

Medicare program payments that would be made under the transition methodology and the option to elect payment based on 100 percent of the Federal prospective payment rate.

Our Office of the Actuary computed an update factor to update LTCH PPS payments from the current rate period (Federal FY 2003) to the proposed new LTCH PPS rate year (July 1, 2003 through June 30, 2004). The proposed LTCH PPS rate year overlaps the current rate period by 3 months (July 1, 2003 through September 30, 2003). The update for Federal FY 2003 is currently estimated at 3.5 percent and the proposed update factor for the proposed 2004 LTCH PPS rate year is estimated at 2.5 percent (as discussed in section VI.B. of the preamble of this proposed rule). Therefore, over the period from FY 2002 through the proposed 2004 LTCH PPS rate year (June 30, 2004), the cumulative increase would be 6.0 percent [$1.035 \times 1.025 = 1.060$]. This cumulative increase matches (within rounding) the cumulative increase calculated by using the index level in the new proposed effective period and the index level in FY 2002, such that having two separate updates result in the same cumulative update as if we had used a single update for the entire 21-month period (October 1, 2002 through June 30, 2004). Thus, the proposed change to the proposed 2004 LTCH PPS rate update cycle would not result in a higher or lower update than would have been the case (except due to rounding) if no change had been made to the LTCH PPS update cycle. In addition, as discussed in section VI.B.1.b. of the preamble of this proposed rule, we proposed to apply a budget neutrality adjustment of 0.997 in determining the proposed standard Federal rate to account for the estimated \$5.66 million budgetary impact for the Medicare program in FY 2003 as a result of the proposed change to LTCH PPS rate update cycle.

2. Impact on Providers

The basic methodology for determining a LTCH PPS payment is set forth in the regulations at § 412.521 through § 412.525. In addition to the basic LTC-DRG payment (standard Federal rate \times LTC-DRG relative weight), we make adjustments for differences in area wage levels, cost-of-living adjustment for Alaska and Hawaii, and short-stay outliers. In addition, LTCHs may also receive high-cost outlier payments for those cases that qualify under the threshold established each rate year. Section 412.533 provides for a 5-year transition to fully prospective payments from

payment based on reasonable cost-based principles. During the 5-year transition period, payments to LTCHs are based on an increasing percentage of the LTCH PPS Federal rate and a decreasing percentage of payment based on reasonable cost-based principles. Section 412.533(c) provides for a one-time opportunity for LTCHs to elect payments based on 100 percent of the LTCH PPS Federal rate.

In order to understand the impact of the proposed changes to the LTCH PPS discussed in this proposed rule on different categories of LTCHs for the proposed 2004 LTCH PPS rate year, it is necessary to estimate payments per discharge under the current (Federal FY 2003) LTCH PPS rates and factors (see the August 30, 2002 final rule) and payments per discharge that would be made under the proposed LTCH PPS rates and factors for the proposed 2004 LTCH PPS rate year (July 1, 2003 through June 30, 2004). We also evaluated the percent change in payments per discharge of estimated FY 2003 prospective payments to estimated proposed 2004 LTCH PPS rate year payments for each category of LTCHs.

Hospital groups were based on characteristics provided in OSCAR data and FYs 1999 through 2000 cost report data from HCRIS. Hospitals with incomplete characteristics were grouped into the "unknown" category. Hospital groups include:

- Location: Large Urban/Other Urban/Rural.
- Participation Date.
- Ownership Control.
- Census Region.
- Bed Size.

To estimate the impacts among the various categories of providers during the transition period, it is imperative that reasonable cost-based principle payments and prospective payments contain similar inputs. More specifically, in the impact analysis showing the impact reflecting the applicable transition blend percentages of prospective payments and reasonable cost-based principle payments and the option to elect payment based on 100 percent of the Federal rate (Table I below), we estimated payments only for those providers that we are able to calculate payments based on reasonable cost-based principles. For example, if we did not have FYs 1996 through 1999 cost data for a LTCH, we were unable to determine an update to the LTCH's target amount to estimate payment under the current reasonable cost-based principles.

Using LTCH cases from the FY 2001 MedPAR file and cost data from FYs 1996 through 2000 in HCRIS to estimate

payments under the current reasonable cost-based principles, we have both case-mix and cost data for 194 LTCHs. Thus, for the impact analyses reflecting the applicable transition blend percentages of prospective payments and reasonable cost-based principle payments and the option to elect payment based on 100 percent of the Federal rate (see Table VII. below), we used data from 194 LTCHs. However, using cases from the FY 2001 MedPAR file, we had case-mix data for 250 LTCHs. Cost data to determine current payments under reasonable cost-based principle payments are not needed to simulate payments based on 100 percent of the Federal rate. Therefore, for the impact analyses reflecting fully phased-in prospective payments (see Table VIII. below), we used data from 250 LTCHs.

These impacts reflect the estimated "losses" or "gains" among the various classifications of providers for the 12-month period from October 1, 2002 through September 30, 2003 (Federal FY 2003) compared to the 12-month period from July 1, 2003 through June 30, 2004 (proposed 2004 LTCH PPS rate year). Proposed 2004 LTCH rate year prospective payments were based on the proposed standard Federal rate of \$35,726.64 and the hospital's estimated case-mix based on FY 2001 claims data. Prospective payments for Federal FY 2003 were based on the standard Federal rate of \$34,956.15 and the same FY 2001 claims data.

3. Calculation of Prospective Payments

To estimate payments under the LTCH PPS, we simulated payments on a case-by-case basis by applying the payment policy for short-stay outliers (as described in section VI.C.4.b. of this proposed rule) and the adjustments for area wage differences (as described in section VI.C.1. of this proposed rule) and for the cost-of-living for Alaska and Hawaii (as described in section VI.C.2. of this proposed rule). Additional payments would also be made for high-cost outlier cases (as described in section VI.C.3. of this proposed rule). As noted in section VI.C.5. of this proposed rule, we are not proposing to make adjustments for geographic reclassification, indirect medical education costs, or a disproportionate share of low-income patients.

The adjustment for area wage differences for estimated FY 2003 payments was done by using the applicable LTCH PPS wage index (one-fifth of the full FY 2002 acute care hospital inpatient wage index data, without taking into account geographic reclassification under sections 1886(d)(8) and (d)(10) of the Act (see