

determine the labor-related share of capital for FY 2004. The result is 3.498 percent, which we then add to the

69.028 percent calculated for operating costs to determine the total labor-related relative importance for FY 2004. The

resulting labor-related share that we are using for IRFs in FY 2004 is 72.526 percent.

CHART 6.—FY 2004 LABOR-RELATED SHARE RELATIVE IMPORTANCE

Cost category	Relative importance 1992-based market basket FY 2004	Relative importance 1997-based market basket FY 2004
Wages and salaries	50.180	48.906
Employee benefits	11.980	11.081
Professional fees	2.041	4.500
Postage	0.257
All other labor intensive services	5.214	4.541
Subtotal	69.672	69.028
Labor-related share of capital	3.370	3.498
Total	73.042	72.526

Chart 6 above shows that rebasing the excluded hospital with capital market basket lowers the increase in labor share that we used in FY 2004 relative to what it would have been had we not rebased the excluded hospital with capital market basket. As we previously stated, we are using a labor-related share of 72.526 percent for the FY 2004 IRF PPS payment rates set forth in this final rule.

5. Budget Neutral Wage Adjustment Update Methodology

As stated above, for FY 2004, we are updating the FY 2003 IRF wage indices by using FY 1999 acute care hospital wage data and updating the labor-related share by using the 1997 market basket data. Because any adjustment or updates to the IRF wage index made under section 1886(j)(6) of the Act must be made in a budget neutral manner as required by statute, we are amending the regulation at § 412.624(e)(1), as proposed, to reflect this requirement. We also determined a budget neutral wage adjustment factor based on an adjustment or update to the wage data to apply to the standard payment conversion factor.

In addition, as we proposed in the May 16, 2003 proposed rule, we 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 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 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 FY 2004 standardized payment amount.

Comment: A commenter noted that the update factor used to develop the FY 2003 IRF PPS payment rates should have been higher than 3 percent.

Response: In order to update the IRF PPS payment rates, section 1886(j)(3)(C) of the Act requires the Secretary to establish an increase factor that reflects changes over time in the prices of an appropriate mix of goods and services included in the covered IRF services, which is referred to as a market basket index.

Accordingly, in the November 2, 2000 proposed rule we described our proposed methodology for constructing an appropriate IRF market basket, the 1992-based excluded hospital with capital market basket. We invited comments on the proposed construction of this market basket and eventually adopted the proposed methodology in the August 7, 2001 final rule. At the time we proposed this methodology, we used the best data that were available. Further, in finalizing this method we also used the best data available at the time we developed the August 7, 2001 final rule.

In updating the FY 2003 IRF PPS payment rates, we issued a notice in the **Federal Register** using the methodology finalized in the August 7, 2001 final rule. Therefore, we used an appropriate update factor for the FY 2003 IRF PPS payment rates based on the best data available at the time the August 1, 2002 update notice was developed.

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

Once we calculate the IRF market basket increase factor and determine the budget neutral wage adjustment factor, this calculation enables us to determine the updated Federal prospective payments for FY 2004. In this final rule, we apply the IRF market basket increase factor of 3.2 percent to the standard payment conversion factor for FY 2003 (\$12,193) that equals \$12,583. Then, we apply the budget neutral wage adjustment of 0.9954 to \$12,583, which resulted in a final updated standard payment conversion factor for FY 2004 of \$12,525.

Consistent with the proposed rule, this final rule provides that the FY 2004 standard payment conversion factor is applied to each CMG weight shown in Table 1 to compute the unadjusted IRF prospective payment rates for FY 2004 shown in Table 2.

Table 2.—FY 2004 Federal Prospective Payments for Case-Mix Groups (CMGs) for FY 2004 displays the CMGs, the comorbidity tiers, and the corresponding unadjusted IRF prospective payment rates for FY 2004.

E. Examples of Computing the Total Adjusted IRF Prospective Payments

In general, under § 412.624(e), we adjust the Federal prospective payment amount associated with a CMG, shown