

We propose to use the following steps to ensure that the FY 2004 IRF standard payment conversion factor reflects the update to the wage indices and to the labor-related share in a budget neutral manner:

Step 1. We determine the total amount of the FY 2003 IRF PPS rates using the FY 2003 standardized payment amount and the labor-related share and the wage indices from FY 2003 (as published in the August 1, 2002 notice).

Step 2. We then calculate the total amount of IRF PPS payments using the FY 2003 standardized payment amount and the proposed updated FY 2004 labor-related share and wage indices described above.

Step 3. We divide the amount calculated in step 1 by the amount calculated in step 2, which equals the proposed FY 2004 budget neutral wage adjustment factor of 0.9954.

Step 4. We then apply the FY 2004 budget neutral wage adjustment factor from step 3 to the FY 2003 IRF PPS standard payment conversion factor after the application of the market basket update, described above, to determine the proposed FY 2004 standardized payment amount.

D. Proposed Update of Payment Rates Under the IRF PPS for FY 2004

Once we calculate the proposed IRF market basket increase factor and determine the proposed budget neutral wage adjustment factor, we can determine the proposed updated Federal prospective payments for FY 2004. In accordance with proposed revised § 412.624(c)(3)(i), we apply the proposed IRF market basket increase factor of 3.3 percent to the proposed standard payment conversion factor for FY 2003 (\$12,193) which equals \$12,595. Then, we apply the proposed budget neutral wage adjustment of .9954 to \$12,595, which results in an updated proposed standard payment conversion factor for FY 2004 of \$12,537. The proposed FY 2004 standard payment conversion factor is applied to each proposed CMG weight shown in Table 1 to compute the proposed unadjusted IRF prospective payment rates for FY 2004 shown in Table 2.

Table 2, Proposed FY 2004 Federal Prospective Payments for Case-Mix Groups (CMGs) for FY 2004, displays the proposed CMGs, the proposed comorbidity tiers, and the

corresponding proposed unadjusted IRF prospective payment rates for FY 2004.

E. Examples of Computing the Total Proposed Adjusted IRF Prospective Payments

In general, under § 412.624(e), we will adjust the Federal prospective payment amount associated with a CMG, shown in Table 2, to account an IRF's geographic wage variation, low-income patients and, if applicable, location in a rural area.

The adjustment for an IRF's geographic wage variation includes the proposed FY 2004 labor-related share adjustment of 72.683 percent and the proposed FY 2004 IRF urban or rural wage indices in Tables 3A and 3B, respectively.

The adjustment for low-income patients is based on the formula to account for the cost of furnishing care to low-income patients as discussed in the August 7, 2001 IRF PPS final rule (67 FR 41360). The formula to calculate the low-income patient or LIP adjustment is as follows:

$(1 + \text{DSH})$ raised to the power of (.4838)

Where:

$$\text{DSH} = \frac{\text{Medicare SSI Days}}{\text{Total Medicare Days}} + \frac{\text{Medicaid, Non-Medicare Days}}{\text{Total Days}}$$

The adjustment for IRFs located in rural areas is an increase to the Federal prospective payment amount of 19.14 percent. This percentage increase is the same as the one described in the August 7, 2002 IRF PPS final rule (67 FR 41359).

To illustrate the proposed methodology that we will use for adjusting the Federal prospective payments, we provide the following example in Chart 7 below. One beneficiary is in Facility A, an IRF

located in rural Maryland, and another beneficiary is in Facility B, an IRF located in the New York City metropolitan statistical area (MSA).

Facility A's disproportionate share hospital (DSH) adjustment is 5 percent, with a low-income patient (LIP) adjustment of (1.0239) and a wage index of (0.8946), and the rural area adjustment (19.14 percent) applies. Facility B's DSH is 15 percent, with a LIP adjustment of (1.0700) and a wage index of (1.4414).

Both Medicare beneficiaries are classified to CMG 0112 (without comorbidities). To calculate each IRF's total proposed adjusted Federal prospective payment, we compute the wage-adjusted Federal prospective payment and multiply the result by the appropriate LIP adjustment and the rural adjustment (if applicable). The following chart illustrates the components of the proposed adjusted payment calculation.

CHART 7.—EXAMPLES OF COMPUTING AN IRF'S PROPOSED FEDERAL PROSPECTIVE PAYMENT

	Facility A	Facility B
Federal Prospective Payment	\$25,092.93	\$25,092.93
Labor Share	× 0.72683	× 0.72683
Labor Portion of Federal Payment	× 18,238.29	× 18,238.29
Wage Index—(shown in Tables 3A or 3B)	× 0.8946	× 1.4414
Wage-Adjusted Amount	= 16,315.98	= 26,288.67
Non-Labor Amount	+ 6,854.15	+ 6,854.15
Wage-Adjusted Federal Payment	23,170.13	33,142.82
Rural Adjustment	× 1.1914	× 1.0000
Subtotal	27,604.89	33,142.82
LIP Adjustment	× 1.0239	× 1.0700
Total FY'04 Adjusted Federal Prospective Payment	28,264.65	35,462.82