

TABLE I.—IMPACT ANALYSIS OF FINAL CHANGES FOR FY 2004 OPERATING PROSPECTIVE PAYMENT SYSTEM [PERCENT CHANGES IN PAYMENTS PER CASE]—Continued

	Number of hosps. ¹	Revised outlier pol- icy ²	Transfer changes ³	New wage data ⁴	New wage index with- out CAHS ⁵	New wage index with- out CAHS & NPHYS. part B ⁶	DRG Recal ⁷	DRG & Wage index changes ⁸	MCGRB reclassi- fication ⁹	All FY 2004 changes ¹⁰	All FY 2004 changes w/o FY 2003 outliers ¹¹
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Less than 100 beds	282	-1.1	-0.5	-0.1	-0.2	0.0	-0.1	0.4	-0.5	0.9	3.1
Rural DSH:											
Sole Community (SCH)	493	0.2	-0.1	-0.2	0.1	0.0	0.0	0.5	0.3	10.0	9.9
Referral Center (RRC)	156	1.1	-0.1	-0.3	0.2	0.1	-0.1	0.4	4.5	4.5	4.0
No teaching and DSH	71	0.9	-0.3	-0.7	0.0	0.1	0.0	0.0	1.3	2.5	2.0
Less than 100 beds	299	0.5	-0.4	-0.6	0.0	0.1	0.0	0.3	1.2	2.8	2.6
Urban teaching and DSH:											
DSH	775	-0.3	-0.2	-0.4	-0.2	0.0	0.0	-0.1	-0.3	0.9	2.8
Teaching and no DSH	274	0.8	-0.1	-0.3	-0.2	0.0	0.0	0.0	-0.2	2.1	2.9
No teaching and DSH	906	-0.6	-0.5	-0.3	-0.2	0.0	0.0	0.1	-0.3	1.0	2.8
No teaching and no DSH	650	0.2	-0.3	-0.1	-0.2	0.0	0.0	0.3	-0.3	1.8	3.1
Rural Hospital Types:											
Non special status hospitals	474	0.7	-0.4	-0.5	0.1	0.1	0.0	0.3	1.3	2.7	2.4
RRC	148	1.5	-0.2	-0.2	0.3	0.1	-0.1	0.6	5.8	3.5	2.9
SCH	497	0.1	-0.1	-0.1	0.1	0.0	0.0	0.5	0.2	10.8	10.8
Medicare-dependent hospitals (MDH)	250	0.3	-0.3	-0.5	0.3	0.1	-0.1	0.7	0.8	3.3	3.2
SCH and RRC	75	0.2	0.0	-0.2	0.1	0.0	0.0	0.2	1.2	7.4	7.3
Type of Ownership:											
Voluntary	2,411	0.4	-0.1	-0.3	-0.2	0.0	0.0	0.0	0.0	2.2	3.1
Proprietary	698	-3.7	-1.0	0.0	-0.2	0.0	-0.1	0.4	-0.1	-2.1	3.6
Government	818	1.2	-0.3	-0.4	-0.1	0.0	0.0	0.0	0.2	4.0	3.8
Unknown	122	2.4	0.0	-1.0	-0.1	0.0	0.1	-0.6	-0.4	3.5	2.2
Medicare Utilization as a Percent of Inpatient Days:											
0-25	303	0.5	0.0	0.1	-0.2	0.0	-0.1	0.3	-0.2	2.5	3.4
25-50	1,533	-0.2	-0.3	-0.4	-0.2	0.0	0.0	0.0	-0.2	1.2	3.0
50-65	1,651	0.4	-0.2	-0.3	-0.1	0.0	0.0	0.1	0.3	2.8	3.4
Over 65	456	-1.2	-0.2	-0.2	-0.1	0.0	0.0	0.4	0.7	1.1	3.6
Unknown	106	-0.6	-0.1	0.1	-0.2	0.0	-0.1	0.4	-0.6	1.7	3.4
Hospitals Reclassified by the Medicare Geographic Classification Review Board: FY 2004 Reclassi- fications:											
All Reclassified Hospitals	616	-0.7	-0.1	-0.3	0.0	0.0	0.0	0.3	4.3	2.6	4.3
Standardized Amount Only	22	0.9	0.0	-0.8	0.0	0.1	0.0	-0.1	3.4	5.4	5.6
Wage Index Only	554	-1.0	-0.1	-0.3	0.0	0.0	0.0	0.3	4.2	1.9	3.7
Both	33	1.7	0.1	-0.3	0.0	0.0	0.0	0.2	4.1	4.1	3.3
Nonreclassified Hospitals	3,407	0.1	-0.3	-0.3	-0.2	0.0	0.0	0.1	-0.6	1.8	3.2
All Reclassified Urban Hospitals	125	-3.3	-0.2	-0.3	-0.3	0.0	0.0	0.1	4.6	-1.8	3.0
Standardized Amount Only	15	2.5	-1.3	-0.9	-0.1	0.0	0.0	-0.6	0.8	-4.6	3.2
Wage Index Only	71	-5.4	0.0	-0.3	-0.4	0.0	0.0	0.0	5.1	-4.1	2.9
Both	39	1.8	-0.3	0.1	-0.2	0.0	-0.1	0.4	4.6	4.1	3.3
Urban Nonreclassified Hospitals	2,408	0.1	-0.3	-0.3	-0.2	0.0	0.0	0.0	-0.6	1.4	2.9
All Reclassified Rural Hospitals	491	0.9	-0.1	-0.2	0.2	0.1	-0.1	0.4	4.0	5.5	5.1
Standardized Amount Only	27	1.6	0.0	-0.1	0.2	0.0	-0.1	0.6	3.1	2.3	1.3
Wage Index Only	451	0.8	-0.1	-0.3	0.2	0.1	-0.1	0.4	4.0	5.7	5.4
Both	13	1.8	0.0	0.0	0.2	0.0	-0.1	0.8	7.1	5.4	4.6
Rural Nonreclassified Hospitals	992	0.3	-0.2	-0.3	0.1	0.1	0.0	0.5	-0.4	6.2	6.1
Other Reclassified Hospitals (Section 1886(D)(8)(B))	33	0.6	-0.2	0.0	-0.2	0.0	0.0	0.5	-1.5	3.0	2.8

¹ Because data necessary to classify some hospitals by category were missing, the total number of hospitals in each category may not equal the national total. Discharge data are from FY 2002, and hospital cost report data are from reporting periods beginning in FY 2000 and FY 1999.

² This column displays the payment impact of the outlier policy that was published in the June 9, 2003 **Federal Register**.

³ This column displays the payment impact of the expanded postacute care transfer policy.

⁴ This column displays the impact of updating the wage index with wage data from hospitals' FY 2000 cost reports.

⁵ This column displays the impact of removing CAHS from the wage index.

⁶ This column displays the impact of the revised wage data used to calculate the wage index from removal of nonphysician Part B costs and hours from cost report data (Worksheet S-3, Part II, Line 5.01).

⁷ This column displays the payment impact of the recalibration of the DRG weights based on FY 2002 MedPAR data and the DRG reclassification changes, in accordance with section 1886(d)(4)(C) of the Act.

⁸ This column shows the payment impact of the budget neutrality adjustment factor for DRG and wage index changes, in accordance with sections 1886(d)(4)(C)(iii) and 1886(d)(3)(E) of the Act. Thus, it represents the combined impacts shown in columns 4, 5, 6 and 7, and the final FY 2004 budget neutrality factor of 1.005522.

⁹ Shown here are the effects of geographic reclassifications by the Medicare Geographic Classification Review Board (MCGRB). The effects demonstrate the FY 2004 payment impact of going from no reclassifications to the reclassifications scheduled to be in effect for FY 2004. Reclassification for prior years has no bearing on the payment impacts shown here.

¹⁰ This column shows changes in payments from FY 2003 to FY 2004. It incorporates all of the changes displayed in columns 2, 3, and 8 (the changes displayed in columns 4, 5, and 6 are included in column 8). It also reflects the impact of the FY 2004 update, changes in hospitals' reclassification status in FY 2004 compared to FY 2003, and the difference in outlier payments from FY 2003 to FY 2004. The sum of these impacts may be different from the percentage changes shown here due to rounding and interactive effect.

¹¹ This column shows changes in payments from FY 2003 to FY 2004, similar to column 10. However, this simulation assumes FY 2003 outlier payments will be at the same percentage level as FY 2004. This effectively reduces FY 2003 outlier payments from 6.5 percent of total DRG payments to 5.1 percent of total DRG payments, thereby reducing FY 2003 payments and increasing the percent changes from FY 2003 to FY 2004.

C. Impact of the Changes to the Outlier Policy (Column 2)

In the proposed rule, we estimated the FY 2004 outlier threshold to be \$50,645. We also noted that the final outlier threshold was likely to be different from the proposed threshold after taking into account changes implemented by the final outlier rule. Since the publication of the proposed IPPS rule, we published a final outlier rule on June 9, 2003 (68 FR 34494).

We published three central changes to our outlier policy in the June 9, 2003 final rule. First, fiscal intermediaries will use either the most recent settled or the most recent tentative settled cost report, whichever is from the latest reporting period when determining the cost-to-charge ratio for each hospital. Second, we removed the requirement in our regulations that specified that a fiscal intermediary will assign a hospital the statewide average cost-to-charge ratio when the hospital has a cost-to-charge

ratio that falls below established thresholds. Third, outlier payments for some hospitals will become subject to reconciliation when the hospitals' cost reports are settled.

Column 2 shows the effects of these changes. This column displays the effects of moving from our policy prior to the changes in the June 9 final rule, that hospitals' cost-to-charge ratios are based on their latest settled cost reports, and if the ratio falls below 3 standard deviations from the mean, the statewide average is assigned, to the new