



News Flash - The revised *Inpatient Psychiatric Facility Prospective Payment System Fact Sheet* (May 2008), which provides general information about the Inpatient Psychiatric Facility Prospective Payment System (IPF PPS), how payment rates are set, and the Rate Year 2009 update to the IPF PPS, is now available in downloadable format from the Centers for Medicare & Medicaid Services Medicare Learning Network at <http://www.cms.hhs.gov/MLNProducts/downloads/InpatientPsychFac.pdf> on the Centers for Medicare & Medicaid Services website.

MLN Matters Number: MM6132

Related Change Request (CR) #: 6132

Related CR Release Date: August 1, 2008

Effective Date: January 1, 2009

Related CR Transmittal #: R3620TN

Implementation Date: January 5, 2009

Requirement to Educate Providers Regarding Centers for Medicare & Medicaid Services (CMS) Use of Medicare Cost Report Data

Provider Types Affected

Providers required to submit cost reports to Medicare contractors (carriers, Fiscal Intermediaries (FIs), and Part A/B Medicare Administrative Contractors (A/B MACs)) for services provided to Medicare beneficiaries.

Provider Action Needed



STOP - Impact to You

This article is based on Change Request (CR) 6132 which requires Medicare contractors to educate Medicare providers regarding the specific way that the Centers for Medicare & Medicaid Services (CMS) uses Medicare Cost Report (MCR) data. Medicare providers are statutorily required to submit cost reports annually.

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This article was prepared as a service to the public and is not intended to grant rights or impose obligations. This article may contain references or links to statutes, regulations, or other policy materials. The information provided is only intended to be a general summary. It is not intended to take the place of either the written law or regulations. We encourage readers to review the specific statutes, regulations and other interpretive materials for a full and accurate statement of their contents.

**CAUTION – What You Need to Know**

MCR data play a central role in the development of the input price indexes (market baskets) used to update PPS payments. Similarly, they are essential in evaluating Medicare payment adequacy. It is crucial that Medicare providers fill out these reports with complete and valid data.

**GO – What You Need to Do**

See the Background and Additional Information Sections of this article for further details regarding these changes.

Background

Most Medicare providers are statutorily required to submit annual Medicare Cost Reports (MCRs). The rules governing the submission of MCRs are set forth in the Code of Federal Regulations (CFR) (42 CFR 413.20(b) and 413.24(f)), which require providers to submit cost reports annually, with the reporting period based on the provider's accounting year. Additionally, under 42 CFR 412.52, all hospitals participating in the Prospective Payment System (PPS) must meet cost reporting requirements set forth in 42 CFR 413.20 and 413.24. See http://www.access.gpo.gov/nara/cfr/waisidx_04/42cfr413_04.html on the Internet.

In reviewing the MCR data submitted by providers, CMS has found that many are failing to completely fill out their MCR with valid data likely due to the misconception that the data submitted on the MCR do not impact their payments.

To correct that misconception and to educate Medicare providers, CR 6132 is intended to provide information regarding how CMS uses the MCR data to update future PPS payments. It is crucial that Medicare providers know how CMS uses the MCR data and understand the importance of filling out these reports with complete and valid data.

The MCRs play a central role in CMS' development of the input price indexes (or market baskets) used to update PPS payments. Similarly, MCR data are essential in evaluating Medicare payment adequacy in aggregate and for subclasses of providers. Following are key uses of the MCR data:

- MCR data are used to develop the major cost weights that are used in the market baskets. Market baskets are used by CMS to annually update payments for the various providers paid via a PPS. They are designed to

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measure the input price inflation that providers face in the provision of the medical care services they deliver.

- MCR data are also used to determine the labor-related share of a given market basket, that is, the proportion of costs that are related to, influenced by, or vary with the local labor markets. The labor-related share is used in conjunction with the area wage index to determine the geographic adjustment to Medicare payments. This adjustment can vary widely, thus individual hospitals' payment levels can be very sensitive to the changes, and errors, in measuring the labor-related share. For more information on Medicare's Market Baskets, visit http://www.cms.hhs.gov/MedicareProgramRatesStats/04_MarketBasketData.asp on the CMS website.
- CMS, as well as the Medicare Payment Advisory Commission (MedPAC), rely heavily on complete, valid, and up-to-date MCR data to evaluate the adequacy of PPS payments, i.e., determining whether Medicare is paying its "fair share" to providers' in aggregate and in a variety of subclasses (urban/rural, hospital-based/freestanding, etc.). In addition, periodically, CMS is approached by Congress or other payment rate stakeholders and asked to evaluate revenues and costs for specific providers and compare and contrast those estimates to those of their peers in the immediate market area. Having complete and valid data is essential to address such inquiries.
- Policymakers and program administrators, as stewards of the public trust, require the ability to validly quantify whether Medicare is paying a fair amount for the health services it purchases for its beneficiaries. The information submitted on the MCRs represents the only nationally-available data on which these statutorily-required payment updates in aggregate and by subclass can be appropriately based.

To carry out the tasks described above, CMS typically uses cost data from Worksheets A, B, D, and G of the cost report, provider characteristics and salary data from the S worksheets, and payment data from Worksheet E and other cost report worksheets (the location of which varies by provider-type). Be sure to be thorough and accurate in completing these worksheets.

Additional Information

The official instruction, CR 6132, issued to your carrier, FI, or A/B MAC regarding this change may be viewed at <http://www.cms.hhs.gov/Transmittals/downloads/R362OTN.pdf> on the CMS website.

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If you have any questions, please contact your carrier, FI, or A/B MAC at their toll-free number, which may be found at <http://www.cms.hhs.gov/MLNProducts/downloads/CallCenterTollNumDirectory.zip> on the CMS website.

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