

adjustment to the SNF PPS base payment rate to account for the cumulative forecast error between FY 2000 and FY 2002. Using this approach, we would update the FY 2003 SNF PPS national payment rate by an additional 3.26 percent above the 2.9 percent SNF

market basket increase currently forecasted for FY 2004. For a complete description of the multi-step process, see the May 12, 1998 interim final rule (63 FR 26252).

As explained in section II.D, we have also included additional figures that are

adjusted to reflect a 3.26 percent forecast error adjustment. The following describes the process we could consider using if we apply a forecast error adjustment only in future years.

TABLE 1.—UNADJUSTED FEDERAL RATE PER DIEM URBAN

Rate component	Nursing— case-mix	Therapy— case-mix	Therapy— non-case-mix	Non-case-mix
Original Per Diem Amount without Forecast Error Adjustment	\$125.15	\$94.27	\$12.42	\$63.87
Revised Per Diem Amount with Forecast Error Adjustment	129.23	97.34	12.82	65.96

TABLE 2.—UNADJUSTED FEDERAL RATE PER DIEM RURAL

Rate component	Nursing— case-mix	Therapy— case-mix	Therapy— non-case-mix	Non-case-mix
Original Per Diem Amount without Forecast Error Adjustment	\$119.57	\$108.70	\$13.26	\$65.06
Revised Per Diem Amount with Forecast Error Adjustment	123.47	112.24	13.69	67.18

D. Process for Adjusting for SNF Market Basket Forecast Error

We are also inviting comments on applying the forecast error adjustment in future years, by adjusting the SNF PPS base payment rate annually for any forecast error in the SNF market basket. This process would involve making a one-time adjustment for the forecast error from the most recently available fiscal year. For example, for the FY 2005 update, we could adjust for forecast error for FY 2003 only; FY 2004 information would not yet be final. Similarly, for the FY 2006 update, we could adjust for the FY 2004 forecast error. This process creates what is essentially a 2-year lag on the forecast error correction, but is as timely as possible given the availability of historical data.

The method of adjusting for annual forecast error would be similar to that described above for the FY 2004 update. We could adjust for forecast error in a fiscal year by adjusting the SNF PPS national base payment by the forecast error amount. For example, if the FY 2004 SNF market basket were over-forecast by 0.5 percent, we would reduce the SNF PPS national base payment rate in FY 2006 by 0.5 percent. Accordingly, this is a prospective adjustment and is consistent with the methodology currently employed under the inpatient hospital capital PPS, and with the update framework that we discussed in the FY 2002 SNF PPS proposed rule published on May 10, 2001 (66 FR 24016) and FY 2002 final rule published on July 31, 2001 (66 FR 39587).

In addition, as mentioned previously in section II.B, we are considering

adopting a threshold under which no forecast error adjustment would be made if the forecasted percent change is within a defined range of the actual percent change. As noted previously, the inpatient hospital capital PPS already uses a threshold of 0.25 percentage points. We are soliciting comments on what threshold would be appropriate in the context of the SNF PPS. This methodology is again consistent with the methodology used under the inpatient capital PPS, and reflects the concept that there is a certain level of imprecision associated with measuring statistics. We invite comments on the use of this standard.

III. Solicitation of Comments on Quality of Care Efforts Under SNF PPS

We noted above that a major reason the SNF market basket forecast was under-forecasted for previous periods was that wages and benefits for SNF workers increased more rapidly than expected. Part of this wage increase may have been caused by nursing staff shortages which, coupled with the increased demand for services during this period, drove up wages not only in SNFs but in the entire health sector. Since the factors that drive costs in SNFs can also relate to nursing home quality of care, we believe it is important to reflect appropriately the market conditions facing SNFs.

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. In December 2001, we announced a Nursing Home Quality Initiative. This initiative is part

of the goal of the Department of Health and Human Services to continue to improve the quality of health care for all Americans, including those covered by the Medicare and Medicaid programs. After a successful six-State pilot in the Spring of 2002, we released quality of care information on November 12, 2002 for nearly 17,000 nursing homes in all 50 States, the District of Columbia, and some U.S. Territories. Consumers can view these measures and other helpful information at <http://www.medicare.gov>.

The Nursing Home Quality Initiative 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 most effectively. State pilot in the Spring of 2002, we released quality of care information on November 12, 2002 for nearly 17,000 nursing homes in all 50 States, the District of Columbia, and some U.S. Territories. Consumers can view these measures and other helpful information at <http://www.medicare.gov>.

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