

August 30, 2002, 67 FR 56057–56075). For the estimated proposed 2004 LTCH PPS rate year payments, we used a weighted average of a LTCH's applicable wage index during the period from July 1, 2003, through June 30, 2004, since some providers may experience a change in the wage index phase-in percentage during the period from July 1, 2003 through June 30, 2004. For cost reporting periods beginning on or after October 1, 2002 and before September 30, 2003, the applicable proposed LTCH wage index is 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. For cost reporting periods beginning on or after October 1, 2003 and before September 30, 2004, the applicable LTCH wage index would be two-fifths of the full FY 2003 acute care hospital inpatient wage index data, without taking into account geographic reclassification under sections 1886(d)(8) and (d)(10) of the Act. Therefore, a provider with a cost reporting period beginning October 1, 2003, would have 3 months of payments under the one-fifth wage index value and 9 months of payment under the two-fifths wage index value. For this provider, we computed a blended wage index of 25 percent (3 months/12 months) of the one-fifth wage index value and 75 percent (9 months/12 months) of the two-fifths wage index value.

We also calculated payments using the applicable transition blend percentages. For FY 2003, the applicable transition blend percentage is 80 percent of payment based on reasonable cost-based principles and 20 percent of payment under the LTCH PPS. For the proposed 2004 LTCH PPS rate year based on the transition blend percentages set forth in § 412.533(a), some providers may experience a

change in the transition blend percentage during the period from July 1, 2003 through June 30, 2004. For example during the 12-month period from July 1, 2003 through June 30, 2004, a provider with a cost reporting period beginning on October 1, 2002 (which is paid under the 80/20 transition blend (80 percent of payments based on reasonable cost-based principles and 20 percent of payments under the LTCH PPS) beginning October 1, 2002) would have 3 months (July 1, 2003 through September 30, 2003) under the 80/20 blend and 9 months (October 1, 2003 through June 30, 2004) of payment under the 60/40-transition blend (60 percent of payments based on reasonable cost-based principles and 40 percent of payments under the LTCH PPS). (The 60 percent/40 percent blend would continue until the provider is cost report period beginning on October 1, 2004.) In estimating blended transition payments, we estimated payments based on reasonable cost-based principles in accordance with the methodology in section 1886(b) of the Act. We compared the estimated blended transition payment to the LTCH's estimated payment if it would elect payment based on 100 percent of the Federal rate. If we estimated that a LTCH would be paid more based on 100 percent of the Federal rate, we assumed that it would elect to bypass the transition methodology and to receive immediate prospective payments.

Then we applied the 6.6 percent reduction to payment to account for the effect of the 5-year transition methodology and election of payment based on 100 percent of the Federal rate on Medicare program payments established in the August 30, 2002 final rule (67 FR 56034) to each LTCH's estimated payments under the PPS for FY 2003. Similarly, we applied the proposed 5.7 percent reduction to payment to account for the effect of the

5-year transition methodology and election of payment based on 100 percent of the Federal rate on Medicare program payments (see section VI.C.6. of this proposed rule) to each LTCH's estimated payments under the PPS for the proposed 2004 LTCH PPS rate year. The impact based on our projection of whether a LTCH would be paid based on the transition blend methodology or would elect payment based on 100 percent of the Federal rate is shown below in Table VII.

In Table VIII. below, we also show the impact if the LTCH PPS were fully implemented; that is, as if there were an immediate transition to fully Federal prospective payments under the LTCH PPS for Federal FY 2003 and the proposed 2004 LTCH PPS rate year. Accordingly, the proposed 5.7 percent reduction to account for the 5-year transition methodology on LTCHs' Medicare program payments for the proposed 2004 LTCH PPS rate year and the 6.6 percent reduction to account for the 5-year transition methodology on LTCHs' Medicare program payments established for FY 2003 were not applied to LTCHs' estimated payments under the PPS.

Tables VII. and VIII. below illustrate the aggregate impact of the payment system among various classifications of LTCHs. The first column, LTCH Classification, identifies the type of LTCH. The second column lists the number of LTCHs of each classification type; the third column identifies the number of long-term care cases; and the fourth column shows the estimated payment per discharge for FY 2003; the fifth column shows the estimated payment per discharge for proposed 2004 LTCH PPS rate year; and the sixth column shows the percent change of FY 2003 compared to proposed 2004 LTCH PPS rate year.

TABLE VII.—PROJECTED IMPACT REFLECTING APPLICABLE TRANSITION BLEND PERCENTAGES OF PROPOSED PROSPECTIVE PAYMENTS AND REASONABLE COST-BASED (TEFRA) PAYMENTS AND OPTION TO ELECT PAYMENT BASED ON 100 PERCENT OF THE FEDERAL RATE ¹

[FY 2003 Payments Compared to Proposed 2004 LTCH Prospective Payment System Rate Year]

LTCH classification	Number of LTCHs	Number of LTCH cases	Average Federal FY 2003 payment per case ²	Average proposed 2004 LTCH prospective payment system rate year payment per case ³	Percent change
All Providers	194	71,811	\$26,919	\$27,227	1.1
By Location:					
Rural	7	2,153	20,668	20,864	1.0
Urban	187	69,658	27,113	27,424	1.1
Large	113	47,705	27,445	27,742	1.1