

## OFCE Technical Assistance Series

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OFCE Technical Assistance Series provides MCOs with interpretations or guidance regarding contract requirements, policy interpretations and program requirements. This series will also be used to inform MCOs of changes to the contract that may result in contract amendments or contract language changes in future contracts.

### Technical Assistance Documents for MCOs Transitioning to Resource Utilization Grouper (RUG) payment and Minimum Data Sets (MDS) 3.0 in Nursing Homes

**Purpose:** The purpose of this communication is to summarize the attached two part technical assistance documents providing guidance to Managed Care Organizations for implementing the Resource Utilization Grouper (RUG) payment method for nursing home services with Family Care members.

Part I (Appendix A) of the technical assistance was developed in 2009 to assist MCOs in applying the RUG III 34 Grouper classes and Minimum Data Sets (MDS) 2.0 to the acuity of Family Care members. This TA directs MCOs to implement a case mix acuity of its membership either collectively for all residents of a specific nursing home or to pay the individual RUG acuity for each nursing home resident. Part I also covers the general principles for MCOs to apply the RUG payment method to its Family Care members.

Part II (Appendix B) describes how to address the lag between the Medicaid fee-for-service (FSS) rate impact of RUG IV and MDS 3 and the October 1, 2010, implementation date through publication of a RUG IV rate calculation sheet for use in Family Care. This section also provides specific direction to MCOs to expect to use the quarterly “RUGable MDS forms” from Nursing Homes in setting a member specific RUG –IV classification.

Collectively, these technical assistance documents describe the initial and updated implementation of MDS 2.0 and MDS 3.0 as it applies to Family Care members receiving nursing homes services.

For questions regarding this Technical Assistance memo, please contact Jane Gottwald at [Jane.Gottwald@wisconsin.gov](mailto:Jane.Gottwald@wisconsin.gov) or (715) 836-3059.

#### **Reference Materials:**

Appendix A – Part I: Managed Long-Term Care Contract Language Change: Payments to Nursing Homes Effective January 1, 2009

Appendix B – Part II: Overview & Technical Assistance Re. Implementation of MDS 3.0 & RUG IV in Family Care Effective October 1, 2010

**APPENDIX A**  
**Part I: Managed Long-Term Care Contract Language Change:**  
**Payments to Nursing Homes**  
**Effective January 1, 2009**

**Background**

Managed long-term care members using nursing home services tend to have higher acuity (as measured by the Minimum Data Set (MDS)) than the average Medicaid fee-for-service nursing home resident. Funding has been included in the managed long-term care MCOs' 2009 capitation payments, which will allow MCOs to pay contracting nursing homes an acuity-adjusted rate. The acuity-adjusted rate must be based on the Resource Utilization Group (RUG) classes and the corresponding amounts listed on each nursing home's Medicaid fee-for-service (FFS) rate letter. Beginning in CY 2009, the Family Care, Family Care Partnership, and PACE contracts include the following provision:

“For the purchase of nursing home services, the MCO must employ the Medicaid fee-for-service nursing home rate methodology applied solely to the MCO's residents in that nursing facility.”<sup>1</sup>

**Implementing the RUG-Based Acuity Method for MCOs**

The requirement to use the Medicaid fee for service methodology means that MCOs must use the RUG categories and amounts from the nursing home's FFS rate letter to determine the rate paid to each nursing home. MCOs have some flexibility in how they implement this requirement, based on their contract negotiations with each nursing home.

**Use of the RUG-Based Acuity Method**

The fee-for-service method calculates a single rate for each nursing home, on a quarterly basis. The rate reflects the acuity of the MA FFS nursing home residents on a particular day (known as the “picture date”) six months prior to the quarter in which the rate applies. The rate is calculated based on 1) the FFS nursing home residents' RUG case mix and 2) the costs identified in the nursing home's rate letter. There is no retrospective reconciliation related to acuity. There is retrospective reconciliation related to the cost, largely because of operational considerations.

FFS Nursing Home Rate Letter Dates		
Picture Date	Data Available as of Date:	Rate Effective Date
Dec 31, 2007	May 31, 2008	July 1, 2008
Mar 31, 2008	Aug 31, 2008	Oct 1, 2008
Jun 30, 2008	Nov 30, 2008	Jan 1, 2009
Sep 30, 2008	Feb 28, 2009	Apr 1, 2009

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<sup>1</sup> 2009 contract language removed in 2010 and subsequent contracts “unless the MCO can negotiate a lower rate with the nursing home.”

For managed long-term care nursing home residents, MCOs must calculate a rate for each nursing home in which their members are receiving services. An MCO's rate for each nursing home must be calculated at least quarterly and be based upon the MCO members' RUG classes (not on the RUG classes of the MA FFS resident population) and the corresponding amounts identified in the nursing home rate letter in effect for that quarter. Reconciliation related to the costs in the rate letter will be necessary to ensure that the rates are based on the final nursing home rate letter in effect for that quarter (i.e., as opposed to an interim rate).

However, *upon mutual agreement between each nursing home and MCO*, retrospective rate reconciliation for the cost portion of the rate may be waived, if deemed immaterial. As one general guideline to consider, in the FFS system, the retrospective reconciliation of cost reports is waived if the variance amount is less than five cents per day. Beginning in calendar year 2010, the threshold for materiality must be agreed to prospectively (i.e., by the MCO and its contracted nursing home), and this should be documented in the MCO's contract with each nursing home.

Note that there is some limited flexibility in what it means to implement the FFS methodology. The rate may either 1) reflect the acuity of the MCO's nursing home residents on a picture date, or 2) reflect each individual member's daily acuity. If a picture date is used, it may not exceed six months prior to the date the rate applies. MCOs and nursing homes may find it more effective to use different methods, depending upon the maturity of the managed care program in a given region.

A very small number of residents will never have a RUG score to use in calculating an acuity based rate. This occurs when a MDS is not completed to use in the calculating a RUG score, this could happen if the resident died or returned to the hospital during the initial 14-day assessment period. In this situation, the MCO and nursing home should establish a default payment rate for the care provided during this period. The frequency, with which this occurs, at the statewide level and in the FFS system, is roughly 0.5%.

### **Nursing Home Rate Letters**

Rate letters are sent to nursing homes quarterly and will be made available to MCOs upon request. DHS has also offered to make Family Care nursing home resident's MDS RUG characteristics data available to the MCOs. Similar data have already been shared with MCOs for initial planning purposes. DHS has also recently shared an electronic version of the rates by RUG category for each NH and will to continue to make this data available to the MCOs, if it is useful.

Nursing home rate letters are not always finalized before the calendar date on which they are effective. In these instances, it is the expectation of the Department that the best available information be used to reimburse the nursing home. That rate might be, for example, the rate that was in place for the prior quarter, or for the prior fiscal year.

### ***Example***

A sample nursing home rate letter is attached to illustrate this method. The RUG tab of the rate letter titled, "Final Rates by RUG-48 Classification" is the relevant page for Family Care MCOs.

The 48 RUG classes on lines 12-59 are the unbundled RUG 48 categories that are used to calculate a single MA FFS nursing home rate. For Family Care purposes, the amounts in Column G for each of the 48 RUG classes are the relevant component of the nursing home rate letter. Each MCO should use their members' RUG categories and the corresponding amounts in Column G for a given nursing home, to determine the MCO's rate for that nursing home. Note that nursing home specific bed hold rates are included in the rate letters sent to the nursing homes and the electronic file sent to the MCOs.

The following example illustrates one method of implementing a payment rate that is based on the actual daily acuity method, rather than the picture date method:

- In quarter one, an MCO places one member in a nursing home, Member A at RUG class BA1 with a rate of \$99.59 per day. He stayed for 10 days, so the single rate would be \$99.59, and the MCO would pay the nursing home \$995.90.
- However, in quarter two, the MCO placed two members in a nursing facility, Member B at RUG class CC1 for 15 days at \$144.53 per day, and Member C at RUG class PC1 for 11 days at \$114.73 per day. Total payments in this example would \$3,429.98. This amount could be billed (and reported in encounter) in either of the following two ways:
  - Member B, 15 days @ \$144.53 + Member C, 11 days @ \$114.73 = \$3,429.98
  - Member B, 15 days @ \$131.92 + Member C, 11 days @ \$131.92 = \$3,429.98

**APPENDIX B****Part II: Overview & Technical Assistance**  
**Re. Implementation of MDS 3.0 & RUG IV in Family Care**  
**Effective October 1, 2010****Background**

The purpose of this update is to communicate changes in the fee-for-service nursing home calculation Medicaid rate, the Minimum Data Set (MDS), the Resource Utilization Grouper (RUG) method, and related implementation applicable to MCOs. Part II of this technical assistance document provides an overview of the changes to MDS 3.0 and the process for MCOs to use for addressing the lag between the start date of MDS 3.0 and Medicaid issuance of RUG 48 grouper-based rates.

Prior to October 1, 2010, Medicaid nursing home rates are established using MDS 2.0, in conjunction with Version III of RUG. MCOs began implementing Medicaid RUG-based rates with nursing home providers as instructed in the DHS 2009 contract. That implementation included the requirement that MCOs establish a Family Care (FC) case mix acuity with nursing homes. MCOs could use an individual acuity or FC case mix acuity using a FC picture date no more than six months old.

The Center for Medicare and Medicaid Services (CMS) has initiated a national project to create Version 3.0 of the MDS. The objectives of the updated MDS are to improve the clinical relevance and accuracy of MDS assessments, increase the voice of residents in assessments, improve user satisfaction, and increase the efficiency of reports. In conjunction with the MDS 3.0, CMS is also releasing an updated version of the resident grouper (RUG-IV) based on the new MDS 3.0 assessment instrument. Wisconsin Medicaid is planning to implement MDS 3.0 and RUG-IV effective October 1, 2010.

MDS 3.0/RUG-IV generates 48 resident classification levels, up from the 34 levels produced by MDS 2.0/RUG-III. Since MA fee-for-service (FFS) nursing home rates are based on a picture date six months prior to the effective date of the rates, the update to MDS 3.0/RUG-IV will have no impact on FY 2011 FFS rates. The first MA FFS picture date affected by the update will be December 31, 2010, which is the basis for FFS rates effective July 1, 2011.

Please note that, while current federal law in the health care reform legislation delays Medicare's implementation of RUG IV until October 2011, CMS has made it clear that states are free to implement the new RUG-IV grouper on October 1, 2010, for use in a Medicaid payment system.

**Implementation of RUG IV and MDS 3.0 in MCOs**

MCOs and nursing homes that use a picture date lagged six months to determine rates for the MCOs' members (i.e., the picture date method) should not be impacted by the lag between MDS 3.0 implementation and the availability of RUG IV 48 Grouper FFS rates available July 1, 2011.

MCOs and nursing homes using member-specific rates (i.e., the daily acuity method) will encounter an inconsistency in RUG versions from October 1, 2010, through June 30, 2011.

Resident assessments in this period will be based on the new MDS 3.0 assessment and can only be classified using the new 48-level RUG-IV grouper. The nursing home FFS rate schedules for these three quarters will continue to be broken down into the 34 levels associated with the prior RUG-III grouper.

For the period from October 1, 2010, to December 31, 2010, DHS will publish two RUG-specific rate schedules for each nursing home, one based on the RUG-III 34-level classifications and one based on the new RUG-IV 48-level categories. Daily rates for continuing residents will be based on the most recent MDS 2.0/RUG-III 34-level classification until the next MDS assessment on/after October 1, 2010. At that time, a new MDS 3.0/RUG-IV classification will be assigned (effective on the assessment reference date), along with a corresponding new rate taken from the 48-level RUG-IV rate schedule for the nursing home.

During the gap starting October 1, 2010, for the effective date of MDS 3.0 and issuance of MA FFS rates using the RUG 48 on July 1, 2011, DHS will publish RUG-III with 34 levels to go with MDS 2.0 (needed through December 31, 2010) and RUG-IV with 48 levels to go with MDS 3.0. The attached spreadsheet provides a sample for both a new MDS 3.0/RUG-IV rate schedule and a MDS 2.0/RUG-III rate schedule for nursing home ABC effective July 1, 2010.

Example: MCO member Mrs. Smith has a quarterly MDS 2.0 assessment on August 15, 2010. (Recall that quarterly assessments since 10/1/2009 have been RUG-able.) Mrs. Smith's RUG-III classification is CC1. The daily rate would be \$155.84 from August 15 until the next MDS assessment (rate is located on the RUG-III 34 Cell table, Column G). On November 15, 2010, Mrs. Smith has a quarterly MDS 3.0 assessment and that the new RUG-IV grouper places her in category CD1. (Note that MDS 3.0 quarterly assessments are all "RUG-able"). The new daily rate is \$148.32 for the RUG-IV 48-level schedule for ABC (rate is located on the RUG-IV 48 Cell table, Column G).

Note that, when switching from RUG-III to RUG-IV, some rates will go up and some will go down, even when no change has occurred with the resident's condition. On average, the rates in such cases should remain unchanged.

When authorizing or paying a nursing home claim during the overlap period (10/1/10- 12/31/10), it is important to distinguish between RUG-III and RUG-IV categories with the same label. That is, RUG-III CC1 is not the same as RUG-IV CC1, i.e., they have different daily rates. MCOs and Nursing Homes will need to work together to establish the mechanism for distinguishing the origin MDS.

### **Effective Date of MDS 3.0**

New admissions after October 1, 2010, of course, will be classified and rated using the new MDS 3.0/RUG-IV system. So, until all of the continuing residents are re-assessed using the new MDS 3.0 instrument, there will be a mixture of RUG-III and RUG-IV rates in effect. Since assessments are required on a quarterly basis, this overlap period should not extend beyond the end of 2010. Effective January 1, 2011, all resident members will have had a MDS 3.0 and it will only be necessary to produce the RUG-IV 48 level rate schedule.

For assessment reference date prior to October 1, 2010, use the MDS 2.0 and RUG 34.  
For assessment reference dates on or after October 1, 2010, use the MDS 3.0 and RUG 48.

### **Quarterly RUG-ables**

In the fourth quarter of 2009, Wisconsin nursing homes began submitting RUG-able (expanded) versions of the quarterly MDS 2.0 assessments to the state MDS database. These quarterly assessments were used to determine the FFS RUG case mix indexes for quarterly picture dates starting on December 31, 2009 (impacting July 1, 2010, FFS rates and beyond). The transition to RUG-able MDS 2.0 quarterly assessments was completed by December 31, 2009. These RUG-able quarterly assessments can now be used by nursing homes when classifying Family Care residents when billing the MCO. That is, when identifying the most recent RUG-able assessment to determine a member's RUG-III classification, these expanded quarterly assessments should be considered in addition to the most recent full assessment. Note that when MDS 3.0 becomes effective on October 1, 2010, quarterly assessments will be RUG-able by design and must be used in setting the member's RUG-IV classification.

### **Family Care Partnership Application**

MCO payment for Medicare Part A skilled nursing facility services should be based on the Medicare payment system in effect for the period of service (or other fee levels as negotiated between the MCO and nursing home). If the current one-year postponement of RUG-IV within Medicare remains intact, it appears that interim rates using the new Medicare RUG-IV 66-level grouper will be used until CMS issues the proper RUG-III grouper for use with MDS 3.0 assessments during FFY 2011, at which time a retroactive adjustment will be made to the initial rates. Once the Medicare Part A stay ends, Wisconsin Medicaid nursing home rates using the appropriate 34/48-level grouper and rate schedule becomes effective.

### **Reconciliation**

As instructed in the original TA for MCOs on implementation of RUG-III in Family Care, retrospective rate reconciliation for the cost portion of the rate may be waived by mutual consent, as identified by the MCO and nursing home. Reconciliation arising from inaccurate payments may be made by the MCO as established in their contracts with nursing homes.

### **Final Rates**

Work on final rates usually begins in late October or early November. Those rates are completed over a period of several months and will be retroactive to July 1, 2011. Final rates for some nursing homes will be available later in the fall, possibly in November, and the rate spreadsheet will be updated approximately biweekly until final rates for all homes are completed.

### **Questions**

For questions regarding this Technical Assistance memo, please contact Jane Gottwald at [Jane.Gottwald@wisconsin.gov](mailto:Jane.Gottwald@wisconsin.gov) or (715) 836-3059

Attachment:

[WI Medicaid Nursing Home Resident RUG-IV Classification Sample](#) (PDF, 19 KB)