

for partial hospitalization, in the April 7, 2000 final rule, we committed to analyzing future data from hospitals and CMHCs to determine whether refinements to the per diem were warranted. As a result, for payment rates presented in the proposed and final rules in 2002, we used data from both hospitals and CMHCs to compute the CY 2003 per diem rate. A description of the methodology we followed in developing the CY 2003 PHP payment rate is presented below.

We based the CY 2003 per diem amount on hospital and CMHC claims data for services furnished from April 1, 2001 through March 31, 2002. We used data from all the hospital bills reporting condition code 41, which identifies the claim as partial hospitalization, and all bills from CMHCs, since CMHCs are Medicare providers only for the purpose of providing partial hospitalization services. We used cost-to-charge ratios from the most recently available hospital and CMHC cost reports to convert each provider's line item charges as reported on bills, to estimate the provider's cost for a day of PHP. Unlike hospitals, CMHCs do not file cost reports electronically and the cost report information is not included in the Hospital Cost Report Information System (HCRIS). The CMHC cost reports are held by the Medicare fiscal intermediaries (FIs). As a result, we requested that the FIs forward to us the most recently available CMHC cost-to-charge ratios so that we could apply the ratio to the CMHC's billed charges and approximate the CMHC's per diem cost for PHP.

Per diem costs are computed by summing the line item costs on each bill and dividing by the number of days on the bill. Using this method of computing costs, preliminary per diem cost estimates for CMHCs were much higher than expected, in many cases more than twice the average per diem for *inpatient* psychiatric care. Closer examination of the CMHC cost report data summaries showed that costs from CMHC settled cost reports were considerably lower than costs from "as submitted" CMHC cost reports. To account for the difference between settled and as submitted cost report data, we computed the ratio of total settled costs to total as submitted costs over a 3-year period (CMHC FYs 1998 through 2000) and calculated an average adjustment factor (0.583), which we applied to the costs on each claim. As stated in the 2002 proposed and final OPPS rules, we thought that an adjustment factor of 0.583 was adequate to account for the difference between settled and "as submitted" CMHC cost reports and was

more reflective of CMHC costs for PHP. However, we did not have an opportunity to examine the data in depth before publishing the OPPS final rule on November 1, 2002.

The adjusted CMHC per diem costs on each claim were summed, then divided by the number of days on the claim. We then combined the CMHC and hospital PHP data files and determined the median per diem cost for PHP. Effective January 1, 2003, the PHP APC amount was \$240.03, of which \$48.17 is the beneficiary's coinsurance.

2. PHP APC Update for CY 2004

For CY 2004, we analyzed hospital and CMHC PHP claims for services furnished between April 1, 2002 and December 31, 2002. We intended to propose to use the same methodology for computing median costs per day for CY 2004, including the adjustment factor, as we used to compute the CY 2003 PHP median cost per day. However, when we applied the adjustment factor to the CMHC claims to compute the CY 2004 per diem, the CMHC median cost per day was determined to be \$605. Without the adjustment, the median cost per day for CMHCs to provide partial hospitalization services is \$1,038. The median cost per day for hospital outpatient departments to provide the same benefit is \$225. We do not believe it is reasonable for CMHCs to incur costs that are more than double those incurred by hospital outpatient departments providing PHP services. In addition, the median CMHC cost for a day of outpatient PHP services exceeds the average per diem cost for *inpatient* psychiatric facilities, which provide a full 24 hours of care, medications, and other ancillary services. We do not believe it is appropriate for Medicare to pay more for a day of outpatient treatment than for a day of inpatient psychiatric care.

In addition to the vast difference in median costs between CMHCs and hospital outpatient departments, we are concerned that this difference has grown significantly larger since last year. The median per diem cost for hospitals is about the same for 2003 and 2004 (\$224 for CY 2003 compared to \$225 for the proposed CY 2004 update), while the median per diem cost for CMHCs (after adjustment) has increased by 58 percent (\$384 for CY 2003 compared to \$605 for the proposed CY 2004 update). We believe that the increase in the median CMHC per diem cost is primarily due to large increases in CMHC charges, coupled with the application of outdated cost-to-charge ratios to determine the per diem cost. In

a Program Memorandum issued on January 17, 2003 (Transmittal A-03-004), we directed FIs to recalculate hospital and CMHC cost-to-charge ratios using the most recently settled or tentatively settled cost reports by April 30, 2003. However, we did not receive the updated CMHC cost-to-charge ratios in time to use in our data analysis for this proposed rule.

Therefore, we are proposing a per diem rate for PHP services furnished during CY 2004 based solely on hospital PHP data. The resulting PHP APC 0033 amount, after scaling, is \$208.95, of which \$41.69 is the beneficiary's coinsurance. We are not inclined to use the CMHC data in computing the per diem amount until the data discrepancies can be more fully resolved. We anticipate receipt of the revised CMHC cost-to-charge ratios this summer and will analyze the updated CMHC cost data. To the extent we believe the updated cost-to-charge ratios result in a more reasonable median per diem rate, we propose to use the CMHC data in developing the final rate for CY 2004.

3. Outlier Payments to CMHCs

In a related matter, the use of outdated cost-to-charge ratios applied to current charges has resulted in an excessive amount of outlier payments being made to CMHCs. As a result of more in-depth analysis of the 2001 data files that were used to compute the CY 2003 PHP per diem amount, we discovered a significant difference in the amount of outlier payments made to hospitals and CMHCs for PHP. Of the approximately 660 hospital programs with claims for PHP in CY 2001, 25 hospitals received approximately \$9,000 in outlier payments. By contrast, almost half of the 155 CMHCs in our CY 2001 data file were paid outlier payments, totaling approximately \$48 million.

Based on preliminary analysis of the 125 CMHCs with claims in the CY 2002 data files, that is, April 1, 2002 through December 31, 2002, we have determined that CMHCs received approximately \$37 million in outlier payments, compared to approximately \$13,000 for all hospitals in the PHP data file. The \$37 million in outlier payments to CMHCs almost equals the total amount paid to CMHCs in regular APC payments.

CMHCs have indicated that they are unable to reduce their costs to the per diem payment amount and that outlier payments are needed to cover operating expenses. This use of outlier payments is contrary to the intent of an outlier policy. Establishing an outlier policy allows us to ensure beneficiary access to services by sharing in the loss