

To calculate the wage-adjusted facility payments, we are proposing the following method: (1) Multiply the prospectively determined Federal base rate by the labor-related percentage to determine the labor-related portion; (2) multiply this labor-related portion by the applicable IPF wage index; and (3) add the resulting wage-adjusted labor-related portion to the nonlabor-related portion, resulting in a wage-adjusted base rate.

#### F. Effect of the Proposed Transition on Budget Neutrality

Section 124(a)(1) of Pub. L. 106–113 requires that the proposed IPF prospective payment system maintain budget neutrality. As discussed in further detail in section IV of this proposed rule, we are proposing a 3-

year transition period from the cost-based TEFRA reimbursement to payment based on 100-percent prospective payment. During the transition period, we are proposing that an IPF would be paid a blend of an increasing percentage of the IPF Federal per diem payment amount and a decreasing percentage of its TEFRA rate for each discharge. Since the estimated prospective payments were calculated in a budget-neutral manner, this proposed transition methodology would result in the same total estimated payments that are expected under the current rules.

#### G. Calculation of the Proposed Payment

Payments under the proposed IPF prospective payment system would be determined by adjusting the per diem

base amount by the appropriate wage index and applicable IPF prospective payment system payment adjustments and adding any applicable outlier amounts. An example of how to calculate payment under the proposed IPF prospective payment system follows.

*Example:* Jane Doe, a 78-year-old female, is admitted to a psychiatric unit within the Get Well General Hospital located in Richmond, Virginia. Ms. Doe presents with signs and symptoms indicating a primary diagnosis of Major Depressive Disorder (ICD–296.33, DRG–430). Her medical history includes Uncontrolled Type 1 Diabetes with Ophthalmic manifestations (ICD–250.53) and Chronic Renal Failure (ICD–585). Ms. Doe remains in the hospital for 5 days.

TABLE 7.—EXAMPLE OF PROPOSED PAYMENT

Steps To Determine the Proposed Per Diem Payment		
Federal Base Prospective Payment Rate:		
Calculate Wage Adjusted Federal Base Rate .....		\$530
Calculate the labor portion of the Federal base rate ( $.72828 \times \$530$ ) .....		386
Apply wage index factor from Addendum B1 for Richmond Virginia ( $0.9477 \times \$386$ ) .....	\$366	
Calculate the non-labor of the Federal base rate: ( $0.27172 \times \$530$ ) .....	\$144	
Calculate total wage-adjusted Federal base rate: ( $\$366 + \$144$ ) .....	\$510	
Apply Facility Level Adjusters:		
Teaching adjustment (not applicable) .....		
Rural adjustment (not applicable) .....		
Apply Patient Level Adjusters:		
DRG adjustment for DRG 430 .....	1.00	
Age adjustment (over 65) .....	1.13	
Comorbidity adjusters:		
Diabetes .....	1.11	
Chronic renal failure .....	1.12	
Total prospective payment adjustment factor: ( $1.00 \times 1.13 \times 1.11 \times 1.12$ ): .....	1.405	
Calculate Wage Adjustment and Prospective Payment System Adjusted Federal Per Diem: ( $\$510 \times 1.405$ ) .....		716
Apply Variable Per Diem Adjustments:		
Day 1: ( $1.26 \times \$716$ ) .....	\$902	
Days 2 to 4: ( $1.12 \times \$716 \times 3$ ) .....	\$2,406	
Day 5: ( $1.05 \times \$716$ ) .....	\$752	
The Total Proposed Prospective Payment System Payment for Jane Doe's IPF Stay .....	\$4,060	

#### IV. Implementation of the Proposed IPF Prospective Payment System

We are proposing that payment to an IPF would convert to the IPF prospective payment system at the beginning of its first cost reporting period beginning on or after April 1, 2004.

##### A. Proposed Transition

We are proposing a 3-year transition to fully implement the IPF prospective payment system. During that time, we propose to use two payment percentages to determine an IPF's total payment under the proposed IPF prospective payment system. In addition, during the proposed transition, IPFs would receive a blended payment of the Federal per diem payment amount and a hospital-

specific amount based on the IPF's TEFRA payment. As noted above, we are proposing that the system would become effective for cost reporting periods beginning on or after April 1, 2004.

As discussed in section V. of this proposed rule, we are proposing that the first year of the transition would continue for 15 months, thereby, moving the IPF prospective payment system to a July 1 update cycle. As a result, the first year of the transition period would be for cost reporting periods beginning on or after April 1, 2004 and before July 1, 2005. The total payment for this period would consist of 75 percent based on the TEFRA payment system and 25 percent based on the proposed IPF prospective payment amount. We are also proposing

that for cost reporting periods beginning on or after July 1, 2005 and before July 1, 2006, the total payment would consist of 50 percent based on the TEFRA payment system, and 50 percent based on the proposed IPF prospective payment amount. In addition, we are also proposing that for cost reporting periods beginning on or after July 1, 2006 and before July 1, 2007, the total payment would consist of 25 percent based on the TEFRA payment system and 75 percent based on the proposed IPF prospective payment amount. Thus, we are proposing that payments to IPFs would be at 100 percent of the proposed IPF prospective payment amount for cost reporting periods beginning on or after July 1, 2007. Given the complex and redistributive nature of the