CMS Manual System

Pub 100-04 Medicare Claims Processing

Transmittal 680

Department of Health & Human Services (DHHS)

Center for Medicare & Medicaid Services (CMS)

Date: SEPTEMBER 16, 2005

Change Request 4037

SUBJECT: Inpatient Rehabilitation Facility (IRF) Annual Update: Prospective Payment System (PPS) Pricer Changes for FY 2006

I. SUMMARY OF CHANGES: This is an annual update of the IRF PPS Pricer which reflects the changes of the IRF PPS FY 2006 Final Rule.

NEW/REVISED MATERIAL
EFFECTIVE DATE: October 1, 2005
IMPLEMENTATION DATE: October 3, 2005

Disclaimer for manual changes only: The revision date and transmittal number apply only to red italicized material. Any other material was previously published and remains unchanged. However, if this revision contains a table of contents, you will receive the new/revised information only, and not the entire table of contents.

II. CHANGES IN MANUAL INSTRUCTIONS: (N/A if manual is not updated)
R = REVISED, N = NEW, D = DELETED – *Only One Per Row.*

R/N/D	Chapter / Section / SubSection / Title
N/A	

III. FUNDING:
No additional funding will be provided by CMS; Contractor activities are to be carried out within their FY 2005 operating budgets.

IV. ATTACHMENTS:

Recurring Update Notification

**Unless otherwise specified, the effective date is the date of service.*

Attachment – Recurring Update Notification

Pub. 100-04	Transmittal: 680	Date: September 16, 2005	Change Request 4037

SUBJECT: Inpatient Rehabilitation Facility (IRF) Annual Update: Prospective Payment System (PPS) Pricer Changes for FY 2006

I. GENERAL INFORMATION

A. Background: On August 7, 2001, we published in the **Federal Register,** a final rule that established the PPS for IRFs, as authorized under §1886(j) of the Social Security Act (the Act). In that final rule, we set forth per discharge Federal rates for Federal fiscal year (FY) 2002. These IRF PPS payment rates became effective for cost reporting periods beginning on or after January 1, 2002. Annual updates to the IRF PPS rates are required by §1886(j)(3)(C) of the Act.

This CR highlights several of the major refinements from the FY 2006 IRF PPS Final Rule which impact the IRF PRICER. This CR includes the changes to the Case Mix Groups (CMGs), the changes made within the comorbidity tier codes, the transition from the metropolitan statistical areas (MSAs) to core based statistical areas (CBSAs), the 3-year hold harmless policy, the update to the rural adjustment, the update to the low-income percentage (LIP) adjustment, the update to the outlier threshold, and the new teaching status adjustment.

B. Policy: The FY 2006 IRF PPS Final Rule (70 FR 47880) sets forth the prospective payment rates applicable for IRFs for FY 2006. A new IRF PRICER software package will be released prior to October 1, 2005 that will contain the updated rates that are effective for claims with discharges that fall within October 1, 2005 through September 30, 2006. The new revised Pricer program must be installed timely to ensure accurate payments for the IRF PPS claims with discharges on or after October 1, 2005 through September 30, 2006. Under the existing IRF PPS outlier methodology, the cost-to-ratio (CCR) from an IRF's latest settled cost report is used in determining whether a case qualifies for payment as an outlier and the amount of any such payment. The sub-headings below provide a brief synopsis of the changes and updates to the IRF PPS policies:

CMGs and Comorbidity Tiers

The IRF PPS pays for discharges occurring prior to October 1, 2005, using 95 CMGs and 5 special CMGs. The IRF PPS pays for discharges occurring on or after October 1, 2005, using 87 CMGs and 5 special CMGs. The list of comorbidities used to increase the CMG payment has also been changed as discussed in the final rule.

Transition Wage Index

For FY 2006, all IRFs will receive a one-year transition policy that consists of a blended wage index (50 percent of the FY 2006 MSA-based wage index and 50 percent of the FY 2006 CBSA-based wage index that are both based on the FY 2001 hospital wage data) . This transition policy is effective for discharges occurring on or after October 1, 2005, and on or before September 30, 2006. The transition will mitigate the negative impact for IRFs that experience a decrease in the wage index and allow one year for all IRFs to transition from the MSA-based wage index to the CBSA-based wage index.
To determine an IRF's actual geographic location, please refer to Table 1 in the final rule. For FY 2006, IRFs may have a special CBSA Code to capture the transition wage index appropriate for their State and county combination. Please refer to the IRF PPS Web site at http://www.cms.hhs.gov/providers/irfpps/irfdata.asp for State and county combinations with a special CBSA Code in the 50,000 series for some areas.

Hold Harmless

We will implement a 3 year budget neutral hold harmless policy for those IRFs that meet the definition in §412.602 as rural in FY 2005 and will become urban under the FY 2006 CBSA-based designations. We will afford existing IRFs designated in FY 2005 as rural IRFs (pursuant to §412.602) and redesignated as an urban facility in FY 2006 (pursuant to §412.602) in FY 2006, whose payment is lower because of such redesignation, a 3 year time span to adjust to the loss of the FY 2005 rural adjustment of 19.14. This adjustment will be in addition to the one-year blended wage index (comprised of FY 2006 MSA-based wage index and FY 2006 CBSA-based wage index both based on FY 2001 hospital data) for all IRFs.

The intent of the hold harmless policy is to mitigate the payment effect upon a rural facility that is redesignated as an urban facility (effective FY 2006). The hold harmless policy should not result in an IRF that comes under the hold harmless policy to realize greater payments than the IRF would have if instead the IRF would have been paid under its rural designation in FY 2006 including the FY 2005 rural adjustment of 19.14 percent. Therefore, we will make the appropriate payment modification to the additional adjustment made under our hold harmless policy so that an existing FY 2005 rural IRF that is redesignated from rural to urban in FY 2006 will in FY 2006 or FY 2007 not realize payments that are greater than what the payments would have been if the facility would have instead been paid under its rural designation in FY 2006 including the FY 2005 rural adjustment of 19.14 percent. In other words, if an existing FY 2005 IRF is redesignated from rural to urban in FY 2006, and it will realize an inappropriate increase in payments during the one year transition due to the hold harmless policy, it will not receive the full two-thirds of the 19.14 percent rural adjustment. However, if this same IRF realizes a decrease in payment in FY 2007 solely because of such redesignation in FY 2006, it will receive up to one-third of the 19.14 percent rural adjustment in such case.

We have identified 4 IRFs (listed at http://www.cms.hhs.gov/providers/irfpps/irfdata.asp) that would qualify for the hold harmless policy, but would experience higher payments with the application of the full 12.76 percent hold harmless adjustment than they would

have experienced had they been paid under their rural designation in FY 2006, including the FY 2005 rural adjustment of 19.14 percent. In other words, we are essentially capping a facility's payments under the hold harmless policy at this level. CMS will provide the FIs with the applicable special wage index values for these 4 IRFs (and for any other IRFs we may later discover would receive higher payments as a result of the hold harmless policy). These special wage index values should be used instead of the blended wage index values for determining FY 2006 IRF PPS payments for these IRFs.

Teaching Status Adjustment

We are implementing an adjustment for teaching facilities to compensate them for the higher costs they incur in providing care to beneficiaries. This adjustment is based on an analysis of IRF PPS data from FY 2003. The new teaching status adjustment for IRFs is similar to the one used in the inpatient psychiatric facility PPS with a resident cap. For FY 06, we will implement a teaching adjustment based on the ratio of residents and interns to the average daily census, raised to some power as discussed in the final rule.

An IRF's full time equivalent (FTE) resident cap would ultimately be determined based on the final settlement of the IRF's most recent cost reporting period ending on or before November 15, 2004. We believe this will allow facilities the opportunity to ensure the accuracy of the FTE resident count data before the final settlement of the cost report data. In case this does not occur, we will authorize the fiscal intermediaries to resolve any disputes that may occur regarding the data used to set an IRF's FTE resident cap and correct any inaccuracies.

With regard to the FTE resident count data or the average daily census data used to compute an IRF's teaching status adjustment, we specifically note that any teaching status adjustments for the IRF PPS facilities will be made on a claim basis as interim payments, but the final payments in full for the cost reporting periods will be made through the final settlement of the cost report.

Rural Adjustment, LIP Adjustment, and Outlier Threshold

The rural adjustment, LIP adjustment and outlier threshold will all be updated as set forth in the final rule.

Rates

FY 06 rates were published in the final rule including any subsequent correction notices. The Pricer release has the updated rates. Table 4 found at http://www.cms.hhs.gov/providers/irfpps/irfdata.asp is the rate table.

II. BUSINESS REQUIREMENTS

"Shall" denotes a mandatory requirement
"Should" denotes an optional requirement

Requirement Number	Requirements	Responsibility ("X" indicates the columns that apply)								
		FI	RHHI	Carrier	DMERC	Shared System Maintainers				Other
						FISS	MCS	VMS	CWF	
4037.1	FISS shall install and pay IRF claims with the IRF Pricer for discharges on or after October 1, 2005.	X				X				
4037.2	FISS shall accept a CBSA instead of an MSA.					X				
4037.3	FIs shall update the provider specific file in accordance with the current specifications per Pub. 100-4, Chapter 3, Section 20.2.3.1 as needed.	X								
4037.3.1	FIs shall enter a CBSA in data element 35, Actual Geographic Location CBSA, (file position 140-144) of the provider specific file for all IRFs. (CBSAs are located in Table 1 of the Addendum of the IRF Final Rule at http://www.cms.hhs.gov/providers/irfpps/irfdata.asp and refer to the IRF website for the additional "special" CBSAs in the 50000 series for some areas).	X								
4037.3.2	FIs shall enter a 'Y' in data element 18, Temporary Relief, (file position 74) of the PSF for all IRFs located in the state and county identified in Table 2 at http://www.cms.hhs.gov/providers/irfpps/irfdata.asp to ensure that these IRFs receive the correct rural adjustment of up to 12.76%. (Table 2 is located in the Addendum of the IRF Final Rule).	X								
4037.3.3	FIs shall enter a '1' in data element 33, Special Payment Indicator, (file position 138) **AND** a Special Wage Index in data element 38 (File Position 155-160) for the providers referenced in this CR at http://www.cms.hhs.gov/providers/irfpps/irfdata.asp that receive a special wage index as part of the hold harmless provision.	X								

III. PROVIDER EDUCATION

Requirement Number	Requirements	Responsibility ("X" indicates the columns that apply)								
		FI	RHHI	Carrier	DMERC	Shared System Maintainers				Other
						FISS	MCS	VMS	CWF	
4037.4	A provider education article related to this instruction will be available at www.cms.hhs.gov/medlearn/matters shortly after the CR is released. You will receive notification of the article release via the established "medlearn matters" listserv. Contractors shall post this article, or a direct link to this article, on their Web site and include information about it in a listserv message within 1 week of the availability of the provider education article. In addition, the provider education article shall be included in your next regularly scheduled bulletin and incorporated into any educational events on this topic. Contractors are free to supplement Medlearn Matters articles with localized information that would benefit their provider community in billing and administering the Medicare program correctly.	X								

IV. SUPPORTING INFORMATION AND POSSIBLE DESIGN CONSIDERATIONS

A. Other Instructions:

X-Ref Requirement #	Instructions
4037.5	The new IRF Pricer module contains new calculation logic for the hold harmless provision and the teaching adjustment in addition to the new rates, weights, and CMGs.

B. Design Considerations: N/A

X-Ref Requirement #	Recommendation for Medicare System Requirements

C. Interfaces: N/A

D. Contractor Financial Reporting /Workload Impact: N/A

E. Dependencies: N/A

F. Testing Considerations: N/A

V. SCHEDULE, CONTACTS, AND FUNDING

Effective Date*: October 1, 2005 **Implementation Date:** October 3, 2005 **Pre-Implementation Contact(s):** policy: August Nemec (410) 786-0612; claims processing: Sarah Shirey-Losso (410) 786-0187 **Post-Implementation Contact(s):** Appropriate Regional Office	**No additional funding will be provided by CMS; contractor activities are to be carried out within their FY 2005 operating budgets.**

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