

the following example of how we would calculate the outlier payment.

*Example:* John Smith was hospitalized at a non-teaching IPF facility in Richmond, Virginia for 14 days. His total allowable billed charges for the 14 days was \$20,000.

The prospective payment amount (per diem payments plus adjustments) was \$8,000.

To determine whether this case qualifies for outlier payments, it would be necessary to compute the cost of the case by multiplying the facility's overall cost-to-charge ratio of .72 by the

allowable charge of \$20,000. In this case, the total allowable costs for Mr. Smith's case is \$14,400 (\$20,000 × .72). Because the IPF is a non-teaching urban facility, the fixed dollar threshold is adjusted by the wage index 0.9477.

TABLE 4.—COMPUTATION EXAMPLE OF THE PROPOSED OUTLIER PAYMENT

| Steps to Calculate the Proposed Outlier Payment                 |         |         |
|---|---------|---------|
| Calculate the Fixed Dollar Loss Threshold:                      |         |         |
| Fixed Dollar Threshold .....                                    |         | \$4,200 |
| Wage adjusted labor share (.72828×\$4,200)*0.9477 .....         | \$2,899 |         |
| Non Labor Share (0.27172 × \$4,200) .....                       | 1,141   |         |
| Adjusted Fixed Dollar Threshold (\$2,899+\$1,141) .....         | 4,040   |         |
| Calculate Eligible Outlier Costs:                               |         |         |
| Hospital Costs .....  | 14,400  |         |
| Adjusted Fixed Dollar Threshold .....                           | 4,040   |         |
| Prospective Payment System Adjusted Payment .....               | 8,000   |         |
| Eligible for Outlier Costs (\$14,400 – \$4,040 – \$8,000) ..... | 2,360   |         |
| Calculate the Loss Sharing Ratio Amount:                        |         |         |
| Per Diem Outlier Costs (\$2,360/14 days) .....                  |         | 169     |
| Loss-sharing Ratio Days 1 through 8 (\$169×.80×8 days) .....    | 1,079   |         |
| Loss-sharing Ratio Days 9 through 14 (\$169×.60 ×6 days) .....  | 607     |         |
| The Total Outlier Payment Amount \$1,079+\$607) .....           | 1,686   |         |

#### e. Interrupted Stays

Since per diem payments under the proposed IPF prospective payment system would be higher for the first 8 days of a stay (the variable per diem adjustment discussed earlier in this section), we are proposing to adopt an interrupted stay policy. The policy is intended to reduce incentives to move patients among Medicare-covered sites of care in order to maximize Medicare payment. We are concerned that IPFs could maximize payment by prematurely discharging patients after the 8 days during which they receive higher payments (the variable per diem adjustments), and then readmitting the same patient. In some cases a discharge and subsequent readmission within a short period of time may be appropriate. For example, we are concerned, in particular, that when there is a psychiatric unit within an acute care hospital, a patient could be transferred from the unit after only a few days of care to another part of the hospital and then be readmitted to the psychiatric unit. In this scenario, the hospital could receive the per diem adjustments for both stays in the psychiatric unit as well as receive the DRG payment associated with the acute hospital stay.

In proposed § 412.402, we define an interrupted stay as one in which the patient is discharged from an IPF and returns to the same IPF within 5 consecutive calendar days. Specifically, we are proposing in § 412.424(d) that if a patient is discharged from an IPF and returns to the same IPF within 5

consecutive calendar days, we would treat both stays as a single stay. Therefore, we would not apply the variable per diem adjustment for the second admission and would combine the costs of both stays for the purpose of determining whether the case qualifies for outlier payments.

We considered defining an interrupted stay as a readmission within 8 days of discharge since the variable per diem adjustments are not applied after the 8th day of the stay. We are not proposing this definition for an interrupted stay because we believe that after an 8-day absence from the IPF, many of the services that account for increased costs early in an inpatient psychiatric stay would need to be repeated, for example, assessments and laboratory testing. After a shorter absence from the IPF of 1 through 4 days, however, many of those admission-related services such as psychiatric evaluations and the patient's medical history would not need to be repeated. Therefore, we believe the lower end of the last range of payment adjustment, that is, 5 days, would provide for appropriate per diem payment adjustment as well as provide a disincentive to inappropriately shift patients between Medicare-covered sites of care. In addition, we intend to monitor the extent and timing of readmissions to IPFs and plan to account for changes in practice patterns as we refine the proposed IPF prospective payment system. Public comments are welcome on the proposed definition of an interrupted stay.

For the purposes of counting the 5-calendar day time period to determine the length of the interrupted stay, the day of discharge would be counted as "day 1", with midnight of that day serving as the end of that calendar day. The 4 calendar days that immediately follow day 1 would be days 2 through 5.

#### C. Development of the Proposed Budget-Neutral Federal Per Diem Base Rate

##### 1. Data Used To Develop the Proposed Federal Per Diem Base Rate

Based on the regression analysis, we are proposing a prospective payment system for IPFs based on a per diem payment amount calculated from average costs adjusted for budget neutrality. The per diem amount would be adjusted by a budget-neutrality factor to arrive at the Federal per diem base rate used as the standard payment per day for the proposed IPF prospective payment system. The proposed Federal per diem base payment would be adjusted by the proposed wage index and the proposed patient-level and facility-level characteristics identified in the regression analysis. To calculate the proposed per diem amount, we would estimate the average cost per day for— (1) routine services from the most recent available cost report data (cost reports beginning in FY 1999 supplemented with 1998 cost reports if the 1999 cost report is missing); and (2) ancillary costs per day using data from the 1999 Medicare bills and corresponding data from facility cost reports.