Wholesale Purchase | 3.661 | PPI for Processed Foods and Feeds |
| Food, Retail Purchases | 1.190 | CPI- U for Food Away From Home |
| Chemicals | 0.166 | Blend of Chemical PPIs |
| Medical Instruments and Supplies | 0.764 | PPI for Medical, Surgical, and Personal Aid Devices |
| Rubber and Plastics | 0.981 | PPI for Rubber and Plastic Products |
| Paper and Printing Products | 0.838 | PPI for Converted Paper and Paperboard Products |
| Apparel | 0.195 | PPI for Apparel |
| Machinery and Equipment | 0.190 | PPI for Machinery and Equipment |
| Miscellaneous Products | 0.291 | PPI for Finished Goods Less Food and Energy |
| All Other Services | 11.035 | |
| Labor-Related Services | 6.227 | |
| Nonmedical Professional Fees: | 3.427 | ECI for Total Compensation for |
| Administrative and Facilities | 0.497 | ECI for Total Compensation for Office |
| All Other: Labor-Related | 2.303 | ECI for Total Compensation for |
| Non Labor-Related Services | 4.808 | |
| Nonmedical Professional Fees: | 2.042 | ECI for Total Compensation for |
| Financial Services | 0.899 | ECI for Total Compensation for Financial Activities |
| Telephone Services | 0.572 | CPI - U for Telephone Services |

TABLE 15, Continued

| Cost Category | Weight | Proposed Price Proxy |
|--------------------------------------|----------------|---|
| Postage | 0.240 | CPI - U for Postage and Delivery Services |
| All Other: Nonlabor-Related Services | 1.055 | CPI - U for All Items Less Food and Energy |
| Capital-Related Expenses | 7.360 | |
| Total Depreciation | 3.180 | |
| Building and Fixed Equipment | 2.701 | BEA chained price index for nonresidential construction for hospitals and special care facilities - vintage weighted (25 years) |
| Movable Equipment | 0.479 | PPI for Machinery and Equipment - vintage weighted (6 years) |
| Total Interest | 2.096 | |
| For-Profit SNFs | 0.869 | Average yield on municipal bonds (Bond Buyer Index 20 bonds) - vintage weighted (22 years) |
| Government and Nonprofit SNFs | 1.227 | Average yield on Moody's AAA corporate bonds - vintage weighted (22 years) |
| Other Capital-Related Expenses | 2.084 | CPI -U for Rent of Primary Residence |
| Total | 100.000 | |