

funds, and on how we can further promote quality improvement efforts among SNFs.

*Comment:* A number of commenters pointed out that a primary objective of any prospective payment system is to allow providers the flexibility to manage their facilities effectively and to allocate their funding to best serve the needs of their patients. These commenters generally agreed that providers should use this flexibility to develop innovative programs to ensure high quality care, but generally did not support targeting funding to a specific service or rate component. Several commenters referenced several locally-developed programs focusing on quality improvement and customer satisfaction as examples of provider initiatives in a PPS environment. On the other hand, a few commenters took a more positive view of targeted payment rates, and recommended that we consider recent State initiatives that incorporate quality incentives or establish mandatory SNF staffing ratios.

*Response:* In considering the adoption of a market basket forecast error adjustment, we carefully evaluated industry comments for the implications of targeting this additional funding to quality improvements. While generally positive about the need to maintain and enhance direct care services, many commenters strongly urged us to maintain the integrity of the PPS as the best means of achieving improved patient care. These commenters maintained that the most effective way to manage operations and improve quality is to allow managers the flexibility they need to address the needs of their patients quickly. They expressed concern that earmarking funds for a specific care component (such as nurse staffing or pharmaceuticals) would restrict rather than enhance this flexibility, and could result in a negative, rather than a positive impact on patient care. While we strongly support the development of quality incentives within the structure of our payment systems, we agree that any such initiatives will need to be carefully designed and tested to ensure an appropriate and beneficial effect on direct care and patient outcomes.

A few commenters recommended that we establish specific quality and/or staffing standards. Although we do have research data that links staffing levels and patient outcomes, these research projects have not provided us with the specific analyses (including the trade off between cost and quality) that we would need to establish either minimum or recommended staffing levels, or to adjust those staffing levels for specific

acuity or functional limitation populations. Therefore, it became apparent that we do not currently have a clear way to target payments to quality improvements in a uniform manner that will benefit the Medicare program in general. However, we want to reiterate our expectation that this additional funding be used to improve direct care. We strongly encourage providers to continue their efforts to develop and expand programs such as the grass roots initiatives discussed later in this preamble that promote high quality care.

We are also continuing to explore a variety of quality initiatives, including the relationship between staffing and quality outcomes. We have recently awarded a contract to generate an informed set of CMS options for establishing a system of public reporting of nursing home staffing information. The report will detail a set of options for us to consider with respect to which data elements to collect, and how those data elements can best be transmitted, audited, and displayed on our Web site along with other consumer information. The data obtained with this contract will be used in continuing analysis of staffing levels and resident outcomes. We are also in the process of awarding another contract that will expand on the current nurse staffing study. This contract will examine staffing in general in an attempt to develop a quality measure(s) for reporting as part of the Nursing Home Quality Initiative (NHQI) effort.

Finally, the Department has recently completed, under contract, a study of State-initiated nursing home quality programs and will soon be completing another contracted study on State-initiated nursing home nurse staffing ratios. We plan to further investigate various State initiatives designed to integrate quality incentives into their payment systems. For example, some States already tie direct care reimbursement to actual direct care staffing expenditures. In addition, other States are looking at a variety of best practice standards that could be monitored and recognized through incentive payments. We plan to incorporate any promising State initiatives into our ongoing research efforts, which could serve as the basis for future recommendations.

*Comment:* Several commenters pointed out that the national nursing facility trade associations and their State affiliates are already strongly committed to enhancing quality, and described a number of grass roots initiatives, including State-wide customer service and public reporting programs, State-

association-run quality monitoring and early warning systems, and a variety of programs to train staff, provide career ladders, and increase retention. These commenters pointed out that the national nursing facility trade associations have strongly supported the development of our quality measures, and are working in partnership with us on a number of other quality initiatives. Other commenters cited industry interest in and support for a number of initiatives, including the Eden Alternative, Wellspring, and the Pioneer Network, which have demonstrated the ability to attract and retain high quality staff.

*Response:* We have focused significant resources in the past two years on improving the quality of health care provided by Medicare providers. Our efforts with respect to nursing home quality have been particularly intensive. We recognize that several national organizations and their members have worked with us on several quality initiatives, including the Nursing Home Quality Initiative (NHQI). The NHQI is a four-prong effort that consists of—

- Regulation and enforcement efforts conducted by State survey agencies and by us;
- Improved consumer information on the quality of care in nursing homes;
- Continual, community-based quality improvement programs designed to help nursing homes improve their quality of care; and
- Collaboration and partnership to utilize available knowledge and resources effectively.

We are pleased that several commenters shared their efforts to have a positive impact on beneficiaries' outcomes. A variety of programs have been designed on the State or organization level to improve staff knowledge and expertise by providing unique training and educational opportunities. In addition, many providers are participating in several new and innovative programs that explore different ways to better serve patients. For example, the Pioneer Network, Eden Alternative, and Wellspring programs are designed to impart a culture change that positively influences the aging population. Providers involved in these three programs report improvements in staff retention, staff morale, and resident outcomes, including decreased pharmaceutical utilization and improved mobility. These improvements have also been associated with more positive patient outcomes, as evidenced by the results of State surveys.