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# CMS Manual System

## Pub. 100-04 Medicare Claims Processing

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

Transmittal 362

Date: NOVEMBER 5, 2004

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CHANGE REQUEST 3556

**SUBJECT: Update to the Prospective Payment System (PPS) for Home Health Agencies for Calendar Year (CY) 2005**

**I. SUMMARY OF CHANGES:** This transmittal provides the annual update to the HH PPS rates for CY 2005. It also updates the wage index values and labor percentage to be used in HH PPS payment calculations. Finally, it modifies the fixed dollar loss ratio used in determining outlier payments.

**NEW/REVISED MATERIAL - EFFECTIVE DATE\*: January 1, 2005**  
**IMPLEMENTATION DATE: January 3, 2005**

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

R/N/D	CHAPTER/SECTION/SUBSECTION/TITLE
R	10/70.5/Annual Updates to the HH Pricer

**III. FUNDING: Medicare contractors shall implement these instructions within their current operating budgets.**

**IV. ATTACHMENTS:**

	<b>Business Requirements</b>
X	<b>Manual Instruction</b>
	<b>Confidential Requirements</b>
	<b>One-Time Notification</b>
X	<b>Recurring Update Notification</b>

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

# Attachment – Recurring Update Notification

Pub. 100-04	Transmittal: 362	Date: November 5, 2004	Change Request 3556
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**Note: This CR is subject to publication of a Final regulation and is subject to final rule making decisions.**

**SUBJECT: Update to the Prospective Payment System (PPS) for Home Health Agencies for Calendar Year (CY) 2005**

## I. GENERAL INFORMATION

**A. Background:** This Recurring Update Notification is to direct Regional Home Health Intermediaries (RHHIs) to implement the CY 2005 annual update for the home health prospective payment system (HH PPS). The home health PPS rates are the national 60-day episode and the national per-visit amounts by discipline used to calculate the low utilization payment adjustment and the outlier payment. For CY 2005, Medicare continues to apply the design and case mix methodology described in section III.G of the home health PPS July 3, 2000, final rule (65 FR 41192 through 41203). The labor adjustment to the PPS rates will continue to be based on the site of service of the beneficiary as set forth in the Code of Federal Regulations at 42 CFR 484.220 and 484.230. This labor adjustment is applied to both per-episode and per-visit payment calculations.

**B. Policy:** The home health PPS annual update Final Rule was published in the **Federal Register** on October 22, 2004.

Sections 421, 701(a) and 701(b) of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA), provide for changes to the Medicare home health prospective payment system.

Effective April 1, 2004, the MMA provided for a 5 percent payment increase for 1 year for services furnished in a rural area. It also required CMS to change the annual home health update from a fiscal year basis to a calendar year basis. Finally, the MMA provided for a payment update based on the home health market basket percentage increase minus 0.8 percent beginning with the last 3 calendar quarters of 2004 and continuing through 2006.

In addition to these MMA changes, the labor and non-labor percentages applied in wage-index adjustment are being revised effective January 1, 2005. The labor portion applied for this year will be .76775. The non-labor portion applied will be .23225. These percentages will be used in the wage adjustment of all of the payment calculations described above. Additionally, the fixed dollar loss (FDL) ratio, used in the determination of outlier payments, is being re-estimated based on the most recent available data. The fixed dollar loss ratio is now 0.70. The loss-sharing ratio of 0.80 remains unchanged.

These changes are described in detail in the final rule and implemented through the Home Health Pricer software found in the intermediary standard systems. An updated Metropolitan Statistical Area (MSA) table will be installed in the module, to reflect the 2005 pre-reclassified pre-floor hospital wage index.



3556.5	Medicare systems shall apply a labor percentage of .76775 and a non-labor percentage of .23225 in making wage adjustment calculations for episodes with claim statement "Through" dates on or after January 1, 2005.									HH Pricer
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**III. SUPPORTING INFORMATION AND POSSIBLE DESIGN CONSIDERATIONS**

**A. Other Instructions:**

X-Ref Requirement #	Instructions
3556.1	The table of HIPPS code weights in HH Pricer will not be updated.
3556.2 and 3556.3	Claim statement "Through" dates are reported in FL6 of the UB-92 claim form (or its electronic equivalent).
3556.3.1	MSA codes are reported on RAPs and claims associated with the value code 61.

**B. Design Considerations: N/A**

**C. Interfaces:**

X-Ref Requirement #	Recommendation for Medicare System Requirements
3556.1	The input and output records of the HH Pricer module will not be changed.

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

**E. Dependencies: N/A**

**F. Testing Considerations: N/A**

**IV. SCHEDULE, CONTACTS, AND FUNDING**

<p><b>Effective Date:</b> January 1, 2005</p> <p><b>Implementation Date:</b> January 3, 2005</p> <p><b>Pre-Implementation Contact(s):</b> Randy Thronset (410) 786-0131 for payment policy questions and/or Wil Gehne (410) 786-6148 for operational questions.</p> <p><b>Post-Implementation Contact(s):</b> Appropriate Regional Office</p>	<p><b>Medicare contractors shall implement these instructions within their current operating budgets.</b></p>
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## 70.5 - Annual Updates to the HH Pricer

*(Rev. 362 , Issued 11-05-04, Effective: 01-01-05, Implementation: 01-03-05)*

### HH-475.4.E

Rate and weight information used by the HH Pricer is updated periodically, usually annually. Updates occur each *January*, to reflect *the fact that HH PPS rates are effective for a calendar year. Updates may also occur* at other points in the year when required by legislation. *Prior to January 2005, updates occurred each October to reflect the Federal fiscal year.* The following update items, when changed, *are* published in the “**Federal Register:**”

- The Federal standard episode amount;
- The fixed loss amount to be used for outlier calculations;
- A table of case-mix weights to be used for each HRG;
- A table of national standardized per visit rates;
- The pre-floor, pre-reclassified hospital wage index; and
- Changes, if any, to the RAP payment percentages, the outlier loss-sharing percentage and the labor and nonlabor percentages.

*Whenever these update items change, Medicare also publishes a Recurring Update Notification to inform providers and contractors about the changes. These Recurring Update Notifications also describe how the changes will be implemented through the HH Pricer.*