Medicare Skilled Nursing Facility Reimbursement and Upcoding*

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Abstract

Post-acute care provided by skilled nursing facilities (SNFs) is reimbursed by Medicare under a Prospective Payment System using resource utilization groups (RUGs) that adjust payment intensity based on predefined ranges of therapy minutes provided each week and the functionality of the patient. Individual RUGs account for differences in the intensity of care provided, but there exists significant regional variation in the payments SNFs receive from Medicare due to the use of geographic adjustment factors. This paper is the first to use this geographic variation in the generosity of Medicare reimbursement to empirically test if SNFs respond to payment differences between RUG categories. The results suggest that payment differentials across RUGs influence the probability of RUG selection across therapy minutes and patient functionality scores. In the case of therapy minutes, the effects are highly suggestive that SNFs upcode patients to increase revenue, whereas we find weak evidence of upcoding related to patient functionality scores. Simulating how different payment differentials affect RUG selection, we predict that reducing the financial incentive to upcode could have saved Medicare 374 million dollars in 2005.

Keywords Skilled Nursing Facilities, Upcoding, Medicare, Prospective Payment System, Reimbursement

JEL Classification [I1, I18]

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