

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 VII 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 (2004 LTCH PPS rate year). Prospective payments for the 2004 LTCH rate year were based on the standard Federal rate of \$35,726.18 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 VII.C.4.b of this final rule) and the adjustments for area wage differences (as described in section VII.C.1 of this final rule) and for the cost-of-living for Alaska and Hawaii (as described in section VII.C.2 of this final rule). Additional payments would also be made for high-cost outlier cases (as described in section VII.C.3 of this final rule). As noted in section VII.C.5 of this final rule, we are not making adjustments for rural location, geographic reclassification, indirect medical education costs, or a disproportionate share of low-income patients.

We adjusted for area wage differences for estimated FY 2003 payments 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 1886(d)(10) of the Act (see August 30, 2002, 67 FR 56057–56075). For the estimated 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

labor portion of the Federal rate is adjusted by one-fifth of the applicable LTCH PPS wage index. For cost reporting periods beginning on or after October 1, 2003, and before September 30, 2004, the labor portion of the Federal rate is adjusted by two-fifths of the applicable LTCH PPS wage index. The applicable LTCH PPS wage index values are computed using the same data to compute the acute care hospital inpatient wage index data, without taking into account geographic reclassification under sections 1886(d)(8) and 1886(d)(10) of the Act (as discussed in section VII.C.1. of this final rule). Therefore, a provider with a cost reporting period beginning October 1, 2003, will 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 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) will 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's 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 LTCH PPS for FY 2003. Similarly, we applied the 6.0 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 VII.C.6 of this final rule) to each LTCH's estimated payments under the LTCH PPS for the 2004 LTCH PPS rate year. The impact based on our projection of whether a LTCH will be paid based on the transition blend methodology or will elect payment based on 100 percent of the Federal rate is shown below in Table VI.

In Table VII 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 2004 LTCH PPS rate year. Accordingly, the 6.0 percent reduction to account for the 5-year transition methodology on LTCHs' Medicare program payments for the 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 VI and VII 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.
- The fourth column shows the estimated payment per discharge for FY 2003.
- The fifth column shows the estimated payment per discharge for the 2004 LTCH PPS rate year.