

TABLE 1.—COMPOSITION OF LOW VOLUME QUINTILES—Continued

LTC-DRG	Description
501	KNEE PROCEDURES W PDX OF INFECTION W CC.
515	CARDIAC DEFIBRILATOR IMPLANT W/O CARDIAC CATH.
533	EXTRACRANIAL VASCULAR PROCEDURES WITH CC.
536	CARDIAC DEFIB IMPLANT WITH CARDIAC CATH WITHOUT AMI/HF/SHOCK.

* One of the original 173 low volume LTC-DRGs initially assigned to a different low volume quintile; reassigned to this low volume quintile in addressing nonmonotonicity (see step 5 below).

** One of the original 173 low volume LTC-DRGs initially assigned to this low volume quintile; reassigned to a different low volume quintile in addressing nonmonotonicity (see step 5 below).

*** One of the original 173 low volume LTC-DRGs initially assigned to this low volume quintile; removed from the low volume quintiles in addressing nonmonotonicity (see step 5 below).

4. Steps for Determining the FY 2004 LTC-DRG Relative Weights

As we noted previously, the FY 2004 LTC-DRG relative weights are determined in accordance with the methodology described in the May 19, 2003 proposed rule (68 FR 27179). In summary, LTCH cases must be grouped in the appropriate LTC-DRG, while taking into account the low volume LTC-DRGs as described above, before the FY 2004 LTC-DRG relative weights can be determined. After grouping the cases in the appropriate LTC-DRG, we calculate the relative weights for FY 2004 in this final rule by first removing statistical outliers and cases with a length of stay of 7 days or less. Next, we adjust the number of cases in each LTC-DRG for the effect of short-stay outlier cases under § 412.529. The short-stay adjusted discharges and corresponding charges are used to calculate “relative adjusted weights” in each LTC-DRG using the hospital-specific relative value method described above.

Below we discuss in detail the steps for calculating the FY 2004 LTC-DRG relative weights.

Step 1—Remove Statistical Outliers

The first step in the calculation of the FY 2004 LTC-DRG relative weights is to remove statistical outlier cases. As we discussed in the May 19, 2003 proposed rule (68 FR 27179), we define statistical outliers as cases that are outside of 3.0 standard deviations from the mean of the log distribution of both charges per case and the charges per day for each LTC-DRG. These statistical outliers are removed prior to calculating the relative weights. We believe that they may represent aberrations in the data that distort the measure of average resource use. Including those LTCH cases in the calculation of the relative weights could result in an inaccurate relative weight that does not truly reflect relative resource use among the LTC-DRGs.

Step 2—Remove Cases With a Length of Stay of 7 Days or Less

The FY 2004 LTC-DRG relative weights reflect the average of resources used on representative cases of a specific type. Generally, as we discussed in the May 19, 2003 proposed rule (68 FR 27179), cases with a length of stay 7 days or less do not belong in a LTCH because such stays do not fully receive or benefit from treatment that is typical in a LTCH stay, and full resources are often not used in the earlier stages of admission to a LTCH. If we were to include stays of 7 days or less in the computation of the FY 2004 LTC-DRG relative weights, the value of many relative weights would decrease and, therefore, payments would decrease to a level that may no longer be appropriate.

We do not believe that it would be appropriate to compromise the integrity of the payment determination for those LTCH cases that actually benefit from and receive a full course of treatment at a LTCH, in order to include data from these very short-stays. Thus, in determining the FY 2004 LTC-DRG relative weights, we remove LTCH cases with a length of stay of 7 days or less.

Step 3—Adjust Charges for the Effects of Short-Stay Outliers

The third step in the calculation of the FY 2004 LTC-DRG relative weights is to adjust each LTCH's charges per discharge for short-stay outlier cases (that is, a patient with a length of stay that is less than or equal to five-sixths the average length of stay of the LTC-DRG).

As we discussed in the May 19, 2003 proposed rule (68 FR 27179), we make this adjustment by counting a short-stay outlier as a fraction of a discharge based on the ratio of the length of stay of the case to the average length of stay for the LTC-DRG for nonshort-stay outlier cases. This has the effect of proportionately reducing the impact of the lower charges for the short-stay outlier cases in calculating the average charge for the LTC-DRG. This process

produces the same result as if the actual charges per discharge of a short-stay outlier case were adjusted to what they would have been had the patient's length of stay been equal to the average length of stay of the LTC-DRG.

As we explained in that same proposed rule, counting short-stay outlier cases as full discharges with no adjustment in determining the LTC-DRG relative weights would lower the LTC-DRG relative weight for affected LTC-DRGs because the relatively lower charges of the short-stay outlier cases would bring down the average charge for all cases within a LTC-DRG. This would result in an “underpayment” to nonshort-stay outlier cases and an “overpayment” to short-stay outlier cases. Therefore, in this final rule, we adjust for short-stay outlier cases under § 412.529 in this manner since it results in more appropriate payments for all LTCH cases.

Step 4—Calculate the FY 2004 LTC-DRG Relative Weights on an Iterative Basis

As we discussed in the May 19, 2003 proposed rule (68 FR 27180), the process of calculating the LTC-DRG relative weights using the hospital specific relative value methodology is iterative. First, for each LTCH case, we calculate a hospital-specific relative charge value by dividing the short-stay outlier adjusted charge per discharge (see step 3) of the LTCH case (after removing the statistical outliers (see step 1)) and LTCH cases with a length of stay of 7 days or less (see step 2) by the average charge per discharge for the LTCH in which the case occurred. The resulting ratio is then multiplied by the LTCH's case-mix index to produce an adjusted hospital-specific relative charge value for the case. An initial case-mix index value of 1.0 is used for each LTCH.

For each LTC-DRG, the FY 2004 LTC-DRG relative weight is calculated by dividing the average of the adjusted hospital-specific relative charge values (from above) for the LTC-DRG by the