

## MEDICARE NEWS

### FOR IMMEDIATE RELEASE

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#### MEDICARE PROPOSES NEW PAYMENT SYSTEM FOR INPATIENT PSYCHIATRIC FACILITIES

The Centers for Medicare & Medicaid Services (CMS) today proposed a new Medicare prospective payment system (PPS) for inpatient psychiatric facilities to replace the existing cost-based payment system. The new system, which was required by the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999 (BBRA), is designed to assure appropriate payment for services to patients with severe mental illness, while providing incentives to facilities for more efficient care of Medicare beneficiaries.

The inpatient psychiatric PPS will affect about 2000 inpatient psychiatric facilities, including both freestanding psychiatric hospitals and certified psychiatric units in general acute care hospitals.

As required by the statute, CMS is proposing a per diem prospective payment system. The proposed base per diem amount will cover nearly all labor and non-labor costs of furnishing covered inpatient psychiatric services - including routine, ancillary and capital costs. The proposed per diem will not, however, include the costs of bad debts and certain other costs that are paid separately.

In addition, CMS is proposing to adjust Medicare payments for specific facility characteristics that increase the cost of patient care. CMS is proposing that payment rates for individual facilities be adjusted to reflect geographic differences in wages. CMS is also proposing that rural providers would receive an increased payment adjustment, as would teaching facilities, to account for their higher costs of providing patient care related to being a teaching hospital.

CMS is proposing that the base rate be adjusted by factors that influence the cost of individual patients' care, such as each patient's psychiatric condition (the "diagnosis related group" or "DRG"), certain other medical and psychiatric comorbidities (other coexisting conditions that may complicate treatment), and age. In addition, research has shown that the costs of inpatient psychiatric care tend to be greatest at admission and a few days thereafter, and decline as the patient stabilizes. Therefore, CMS is proposing to adjust the per diem rate for each day up to and including day 8 to reflect the number of days the patient has been in the facility (variable per diem adjustment).

Other principle features of the proposed rule include:

- \* A proposal to make additional payments for "outlier" cases involving beneficiaries with extraordinary care needs to ensure appropriate care for the most ill beneficiaries.
- \* A proposal to establish a policy for interrupted stays - that is stays in which a patient is discharged from an inpatient psychiatric facility, but returns to the facility within 5 consecutive days. The readmission would be combined with the previous admission, reflecting the lower intensity of administrative and diagnostic resources in the readmission.
- \* A proposal for a three-year transition period that will be a blend of decreasing cost-based payments and increasing PPS payments, with full PPS rates becoming effective in the fourth year.

The proposed rule will be published in the November 24, 2003 Federal Register. Comments will be accepted until January 23, and a final rule will be published later in 2004.