

Program Memorandum Intermediaries

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

Transmittal A-01-102

Date: AUGUST 17, 2001

CHANGE REQUEST 1817

SUBJECT: Fiscal Year (FY) 2002 Prospective Payment System (PPS) Hospital, Skilled Nursing Facility (SNF) and Other Bill Processing Changes

This Program Memorandum (PM) outlines changes for inpatient PPS hospitals for FY 2002. The changes for FY 2002 were published in the **Federal Register** on August 1, 2001. All items covered in this PM are effective for hospital discharges occurring on or after October 1, 2001, unless otherwise noted. **Inform the affected hospitals of these changes.**

I. ICD-9-CM Changes

ICD-9-CM coding changes are effective October 1, 2001. The new ICD-9-CM codes are listed, along with their diagnosis-related group (DRG) classifications in Tables 6a and 6b in the final rule for PPS changes for FY 2002. The ICD-9-CM codes that have been replaced by expanded codes or other codes, or have been deleted are included in Tables 6c and 6d. The revised code titles are in Tables 6e and 6f of the same final rule.

GROUPER 19.0 assigns each case into a DRG on the basis of the diagnosis and procedure codes and demographic information (that is age, sex, and discharge status) and is effective with discharges occurring on or after October 1, 2001. Medicare Code Editor (MCE) 18.0 and Outpatient Code Editor (OCE) versions 17.0 and 2.10 use the new ICD-9-CM codes to validate coding for discharges and outpatient services effective October 1, 2001.

II. Furnished Software Changes

The following software programs were issued for FY 2002:

- o **PRICER 02.0** for discharges occurring on or after October 1, 2001. This processes bills with discharge dates on or after October 1, 1997.

The standardized amount update factor is 2.75 percent for all hospitals.

The hospital specific update factor is 2.75 percent for all hospitals.

The common fixed loss cost outlier threshold in FY 2002 is equal to the PPS rate for the DRG, Indirect Medical Education (IME), and Disproportionate Share Hospital (DSH) plus \$21,025. The marginal cost factor for cost outliers remains 80 percent.

The FY 2002 Federal capital rate is \$390.74, the Puerto Rico rate is \$187.73.

The FY 2002 outlier adjustment factors are 0.948928 for the operating standardized amount, and 0.942440 for the capital Federal rate. The FY 2002 outlier adjustment factors for Puerto Rico are 0.974762 for the operating standardized amount, and 0.970140 for the capital Federal rate.

Payments under the DSH provision are reduced by 3.0 percent in FY 2002.

The (IME) formula is 1.6*[(1+ resident-to-bed ratio).405-1] for FY 2002.

The revised hospital wage indexes and geographic adjustment factors are contained in Tables 4a (urban areas), 4b (rural areas) and 4c (redesignated hospitals) of section VI of the addendum to the PPS final rule.

- o **Grouper 19.0** for discharges occurring on or after October 1, 2001. PRICER calls the appropriate Grouper based on discharge date.

- o **MCE 18.0** for discharges occurring on or after October 1, 2001, and **OCE 17.0 and 2.10** for services furnished on or after October 1, 2001. These replace earlier versions and contain complete tables driven by date. MCE and OCE select the proper internal tables based on discharge date.

III. System Changes You Must Make

- o Update the provider (PROV) file for each hospital as needed, effective October 1, 2001, and effective with the cost reporting period that begins on or after October 1, 2001. At a minimum, update the following fields:

- Residents/beds ratio;
- Hospital beds;
- Operating cost-to-charge ratio;
- Fiscal year beginning date;
- Pass through amounts (for non-PPS and new hospitals);
- SSI ratio
- Medicaid ratio;
- Change code for wage index reclassification: Enter "N" if a hospital has not been reclassified for Federal FY 2002, or a "Y" if it has;
- If a hospital has been reclassified for FY 2002, update the wage index and standardized amount location Metropolitan Statistical Areas (MSAs);
- Old capital hold-harmless rate;
- New capital hold-harmless rate;
- Capital cost-to-charge ratio;
- New hospital indicator: Overlay the "Y" with a blank if a hospital is no longer in its first 2 years of operation;
- Capital indirect medical education ratio; and
- Capital exception payment rate (as applicable).

- o Tables 8a and 8b of section VI of the addendum to the PPS final rule contain the FY 2002 statewide average operating and capital cost-to-charge ratios, respectively, for urban and rural hospitals for calculation of cost outlier payments when you are unable to compute a reasonable hospital-specific cost-to-charge ratio.

- o Metropolitan Statistical Area (MSA) reclassifications--Enter standardized amount and wage index reclassifications issued by the Medicare Geographic Classification Review Board (MGCRB) effective October 1, 2001, into the Provider Specific File (PSF). The reclassification list can be found at www.hcfa.gov/stats/pufiles.htm. Actual geographic location MSA data is found in file positions 59-62. Use file positions 63-66 to record any wage index location MSA to which a hospital was reassigned. Record the standardized amount location MSA to which a hospital was reassigned in file positions 67-70. Enter a "Y" in file position 58 if there was a wage index reclassification for FY 2002, or an "N" if there was not a reclassification. Enter an "N" for providers with an entry in the "hold harmless" column. If a provider is reclassified for standardized amount to an MSA in a different census division, change the census division in the PROV file to match the new MSA.

IV. Other Changes

All sole community hospitals (SCHs). Create a new record with an effective date of October 1, 2001, and adjust the Case Mix Adjusted Per Discharge/Facility Specific Rate field (positions 81-87) on the PSF as indicated in PM A-00-66.

Effective October 1, 2001, enter the sum of 50 percent of the amount from STEP 1 plus, 50 percent of the amount from STEP 2 from PM A-00-66.

Reminder: For Hold Harmless Providers, change Pay Code A to Pay Code B on or after FY begin date October 1, 2001, unless they were a new provider during the transition period, i.e., after October 1, 1991 and before October 1, 2001. See §2807.7 of the Provider Reimbursement Manual for specifics regarding treatment of new hospitals during the transition period.

V. SNF PRICER

Annual updates to the PPS rates are required by §1888(e) of the Social Security Act, as amended by the Balanced Budget Refinement Act of 1999 (BBRA) and the Benefits Improvement and Protection Act of 2000 (BIPA), related to Medicare payments and consolidated billing for SNFs. A final rule was published on July 31, 2001 (66 FR 39562), containing the PPS rates for FY 2002. The SNF PRICER program must be installed prior to October 1, 2001, to ensure accurate payments for SNF services furnished on and after October 1, 2001.

The *effective date* for this PM is October 1, 2001.

The *implementation date* for this PM is October 1, 2001.

These instructions should be implemented within your current operating budget.

This PM may be discarded after September 30, 2002.

Contact person for this PM is Sarah Shirey on (410) 786-0187.