

In accordance with §412.525 and as discussed in section VII. of this final rule, the standard Federal rate is adjusted to account for differences in area wages by multiplying the labor-related share of the standard Federal rate by the appropriate LTCH PPS wage index. The standard Federal rate is also adjusted to account for the higher costs of hospitals in Alaska and Hawaii by multiplying the nonlabor-related share of the standard Federal rate by the appropriate adjustment factor shown in Table V in section VII.C.2. of this preamble. In the March 7, 2003 proposed rule (68 FR 11248), we proposed a standard Federal rate of \$35,726.64 for the proposed 2004 LTCH PPS rate year. In this final rule, based on the best available data and the finalized policies present in this final rule, we are establishing a standard Federal rate of **\$35,726.18** for the 2004 LTCH PPS rate year. We illustrate the methodology used to adjust the Federal prospective payments in the following example:

During the 2004 LTCH PPS rate year, a Medicare patient is in a LTCH located in Chicago, Illinois (MSA 1600) with a two-fifths wage index value of 1.0418 (see Table 1 in the Addendum to this final rule). The Medicare patient is classified into LTC-DRG 4 (Spinal Procedures), which has a relative weight of 1.2493 (see Table 3 of the Addendum to

this final rule). To calculate the LTCH's total adjusted Federal prospective payment for this Medicare patient, we compute the wage-adjusted Federal prospective payment amount by multiplying the unadjusted standard Federal rate (\$35,726.18) by the labor-related share (72.885 percent) and the wage index (1.0418). This wage-adjusted amount is then added to the nonlabor-related portion of the unadjusted standard Federal rate (27.115 percent) to determine the adjusted Federal rate, which is then multiplied by the LTC-DRG relative weight (1.2493) to calculate the total adjusted Federal prospective payment for the 2004 LTCH PPS rate year (\$45,992.49). In addition, as discussed in section VII.C.6. of this preamble, for the 2004 LTCH PPS rate year, we are reducing the LTCH PPS payment by 6.0 percent for the budget neutrality offset to account for the costs of the transition methodology. The following illustrates the components of the calculations in this example:

Unadjusted Standard Federal Prospective Payment Rate	\$35,726.18
Labor-Related Share	0.72885
Labor-Related Portion of the Federal Rate	= \$26,039.03
2/5 <sup>th</sup> Wage Index (MSA 1600)	1.0418
Wage-Adjusted Labor Share	= \$27,127.46
Nonlabor-Related Portion of the Federal Rate (adjusted for COLA if applicable)	+ \$ 9,687.15
Adjusted Federal Rate	= \$36,814.61
LTC-DRG 4 Relative Weight	x 1.2493

Total Adjusted Federal Prospective Payment (Before the Budget Neutrality Offset)	= \$45,992.49
Budget Neutrality Offset	X 0.940
Total Federal Prospective Payment (With the Budget Neutrality Offset)	= \$43,232.94