

We propose to revise § 412.1 by redesignating paragraphs (b)(12) and (b)(13) as paragraphs (b)(13) and (b)(14).

We propose to add a new paragraph (b)(12) that would summarize the content of the new subpart N which sets forth the general methodology for paying operating and capital costs for inpatient psychiatric facilities effective with cost reporting periods beginning on or after April 1, 2004.

Section 412.20 Hospital Services Subject to the Prospective Payment Systems

We propose to amend § 412.20(a) by adding a reference to IPFs.

We propose to revise § 412.20 by redesignating paragraphs (b), (c), and (d), as paragraphs (c), (d), and (e).

We propose to add a new paragraph (b) that would indicate that effective for cost reporting periods beginning on or after April 1, 2004, covered hospital inpatient services furnished by a psychiatric facility as specified in § 412.404 of subpart N are paid under the prospective payment system.

Section 412.22 Excluded Hospitals and Hospital Units: General Rules

We propose to amend § 412.22(b) by revising paragraph (b) to state that except for those hospitals specified in paragraph (c) of this section, and § 412.20(b), (c), and (d), all excluded hospitals (and excluded hospital units, as described in § 412.23 through § 412.29) are reimbursed under the cost reimbursement rules set forth in part 413 of this chapter, and are subject to the ceiling on the rate of hospital cost increases as specified in § 413.40.

Section 412.23 Excluded Hospitals: Classifications

We propose to revise § 412.23 by redesignating paragraphs (a)(1) and (a)(2) as paragraphs (a)(2) and (a)(3).

We propose to add a new paragraph (a)(1) that would specify the requirements a psychiatric hospital must meet in order to be excluded from reimbursement under the prospective payment system as specified in § 412.1(a)(1) and to be paid under the IPF prospective payment system as specified in § 412.1(a)(2).

Section 412.25 Excluded Hospital Units: Common Requirements

We propose to amend § 412.25(a) by adding a reference to § 412.1(a)(2).

Section 412.27 Excluded Psychiatric Units: Additional Requirements

We propose to amend the introductory text of § 412.27 by adding the reference to § 412.1(a)(1) and (a)(2).

We propose to amend § 412.27(a) by removing the words the “Third Edition,” and adding in its place, “Fourth Edition, Text Revision.”

Section 412.116 Method of Payment

We propose to revise § 412.116 by redesignating paragraphs (a)(3) and (a)(4) as paragraphs (a)(4) and (a)(5).

We propose to add a new paragraph (a)(3) that would specify the cost reporting period to which the proposed IPF prospective payment system applies and how payments for inpatient psychiatric services are made to a qualified IPF.

Subpart N—Prospective Payment System for Hospital Inpatient Services of Psychiatric Facilities

We propose to add a new subpart N as follows:

Section 412.400 Basis and Scope of Subpart

We are proposing to add a new section § 412.400. In § 412.400(a), we would provide the requirements for the implementation of a prospective payment system for IPFs.

In proposed § 412.400(b), we would specify that this subpart sets forth the framework for the prospective payment system, including the methodology used for the development of payment rates and associated adjustments, the application of a transition period, and the related rules for IPFs for cost reporting periods beginning on or after April 1, 2004.

Section 412.402 Definitions

In § 412.402, we are proposing to define the following terms for purposes of this new subpart:

- *Comorbidity.*
- *Fixed dollar loss threshold.*
- *Inpatient psychiatric facilities.*
- *Interrupted stay.*
- *Outlier payment.*
- *Per diem payment amount.*
- *Principal diagnosis.*
- *Rural area.*
- *Urban area.*

Section 412.404 Conditions for Payment Under the Prospective Payment System for Hospital Inpatient Services of Psychiatric Facilities

In proposed § 412.404(a), we would specify that IPFs must meet the following general requirements to receive payment under the IPF prospective payment system:

- The IPF must meet the conditions as specified in this subpart.
- If the IPF fails to comply fully with the provisions of this part then the following are applicable—

++ Withhold (in full or in part) or reduce payment to the IPF until the facility provides adequate assurances of compliance; or

++ Classify the IPF as an hospital subject to the hospital inpatient prospective payment system.

In proposed paragraph (b), we would specify that, subject to the special payment provisions of § 412.22(c), an inpatient psychiatric facility must meet the general criteria set forth in § 412.22. For exclusion from the hospital inpatient prospective payment system as specified in § 412.1(a)(1), a psychiatric hospital must meet the criteria set forth in § 412.23(a) and psychiatric units must meet the criteria set forth in § 412.25 and § 412.27.

In proposed paragraph (c), we would specify the prohibited and permitted charges that may be imposed on Medicare beneficiaries.

In proposed paragraph (c)(1), we would specify that an IPF may not charge the beneficiary for any services which payment is made by Medicare, even if the IPF's costs are greater than the amount the facility is paid under the IPF prospective payment system.

In proposed paragraph (c)(2), we would specify that an IPF receiving payment for a covered stay may charge the Medicare beneficiary or other person for only the applicable deductible and coinsurance amounts under § 409.82, § 409.83, and § 409.87.

In proposed paragraph (d), we would specify the following provisions for furnishing IPF services directly or under arrangement:

- Applicable payments made under the IPF prospective payment system are considered payment in full for all hospital inpatient services (as defined in § 409.10) other than physicians' services to individual patients (as specified in § 415.102(a)) that are reimbursed on a fee schedule basis.

- Hospital inpatient services do not include physician, physician assistant, nurse practitioner, clinical nurse specialist, certified nurse midwives, qualified psychologist, and certified registered nurse anesthetist services.

- Payment is not made to a provider or supplier other than the IPF, except for services provided by a physician, physician assistant, nurse practitioner, clinical nurse specialist, certified nurse midwives, qualified psychologist, and certified registered nurse anesthetist.

- The IPF must furnish all necessary covered services to the Medicare beneficiary directly or under arrangement (as defined in § 409.3).

In proposed paragraph (e), we would specify that IPFs must meet the recordkeeping and cost reporting