

G. Anticipated Effects of the Final Rule

We discuss below the impacts of this final rule on the Federal budget and on IRFs.

1. Budgetary Impact

Section 1886(j)(3)(C) of the Act requires annual updates to the IRF PPS payment rates. Section 1886(j)(6) of the Act requires the Secretary to adjust or update the labor-related share and the wage indices or the labor-related share and the wage indices applicable to IRFs not later than October 1, 2001 and at least every 36 months thereafter. We project that updating the IRF PPS for discharges occurring on or after October 1, 2003 and before October 1, 2004, will cost the Medicare program \$187.3 million. The updates to the IRF labor-related share and wage indices are made in a budget neutral manner. Thus, updating the IRF labor-related share and the wage indices to FY 2004 will have no overall effect on estimated costs to the Medicare program. Therefore, this estimated cost to the Medicare program is due to the application of the updated IRF market basket of 3.2 percent.

2. Impact on Providers

For the impact analyses shown in the August 7, 2001 IRF PPS final rule, we simulated payments for 1,024 facilities. To construct the impact analyses set forth in this final rule, we use the latest available data. For the most part, we used 1998 and 1999 Medicare claims and FIM data for the same facilities that were used in constructing the impact analyses provided in the August 7, 2001 IRF PPS final rule (66 FR 41364 through 41365, and 41372) which was effective for cost reporting periods beginning on or after January 1, 2002. We do not have enough post-IRF PPS data to develop

the distributional impact on providers. Further, we will need a sufficient amount of these data to be able to rely on them as the basis for the impact analysis. Because IRFs began to be paid under the IRF PPS based on their cost report start date that occurred on or after January 1, 2002, sufficient Medicare claims data will not be available for those facilities whose cost report start date occurs later in the calendar year. The estimated distributional impacts among the various classifications of IRFs for discharges occurring on or after October 1, 2003 and before October 1, 2004 is reflected in Chart 8.—Projected Impact of FY 2004 Update—of this final rule. These impacts reflect the updated IRF wage adjustment and the application of the 3.2 percent IRF market basket increase.

3. Calculation of the Estimated FY 2003 IRF Prospective Payments

To estimate payments under the IRF PPS for FY 2003, we multiplied each facility's case-mix index by the facility's number of Medicare discharges, the FY 2003 standardized payment amount, the applicable FY 2003 labor-related share and wage indices, a low-income patient adjustment, and a rural adjustment (if applicable). The adjustments include the following:

The wage adjustment, calculated as follows:

$$(.27605 + (.72395 \times \text{FY 2003 Wage Index})).$$

The disproportionate share adjustment, calculated as follows: $(1 + \text{Disproportionate Share Percentage})$ raised to the power of .4838).

The rural adjustment, if applicable, calculated by multiplying payments by 1.1914.

4. Calculation of the Proposed Estimated FY 2004 IRF Prospective Payments

To calculate FY 2004 payments, we use the payment rates described in this final rule that reflect the 3.2 percent market basket increase factor using the FY 2004 labor-related share and wage indices, a low-income patient adjustment, and a rural adjustment (if applicable). The adjustments include the following:

The wage adjustment, calculated as follows:

$$(.27474 + (.72526 \times \text{FY 2004 Wage Index})).$$

The disproportionate share adjustment, calculated as follows: $(1 + \text{Disproportionate Share Percentage})$ raised to the power of .4838).

The rural adjustment, if applicable, calculated by multiplying payments by 1.1914.

Chart 8.—Projected Impact of FY 2004 Update illustrates the aggregate impact of the estimated FY 2004 updated payments among the various classifications of facilities compared to the estimated IRF PPS payment rates applicable for FY 2003. The first column, Facility Classification, identifies the type of facility. The second column identifies the number of facilities for each classification type, and the third column lists the number of cases. The fourth column indicates the impact of the budget neutral wage adjustment. The last column reflects the combined changes including the update to the FY 2003 payment rates by 3.2 percent and the budget neutral wage adjustment (including the FY 2004 labor-related share and the FY 2004 wage indices).

CHART 8.—PROJECTED IMPACT OF FY 2004 UPDATE

Facility classification	Number of facilities	Number of cases	Budget neutral wage adjustment (in percent)	Total change (in percent)
Total				
Urban unit	1,024	347,809	0.0	3.2
Rural unit	725	206,926	−0.5	2.7
Urban hospital	131	26,507	0.2	3.4
Rural hospital	156	109,691	0.9	4.2
Total urban	12	4,685	−1.3	1.8
Total rural	881	316,617	0.0	3.2
	143	31,192	0.0	3.1
Urban by Region				
New England	32	15,039	0.1	3.3
Middle Atlantic	133	64,042	−1.5	1.6
South Atlantic	112	52,980	0.5	3.7
East North Central	171	55,071	−0.5	2.6
East South Central	41	23,434	0.9	4.1