

<b>CMS Manual System</b>	<b>Department of Health &amp; Human Services (DHHS)</b>
<b>Pub 100-04 Medicare Claims Processing</b>	<b>Centers for Medicare &amp; Medicaid Services (CMS)</b>
<b>Transmittal 1585</b>	<b>Date: September 5, 2008</b>
	<b>Change Request 6166</b>

**Subject: Inpatient Rehabilitation Facility (IRF) Annual Update: Prospective Payment System (PPS) Pricer Changes for FY 2009**

**I. SUMMARY OF CHANGES:** This CR provides updated rates used to correctly pay IRF PPS claims for FY 2009, and instructs FISS to install the FY 2009 IRF PPS Pricer. The attached Recurring Update Notification applies to Chapter 3, Section 140.2.6. The related Manual Section listed in Section II below is revised to refer users to Recurring Update Notifications for the most current information.

**New / Revised Material**

**Effective Date: October 1, 2008**

**Implementation Date: October 6, 2008**

*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
R	3/140.2.6/Outlier Payments: Cost-to-Charge Ratios

**III. FUNDING:**

**SECTION A:** For Fiscal Intermediaries and Carriers:

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

**SECTION B:** For Medicare Administrative Contractors (MACs):

The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.

**IV. ATTACHMENTS:**

**Recurring Update Notification  
Manual Instruction**

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

# Attachment – Recurring Update Notification

<b>Pub. 100-04</b>	<b>Transmittal: 1585</b>	<b>Date: September 5, 2008</b>	<b>Change Request: 6166</b>
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**SUBJECT: Inpatient Rehabilitation Facility (IRF) Annual Update: Prospective Payment System (PPS) Pricer Changes for FY 2009**

**Effective Date:** October 1, 2008

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## 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.

**B. Policy:** The FY 2009 IRF PPS Final Rule published on August 1, 2008, sets forth the prospective payment rates applicable for IRFs for FY 2009. A new IRF PRICER software package will be released prior to October 1, 2008 that will contain the updated rates that are effective for claims with discharges that fall within October 1, 2008 through September 30, 2009. The new revised Pricer program must be installed timely to ensure accurate payments for the IRF PPS claims with discharges occurring on or after October 1, 2008 through September 30, 2009.

**PRICER Updates:** For IRF PPS FY 2009, (October 1, 2008 – September 30, 2009)

- **The standard Federal rate is:** \$12,958
- **The fixed loss amount is:** \$10,250
- **The labor-related share is:** 75.464%
- **The non-labor related share is:** 24.536%
- **Urban national average CCR is:** 0.490
- **Rural national average CCR is:** 0.619

## II. BUSINESS REQUIREMENTS TABLE

Number	Requirement	Responsibility (place an "X" in each applicable column)									
		A / B M A C	D M M A C	F I	C A R I E R	R H H I	Shared-System Maintainers				Other
						F I S S	M C S	V M S	C W F		
6166.1	Contractors shall install and pay IRF claims with the IRF Pricer for discharges on or after October 1, 2008.	X		X			X				IRF PPS Pricer

### III. PROVIDER EDUCATION TABLE

Number	Requirement	Responsibility (place an "X" in each applicable column)									
		A / B  M A C	D M E  M A C	F I  M A C	C A R I E R	R H I  I S S	Shared-System Maintainers				Other
						F I S	M C S	V M S	C W F		
6166.2	A provider education article related to this instruction will be available at <a href="http://www.cms.hhs.gov/MLNMattersArticles/">http://www.cms.hhs.gov/MLNMattersArticles/</a> shortly after the CR is released. You will receive notification of the article release via the established "MLN 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 one week of the availability of the provider education article. In addition, the provider education article shall be included in your next regularly scheduled bulletin. Contractors are free to supplement MLN Matters articles with localized information that would benefit their provider community in billing and administering the Medicare program correctly.	X		X							

### IV. SUPPORTING INFORMATION

#### Section A: Recommendations and supporting information associated with listed requirements:

X-Ref Requirement Number	Recommendations or other supporting information:
N/A	

#### Section B: All other recommendations and supporting information: N/A

### V. CONTACTS

#### Pre-Implementation Contact(s):

Policy: Susanne Seagrave at [susanne.seagrave@cms.hhs.gov](mailto:susanne.seagrave@cms.hhs.gov) or 410-786-0044

Claims Processing: Joe Bryson at [joseph.bryson@cms.hhs.gov](mailto:joseph.bryson@cms.hhs.gov) or 410-786-2986

Post-Implementation Contact(s): Regional Office

### VI. FUNDING

#### Section A: For *Fiscal Intermediaries (FIs) and Carriers*:

No additional funding will be provided by CMS; contractor activities are to be carried out within their operating budgets.

**Section B: *For Medicare Administrative Contractors (MACs):***

The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.

# Medicare Claims Processing Manual

## Chapter 3 - Inpatient Hospital Billing

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### **140.2.6 - Outlier Payments: Cost-to-Charge Ratios**

*(Rev.1585, Issued: 09-05-08, Effective: 10-01-08, Implementation: 10-06-08)*

This section describes the appropriate data sources for computing an overall Medicare facility-specific cost-to-charge ratio (CCR) for the purpose of determining outlier payments under the IRF PPS. For discharges beginning on or after October 1, 2003, FIs will use a CCR from the most recent tentative settled cost report or the most recent settled cost report (whichever is the later period). FIs will use the cost report and the associated data in determining a facility's overall Medicare CCR specific to freestanding IRFs or for IRFs that are distinct part units of acute care hospitals.

The Medicare cost reporting forms contain information on both Medicare inpatient costs and charges. In addition, Medicare charges should be contained in the provider statistical and reimbursement (PS&R) report associated with a specific cost reporting period. If the overall Medicare CCR appears to be substantially out-of-line with similar facilities, the FI should ensure that the underlying costs and charges are properly reported.

Effective October 1, 2003, an IRF will be assigned the appropriate national average CCR that falls above three standard deviations from the national mean (upper threshold). CMS will not use a lower threshold and an IRF will receive their actual CCR, no matter how low their ratio falls.

For discharges occurring on or after October 1, 2003 and before October 1, 2004, the upper threshold is 1.461 and the national CCRs are 0.597 for rural IRFs and 0.554 for urban IRFs. For discharges occurring on or after October 1, 2004, and before October 1, 2005, the upper threshold is 1.461, and the national CCR are 0.636 for rural IRFs and 0.531 for urban IRFs. *For discharges occurring on or after October 1, 2005, refer to the appropriate FY Recurring Update Change Request.*

The IRF PPS covers operating and capital-related costs and excludes medical education and nurse anesthetist costs paid for on a reasonable cost basis. Therefore, total Medicare charges for IRFs will consist of the sum of the inpatient routine charges and the sum of inpatient ancillary charges (including capital). Total Medicare costs will consist of the sum of inpatient routine costs (net of private room differential and swingbed) plus the sum of ancillary costs plus capital-related pass-through costs only.

The provider specific file contains a field for the operating CCR (Field 25; file position 102-105) and for the capital CCR (Field 42; file position 203-206). Because the CCR computed for the IRF PPS includes routine, ancillary, and capital costs, the CCR for freestanding IRFs, units, and new providers described below will be entered on the

provider specific file only in field 25; file position 102-105. Field 42; file position 203-206 of the provider specific file must be zero-filled.

### **A Calculating Medicare CCRs for Freestanding IRFs**

For freestanding IRFs, Medicare charges will be obtained from Worksheet D-4, Column 2, lines 25 through 30 plus line 103 from the cost report (where possible, these charges should be confirmed with the PS&R data). For freestanding IRFs, total Medicare costs will be obtained from Worksheet D-1, Part II, line 49 minus (Worksheet D, Part III, col. 8, lines 25 through 30 plus Worksheet D, Part IV, col., line 101). Divide the Medicare costs by the Medicare charges to compute the CCR.

### **B - Calculating Medicare CCRs for IRF Distinct Part Units**

For IRF distinct part units, total Medicare inpatient routine and ancillary charges will be obtained from the PS&R report associated with the latest settled cost report. [If PS&R data is not available, estimate Medicare routine charges by dividing Medicare routine costs on Worksheet D-1, Part II, line 41, by the result of Worksheet C, Part I, line 31, column 3 divided by line 31, column 6. Add this amount to Medicare ancillary charges on Worksheet D-4, column 2, line 103 to arrive at total Medicare charges.] To calculate the total Medicare costs for distinct part units, data will be obtained from Worksheet D-1, Part II, line 49 minus (Worksheet D, Part III, col. 8, line 31 plus Worksheet D, Part IV, col. 7, line 101). Divide the total Medicare costs by the total Medicare charges to compute the cost-to-charge ratio.

### **C - Calculating Medicare CCRs for New IRFs**

As stated in the final rule, new facilities may receive outlier payments even though they will not have the historical cost report information needed to compute the estimated cost that determines if a case is an outlier. Therefore, a national CCR based on the facility location of either urban or rural will be used. Specifically, for FY 2005, CMS has estimated a national CCR of 0.636 for rural IRFs and 0.531 for urban IRFs. Unless otherwise notified, FIs use these national ratios until the facility's actual CCR can be computed using the first tentative settled or final settled cost report data which will then be used for the subsequent cost report period.

The CMS will continue to set forth the upper threshold (i.e., 3 standard deviations above the national geometric mean CCR) and the national CCRs applicable to IRFs in each year's annual notice of prospective payment rates published in the **Federal Register**.

### **D - Use of More Recent Data for Determining CCRs**

In order to arrive at a CCR to be used in the PSF based on tentative settlement data, the intermediary should review previous adjustments used (if any) in the tentative settlement and take into consideration the impact of prior audit adjustments on prior period CCR to determine if they had an impact on the CCR. If these tentative settlement adjustments

have no impact on the CCR, or if no adjustments were made, the tentative settled CCR will equal the CCR from the IRF's as-filed cost report. If the adjustments made at tentative settlement would have an impact on the CCR, the intermediary should compute a new CCR based on the tentative settlement.

**NOTE:** If the tentative settlement adjustments result in a difference in the CCR from the as filed cost report of 20 percent or less, then no adjustment to the CCR at tentative settlement is necessary.

Following the initial update of the CCR for all IRFs for discharges on or after October 1, 2003, FIs should continue to update an IRF's CCR each time a more recent cost report is tentatively settled. Revised CCRs must be entered into the PSF not later than 45 days after the date of the tentative settlement or final settlement used in calculating the CCRs. Subject to the approval of CMS, CCRs may be revised more often if a change in a hospital's operations occurs which materially affects a hospital's costs or charges. Revised CCRs will be applied prospectively to all IRF PPS claims processed after the update.

The CMS may direct FIs to use an alternative CCR to the CCR from the later of the latest settled cost report or latest tentative settled cost report, if CMS believes this will result in a more accurate CCR. In addition, if the FI finds evidence that indicates that using data from the latest settled or tentatively settled cost report would not result in the most accurate CCR, the FI should contact CMS to seek approval to use a CCR based on alternative data. Also, a facility will have the opportunity to request that a different CCR be applied in the event it believes the CCR being applied is inaccurate. The IRF is required to present substantial evidence supporting its request. Such evidence should include documentation regarding its costs and charges that demonstrate its claim that an alternative ratio is more accurate. The regional office must approve any such request after evaluation by the fiscal intermediary of the evidence presented by the IRF.

### **E - Reconciling Outlier Payments for IRFs**

For discharges occurring in cost reporting periods beginning on or after October 1, 2003, FIs are to reconcile IRF PPS outlier payments at the time of cost report final settlement if:

- 1) Actual CCR is found to be plus or minus 10 percentage points from the CCR used during that time period to make outlier payments, and
- 2) Outlier payments exceed \$500,000 in that cost reporting period.

The return codes from the PRICER software may be used to identify the cases for which outlier payments were made in a cost reporting period. These criteria for the IRF PPS will be reevaluated periodically to assess whether they should be revised.

In the event that these criteria do not identify facilities that are being overpaid (or

underpaid) significantly for outliers, then, based on an analysis of the facility's most recent cost and charge data that indicates that the CCR for those facilities are significantly inaccurate, FIs also have the administrative discretion to reconcile cost reports of those IRFs. However, FIs must seek approval from their regional office in the event they intend to reconcile outlier payments for an IRF that does not meet the above-specified criteria. The CMS will be issuing separate instructions detailing procedures to follow regarding this reconciliation process and the application of the adjustment for the time value of money.

#### **F - Notification to Facilities Under the IRF PPS**

The FIs are to notify a facility whenever they make a change to its CCR. When a CCR is changed as a result of a tentative settlement or a final settlement, the change to the CCR should be included in the notice that is issued to each provider after a tentative or final settlement is completed.