

requirements of § 412.27(c), § 413.20, and § 413.24.

#### *Section 412.422 Basis of Payment*

In proposed § 412.422(a), we would specify that under the prospective payment system, IPFs would receive a predetermined per diem amount, adjusted for patient characteristics and facility characteristics, for inpatient services furnished to Medicare beneficiaries. In addition, we would specify that during the transition period, payment would be based on a blend of the Federal per diem payment amount and the facility-specific payment rate.

In proposed § 412.422(b), we would specify that payments made under the prospective payment system represent payment in full for inpatient operating and capital-related costs associated with services furnished in an IPF but not for the cost of an approved medical education program described in § 413.85 and § 413.86 and for bad debts of Medicare beneficiaries as specified in § 413.80.

#### *Section 412.424 Methodology for Calculating the Federal Per Diem Payment Rate*

In proposed § 412.424, we would specify the methodology for calculating the Federal per diem payment rate for IPFs.

In proposed paragraph (a), we would specify the data sources used to calculate the prospective payment rate.

In proposed paragraph (b), we would specify that the methodology used for determining the Federal per diem base rate would include the following:

- The updated average per diem amount.
- The budget-neutrality adjustment factor.

In proposed paragraph (c), we would specify that the Federal per diem payment amount for IPFs would be the product of the Federal per diem base rate, the facility-level adjustments, and the patient-level adjustments applicable to the case as described below:

- Facility-level adjustments include:
  - Adjustment for wages
  - Location in rural areas
  - Teaching status
- Patient-level adjustments include:
  - Age
  - Principal diagnosis
  - Comorbidities
  - Variable per diem adjustments
  - Adjustment for high-cost outlier cases

In proposed paragraph (d), we would specify the special payment provisions for interrupted stays.

#### *Section 412.426 Transition Period*

In proposed § 412.426(a), we would specify the duration of the transition period to the IPF prospective payment system. In addition, we would specify that IPFs would receive a payment that is a blend of the Federal per diem payment amount and the facility-specific payment amount the IPF would receive under the TEFRA payment methodology.

In proposed paragraph (b), we would specify how the facility-specific payment amount is calculated.

In proposed paragraph (c), we would specify that new IPFs, that is, facilities that under present or previous ownership, or both, have its first cost reporting period as an IPF beginning on or after April 1, 2004, are paid the full Federal per diem rate.

#### *Section 412.428 Publication of the Federal Per Diem Payment Rates*

In proposed § 412.428, we would specify how we plan to publish information each year in the **Federal Register** to update the IPF prospective payment system.

#### *Section 412.432 Method of Payment Under the Inpatient Psychiatric Facility Prospective Payment System*

In proposed § 412.432, we would specify the following method of payment used under the IPF prospective payment system:

- General rules for receiving payment.
- Periodic interim payments including—
  - Criteria for receiving periodic interim payments
  - Frequency of payments
  - Termination of periodic interim payments
- Interim payment for Medicare bad debts and for costs not paid under the prospective payment system and other costs paid outside the prospective payment system.
- Outlier payments.
- Accelerated payments including—
  - General rule for requesting accelerated payments
  - Approval of accelerated payments
  - Amount of the accelerated payment
  - Recovery of the accelerated payment

#### *Section 413.1 Introduction*

We propose to amend § 413.1(d)(2)(ii) by removing the words “psychiatric hospitals (as well as separate psychiatric units (distinct parts) of short-term general hospitals).”

We propose to revise § 413.1 by redesignating paragraphs (d)(2)(iv), (d)(2)(v), (d)(2)(vi), and (d)(2)(vii) as

paragraphs (d)(2)(vi), (d)(2)(vii), (d)(2)(viii), and (d)(2)(ix).

We propose to add a new paragraph (iv) that would specify that for cost reporting periods beginning before April 1, 2004, payment to psychiatric hospitals (as well as separate psychiatric units of short-term general hospitals) that are excluded under subpart B of part 412 of this chapter from the prospective payment system is on a reasonable cost basis, subject to the provisions of § 413.40.

We propose to add a new paragraph (v) that would specify that for cost reporting periods beginning on or after April 1, 2004, payment to psychiatric hospitals (as well as separate psychiatric units of short-term general hospitals) that meet the conditions of § 412.404 of this chapter is based on prospectively determined rates under subpart N of part 412.

#### *Section 413.40 Ceiling on the Rate of Increase in Hospital Costs*

Section 413.40(a)(2)(i) specifies the types of facilities to which the ceiling on the rate of increase in hospital inpatient costs is not applicable.

We propose to revise § 413.40(a)(2)(i) by redesignating paragraphs (a)(2)(i)(C) and (a)(2)(i)(D) as paragraphs (a)(2)(i)(D) and (a)(2)(i)(E).

We propose to add a new paragraph (C) to § 413.40 to clarify that § 413.40 is not applicable to psychiatric hospitals and psychiatric units under subpart N of part 412 of this chapter for cost reporting periods beginning on or after April 1, 2004.

We propose to revise paragraph (a)(2)(ii)(B) to specify the facilities to which the ceiling applies for cost reporting periods beginning on or after October 1, 1983 through March 31, 2004.

We propose to revise paragraph (a)(2)(iii) by redesignating paragraphs (a)(2)(iii) and (a)(2)(iv) as paragraphs (a)(2)(iv) and (a)(2)(v).

We propose to add a new paragraph (a)(2)(iii) that would specify psychiatric facilities are excluded from the prospective payment system as specified in § 412.1(a)(1) and paid under § 412.1(a)(2) for cost reporting periods beginning on or after April 1, 2004.

#### *Section 413.64 Payment to Providers: Special Rules*

We propose to amend § 413.64(h)(2)(i) by adding a reference to hospitals paid under the IPF prospective payment system.