

percent. A complete description of the multi-step process is delineated in the May 12, 1998 interim final rule (63 FR 26252). We note that in accordance with section 101(a) of the BBRA and section 314 of the BIPA, the existing, temporary increase in the per diem adjusted payment rates of 20 percent for certain specified RUGs (and 6.7 percent for certain others) remains in effect until the implementation of case-mix refinements. As we discuss elsewhere in this final rule, while we are proceeding with our ongoing research in this area,

we are not implementing case-mix refinements in this final rule.

We used the SNF market basket to adjust each per diem component of the Federal rates forward to reflect cost increases occurring between the midpoint of the Federal fiscal year beginning October 1, 2002, and ending September 30, 2003, and the midpoint of the Federal fiscal year beginning October 1, 2003, and ending September 30, 2004, to which the payment rates apply. In accordance with section 1888(e)(4)(E)(ii)(IV) of the Act, the

payment rates for FY 2004 are updated by a factor equal to the full market basket index percentage increase to determine the payment rates for FY 2004. In addition, the FY 2004 rates will be adjusted by an additional 3.26 percent to reflect the cumulative forecast error since the start of the SNF PPS on July 1, 1998. The rates are further adjusted by a wage index budget neutrality factor, described later in this section. Tables 1 and 2 reflect the updated components of the unadjusted Federal rates for FY 2004.

TABLE 1.—FY 2004 UNADJUSTED FEDERAL RATE PER DIEM URBAN

Rate component	Nursing— case-mix	Therapy— case-mix	Therapy— non-case- mix	Non-case- mix
Per Diem Amount	\$129.96	\$97.89	\$12.89	\$66.32

TABLE 2.—FY 2004 UNADJUSTED FEDERAL RATE PER DIEM RURAL

Rate component	Nursing— case-mix	Therapy— case-mix	Therapy— non-case- mix	Non-case- mix
Per Diem Amount	\$124.16	\$112.89	\$13.77	\$67.55

B. Case-Mix Adjustment

Under the BBA, we must publish the SNF PPS case-mix classification methodology applicable for the next Federal fiscal year before August 1 of each year. As noted in the following discussion, we are proceeding with our ongoing research regarding possible refinements in the existing case-mix classification system, but we are not implementing the refinements in this final rule.

As discussed previously in this final rule, section 101(a) of the BBRA provided for a temporary 20 percent increase in the per diem adjusted payment rates for 15 specified RUG—III groups. This legislation specified that the 20 percent increase would be effective for SNF services furnished on or after April 1, 2000, and would continue until the later of: (1) October 1, 2000, or (2) implementation of a refined case-mix classification system under section 1888(e)(4)(G)(i) of the Act that would better account for medically complex patients.

In the SNF PPS proposed rule for FY 2001 (65 FR 19190, April 10, 2000), we proposed making an extensive, comprehensive set of refinements to the existing case-mix classification system that collectively would have significantly expanded the existing 44-group structure. However, when our subsequent validation analyses indicated that the refinements would

afford only a limited degree of improvement in explaining resource utilization relative to the significant increase in complexity that they would entail, we decided not to implement them at that time (see the FY 2001 final rule published July 31, 2000 (65 FR 46773)). Nevertheless, since the BBRA provision had demonstrated a Congressional interest in improving the ability of the payment system to account for the care furnished to medically complex patients in SNFs, we continued to conduct research in this area.

The Congress subsequently enacted section 311(e) of the BIPA, which directed us to conduct a study of the different systems for categorizing patients in Medicare SNFs in a manner that accounts for the relative resource utilization of different patient types, and to issue a report with any appropriate recommendations to the Congress by January 1, 2005. The extended timeframe for conducting the study, and the broad mandate in the BIPA to consider various classification systems and the full range of patient types, stood in sharp contrast to the BBRA language regarding more incremental refinements to the existing case-mix classification system under section 1888(e)(4)(G)(i) of the Act. This underscored the fact that implementing the latter type of refinements to the existing system in order to better account for medically complex patients need not await the

completion of the more comprehensive changes envisioned in the BIPA. Accordingly, we considered the possibility of including these refinements as part of last year's annual update of the SNF payment rates.

However, in the July 31, 2002 update notice (67 FR 49801), we determined that the research was not sufficiently advanced to implement any case-mix refinements at that time, thus leaving the current classification system in place. This also left in place the temporary add-on payments enacted in section 101(a) of the BBRA. Further, while we have continued with our ongoing research regarding possible refinements in the existing case-mix classification system, this research has not yet provided the basis for proceeding with those refinements. Accordingly, we are not implementing case-mix refinements in this final rule.

As a result, the payment rates set forth in this final rule reflect the continued use of the 44-group RUG—III classification system discussed in the May 12, 1998 interim final rule (63 FR 26252). We are also maintaining the add-ons to the Federal rates for the specified RUG—III groups required by section 101(a) of the BBRA and subsequently modified by section 314 of the BIPA. The case-mix adjusted payment rates are listed separately for urban and rural SNFs in Tables 3 and 4, with the corresponding case-mix