Program Memorandum Intermediaries

Department of Health & Human Services (DHHS)
Centers for Medicare & Medicaid Services (CMS)

Transmittal A-03-056 **Date: JUNE 27, 2003**

CHANGE REQUEST 2807

SUBJECT: Payment Update for Long-term Care Hospital Prospective Payment System Rate Year 2004

This Program Memorandum (PM) outlines changes for the long-term care hospital prospective payment system (LTCH PPS) for the 2004 LTCH PPS hospital rate year, effective July 1, 2003. The changes are set forth in the final rule published in the June 6, 2003 Federal Register (68 FR 34121). There are five parts to this PM: a brief introductory section; a description of policy changes established in the final rule; a summary of the PRICER changes based on these policies; a section clarifying some existing policy areas, and a section on provider education. Changes to the short-stay and high cost outlier policies proposed in the March 7, 2003 proposed rule were finalized in the June 9, 2003 Outlier final rule (68 FR 34494) and will be discussed in a separate transmittal.

I. Introduction

LTCHs are certified under Medicare as acute-care hospitals which have been excluded from the hospital inpatient PPS under §1886(d)((1)(B)(iv) of the Social Security Act, and for the purpose of Medicare payment, are generally defined as having an average inpatient length of stay of greater than 25 days. The LTCH PPS, implemented on October 1, 2002, was mandated by the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act (BBRA) of 1999 and by the Medicare, Medicaid, and SCHIP Benefits Improvement and Beneficiary Protection (BIPA) Act of 2000. The LTCH PPS replaced the reasonable cost-based payment system under which LTCHs were paid.

Medicare payment policies for LTCHs under the PPS are set forth in the August 30, 2002 Federal Register (67FR 55954) and in the Code of Federal Regulations at 42 CFR 423.500 ff (Subpart O of Part 412). A Program Memorandum providing general information and specific instructions related to the implementation of the Medicare prospective payment system for LTCHs was issued on September 27, 2002, as Transmittal A-02-093.

II. Policy Changes

The following policy changes were set forth in the June 6, 2003 final rule:

- The annual update to the Federal payment rate under the LTCH PPS will be based on a "LTCH PPS rate year" of July l through June 30, beginning July l, 2003, rather than on the Federal fiscal year (FFY), October 1 through September 30. The annual determination of the fixed-loss amount for calculating high cost outlier payments will also be calculated each July 1.

- The transitioning of the effective date from the FFY to a LTCH rate year means that the standard Federal rate will be adjusted for the 2004 LTCH rate year (July 1, 2003 through June 30, 2004).

- ♦ The wage index adjustment has been recalculated based on FY 1999 acute care inpatient prospective payment system (IPPS) wage data. (This is the same data used to compute the FY 2003 IPPS wage index.)

- ♦ We are eliminating the bed-number restrictions set forth in 412.22(h)(2)(i) for pre-1997 LTCHs with established satellite facilities. This provision is effective at the beginning of the first cost reporting period that a LTCH elects to be paid under 100 percent of the Federal rate or when the LTCH is fully phased in, whichever occurs first.

- ♦ For a LTCH qualifying for LTCH PPS payments under §1886(d)(1)(B)(iv)(II) of the Act, we are temporarily adjusting payments under the short-stay outlier policy (June 6, 2003, **Federal Register** (68 FR 34147).

- ♦ The following features of the LTCH PPS <u>will not</u> be affected by the establishment of the LTCH rate year:

o The annual update of the LTC-DRGs and their relative weights and the GROUPER software will continue to be effective October 1 through September 30. (Information on the LTC-DRG updates would be published in the annual IPPS proposed and final rules.)

o The annual changing percentage blend of payments under the transition methodology based on what would have been paid under reasonable cost-based principles and the Federal LTCH PPS rate, set forth at §412.533, will remain linked to the start of each LTCH's cost reporting period during the remainder of the transition period.

o The 5-year phase-in of the adjustment for differences in area wage levels will remain linked to the start of each LTCH's cost reporting period.

III. Summary of LTCH PPS PRICER Changes for July 1, 2003

- ♦ Effective July 1, 2003, the annual rate and policy updates under the LTCH PPS (unless otherwise noted) will be effective for discharges occurring on or after July 1st through June 30th of each year (the **2004 LTCH PPS rate year** is <u>July 1, 2003 through June 30, 2004</u>).

- ♦ The **standard Federal rate,** effective for <u>discharges</u> occurring on or after <u>July 1, 2003 through June 30, 2004</u> is **$35,726.18**.

- ♦ The **fixed loss amount** for determining high cost outlier payments, effective for <u>discharges</u> occurring on or after <u>July 1, 2003 through June 30, 2004,</u> is **$19,590**.

- ♦ The **transition period blend percentages** will not change on July 1st; they will continue to follow the LTCH's <u>cost reporting period</u> (unless the LTCH elects payment based on 100% of the Federal rate). The standard **Federal rate payment** will be updated each July 1st. This means that for a provider paid under the transition blend, the <u>percentage</u> of Federal payments (20, 40, 60, or 80 percent) will have been established at the start of its cost reporting period and change at the beginning of the LTCH's next cost reporting period. However, the Federal payment amount will change with the start of the LTCH rate year, in July. <u>See the attachment for examples of the transition blend.</u>

- ♦ The percentage **phase-in of the wage index** will continue to follow a LTCH's <u>cost reporting period</u>. Therefore the wage index will change from 1/5th of the wage index to 2/5th for discharges occurring on or after the beginning of the LTCHs cost reporting period beginning on or after October 1, 2003. The applicable wage index (e.g., the wage index which is then adjusted by the applicable phase-in percentage) will be updated annually for <u>discharges</u> occurring on or after **July 1st**. <u>See the attachment for Wage Index examples.</u>

- The **labor-related share** of the standard Federal rate, effective for discharges occurring on or after July 1, 2003 through June 30, 2004, remains **72.885%.**

- The **budget neutrality adjustment** to all LTCH PPS payments (including the portion of the blend based on what would have been paid under TEFRA for blended hospitals and the portion based on the Federal rate) during the transition period effective for discharges occurring on or after July 1, 2003 through June 30, 2004 is **6.0%** (0.940).

- For a §1886(d)(1)(B)(iv)(II) hospital there is a special short-stay outlier policy effective for the remainder of the transition period (i.e., discharges occurring on or after July 1, 2003 through December 31, 2006), where the lesser of 120 percent of cost or120 percent of the per diem LTC-DRG in the existing short-stay outlier policy is replaced with the follow percentages:

  o Effective for discharges occurring on or after July 1, 2003 through the first year of transition **195%**;

  o Effective for discharges during the second year of the transition, **193%**;

  o Effective for discharges during the third year of the transition, **165%**;

  o Effective for discharges during the fourth year of the transition, **136%**; and

  o Effective for discharges for the last year and thereafter, the percentage will return to **120%**.

- In establishing interim payments (prior to final settlement) as described in 42 CFR 412.533(b), effective for discharges occurring on or after July 1, 2003, Pricer will adjust the Facility Specific Rate (Field Locator 21 in the provider specific file) used in determining interim payments under the transition blend methodology by multiplying the facility specific per discharge amount by the ratio of the length of stay of the case to the average length of stay of the LTC-DRG. There is no change to the way FIs currently determine the amount in FL 21

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IV. Clarifications of Existing Policies

1. LTCHs Co-located With Other Medicare Providers: Onsite Discharge and Readmission Policy.--All discharges from LTCHs immediately followed by an admission to an acute care hospital, a rehabilitation facility (IRF) or a skilled nursing facility (SNF), and then a readmission to the same LTCH are subject to the interrupted stay policy. Under this policy, unless the stay at the intervening provider exceeds 9 days for the acute care hospital, 27 days for the IRF, and 45 days for the SNF, if the patient is readmitted to the LTCH, the days prior to and subsequent to the interruption will count as only one complete episode of care at the LTCH. LTCHs that are co-located with other Medicare providers (acute care hospitals, IRFs, SNFs) are subject to the interrupted stay policy but in addition, if such discharges and readmissions exceed 5 percent of the LTCH's total discharges during a cost reporting period, all such readmissions during that cost reporting period will be paid as one discharge, regardless of the time spent at the intervening facility. (One 5 percent calculation is applied to discharges to and readmissions from onsite acute care hospitals and a separate 5 percent calculation will be made for the combined discharges to and readmissions to the LTCH from onsite IRFs, SNFs, and psychiatric facilities.) Prior to triggering either of the 5 percent thresholds, such cases will be evaluated and paid under the interrupted stay policy. (Presently, there is no interrupted stay policy for psychiatric facilities, so in the case of a LTCH patient who is directly readmitted from a psychiatric facility, there will be two LTC-DRG payments unless and until the number of such readmissions (counted along with readmissions from an onsite IRF or SNF) reach the 5 percent threshold).

2. Computation of the Greater Than 25-day Average Length of Stay (ALOS) Criteria.--In calculating the greater than 25-day ALOS criteria necessary to qualify as a LTCH, the calculation will be made by dividing the days of care provided to Medicare patients included for the cost reporting period in which those days of care are actually provided, by the Medicare discharges occurring during that period. For payment purposes, it is standard policy, under a discharge-based PPS such as the LTCH PPS, for patient days to be counted during the cost reporting period of the discharge, regardless of whether or not the LTCH is being paid under the transition blend or has elected 100 percent based on the Federal rate. For ALOS calculations, however, presently, patient days will only be counted during the cost reporting period that they occur.

V. Provider Education

Intermediaries must inform affected provider communities by posting relevant portions of this instruction on their Web sites within 2 weeks of receiving this instruction. In addition, this same information must be published in your next regularly scheduled bulletin. If you have a listserv that targets the affected provider communities, you must use it to notify subscribers that information about Payment Update for Long-term Care Hospital Prospective Payment System Rate Year 2004 is available on your Web site.

Attachment

The *effective date* of this PM is July 1, 2003.

The *implementation date* of this PM is July 1, 2003.

These instructions should be implemented within your current operating budget.

This PM may be discarded after June 30, 2004.

Contact person for this PM is Judy Richter at 410-786-2590.

Attachment

Federal Payment Under the Transition

FY 2003 (effective 10/1/2002)	20% of the 2003 Federal rate ($34,956.15)
RY 2004 (effective 7/1/2003)	20% of the 2004 Federal rate ($35,726.18)
RY 2004 (effective for CR periods beginning on or after 10/1/2003)	40% of the 2004 Federal rate ($35,726.18)

NOTE: On July 1, the Federal rate for all LTCHs changes and on October 1 the transition blend percentage changes for each provider with its cost reporting period beginning on or after October 1st. So, for example, a LTCH that became subject to the LTCH PPS on 1/1/03, and is being paid based on the blend, would be paid, as follows, for the percentage of its payments based on the Federal rate for a 2-year period beginning in October 1, 2002 (when the LTCH PPS was implemented) and ending on December 31, 2004.

10/1/2002 – 12/31/2002	Payments under the TEFRA system (Pre-LTCH PPS)
1/1/2003* – 6/30/2003	20% of the 10/1/2002 Federal rate
7/1/2003 – 12/31/2003	20% of the 7/1/2003 Federal rate
1/1/2004* – 6/30/2004	40% of the 7/1/2003 Federal rate
7/1/2004 --12/31/2004	40% of the 7/1/2004 Federal rate

* At the beginning of each cost reporting period on or after October 1st during the transition, the percentage of payments based on Federal rate increases by 20%.

Wage Index Examples:

For MSA 1600 (Chicago, Illinois):
Applicable WI Value

FY 2003 (effective 10/1/2002)	1.0202 (1/5th of 2003 WI)
RY 2004 (effective 7/1/2003)	1.0209 (1/5th of 2004 WI)
RY 2004 (effective for CR periods beginning on or after 10/1/2003)	1.0418 (2/5ths of 2004 WI)

- For **<u>all</u>** LTCHs in this MSA in PPS, for discharges occurring on or after **<u>October 1, 2002 through June 30, 2003</u>**, the applicable wage index will be **1.0202** (1/5th of the 2003 WI).

- For **<u>all</u>** LTCHs in PPS for discharges occurring on or after **<u>July 1, 2003 through September 30, 2003</u>**, the applicable wage index will be **1.0209** (1/5th of the 2004 WI).

- For LTCH PPS discharges occurring on or after October 1, 2003, the applicable wage index will either be 1.0209 (1/5th of the 2004 WI) or 1.0418 (2/5ths of the 2004 WI) depending on the provider's cost reporting period. For example, for a LTCH with a FY beginning in October, the 1.0418 will apply. However, a LTCH with a FY beginning in July will use the 1.0209 factor from July 2003 through June 2004.

- The applicable wage index will change from 1.0209 to 1.0418 effective for discharges occurring on or after the beginning of the LTCH's first cost reporting period beginning on or after October 1, 2003.

For example, in MSA 1600 (Chicago, Il), the applicable wage index would be as follows:

Cost Reporting Period Begin Date	**Discharge Date**	**<u>WI Value</u>**
October 1st	10/1/2002 – 6/30/2003	1.0202
	7/1/2003 – 9/30/2003	1.0209
	10/1/2003 – 6/30/2004	1.0418
January 1st	10/1/2002 – 12/31/2002	n/a*
	1/1/2003 – 6/30/2003	1.0202
	7/1/2003 – 12/31/2003	1.0209
	1/1/2004 – 6/30/2004	1.0418
April 1st	10/1/2002 – 3/31/2003	n/a*
	4/1/2003 – 6/30/2003	1.0202
	7/1/2003 – 3/31/2004	1.0209
	4/1/2004 – 6/30/2004	1.0418

July 1st	10/1/2002 – 6/30/2003	n/a*
	7/1/2003 – 6/30/2004	1.0209
September 1st	10/1/2002 – 8/31/2003	n/a*
	9/1/2003 – 6/30/2004	1.0209

* Not subject to the LTCH PPS until the 1st cost reporting period beginning on or after 10/1/2002.