

Health Care Financing Trends

Medicare discharges by facility status under the prospective payment system, 1984-86

by James M. Hatten and David A. Gibson

When the Health Care Financing Administration implemented the Medicare prospective payment system (PPS), several types of hospitals and hospital units were excluded from the new reimbursement system, and they remained under the reasonable cost reimbursement system, subject to the target rate of increase limits.

The implementation of PPS has been accompanied by several changes in hospital classification and in utilization patterns. This article examines some of these changes based on excluded facility counts and discharges by facility status under the PPS for fiscal years 1984-86.

Introduction

On April 20, 1983, the President signed Public Law 98-21, the 1983 Amendments to the Social Security Act. Title VI of this law authorizes Medicare payment for inpatient hospital services under the prospective payment system (PPS), rather than on a reasonable cost basis.

The statute excludes several types of hospitals and hospital units from the prospective payment system, such as psychiatric, long-term, children's, rehabilitation, and alcohol and drug hospitals as well as psychiatric, rehabilitation, and alcohol and drug units operating as distinct parts of acute care hospitals. Hospitals located outside the 50 States and the District of Columbia are also excluded (short-stay hospitals in Puerto Rico will be included in the PPS on October 1, 1987). Excluded facilities continue to be reimbursed on the basis of reasonable costs subject to the target rate of increase limits set forth in the amended regulations (*Code of Federal Regulations*, 1983).

In addition to these categorical exclusions from prospective payment, the statute provides for other special exclusions, such as hospitals covered by approved State reimbursement control systems, i.e., hospitals located in waiver States and hospitals in certain demonstration projects. For fiscal years 1984 and 1985, hospitals in Maryland, Massachusetts, New Jersey, and New York were waived from PPS regulations. During fiscal year 1986, hospitals in Massachusetts phased into the PPS based on each

hospital's fiscal year ending date. Except for hospitals located in the Rochester and Finger Lakes demonstration projects, New York hospitals phased into the PPS on January 1, 1986.

The number of excluded facilities by category and fiscal year is shown in Table 1.

Table 1
Number of excluded facilities, by exclusion category and fiscal year: 1984-86

Exclusion category	Fiscal year		
	1984	1985	1986
Hospital			
Total	665	737	784
Psychiatric	439	481	515
Rehabilitation	49	68	79
Alcohol and drug	25	28	22
Long-term	84	86	92
Children's	47	53	55
Christian Science	21	21	21
Unit			
Total	1,250	1,445	1,731
Psychiatric	722	733	906
Rehabilitation	308	386	473
Alcohol and drug	220	326	352

Source: Health Care Financing Administration: Data from the Health Standards and Quality Bureau.

The implementation of the Medicare prospective payment system has been accompanied by several changes in hospital classification and in utilization patterns. First, as shown in Table 1, there has been a substantial increase in the number of hospitals and of units in acute care hospitals categorically excluded from the PPS. Second, there has been a dramatic reversal in the continuous increase in the total number of Medicare stays and the rate per 1,000 hospital insurance enrollees. Third, length of stay has dropped. Fourth, there has been a growing number of stays in PPS excluded units within short-stay hospitals and categorically exempt hospitals and increased utilization in outpatient hospitals and other alternative settings. This shift in care among inpatient hospital settings, based on bills received in central office, is examined.

Readers are cautioned in interpreting these and similar Medicare data because of the reclassification of hospitals and hospital units under the PPS. Prior to the PPS, classification of providers was based on average length of stay. It is now on the basis of reimbursement. Trend analyses are particularly influenced because some hospitals formerly classified as short-stay general or specialty hospitals are now classified as pediatric, rehabilitation, or alcohol and drug hospitals, with newly assigned provider numbers. Similarly, portions or units of short-stay hospitals have been and continue to be designated as excluded units, i.e., excluded from the PPS.

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Table 2
Number and percent distribution of Medicare discharges, by facility status under the prospective payment system:
Fiscal years 1984-86

Fiscal year	All hospitals and units	All short-stay hospitals and units	Short-stay hospitals and excluded units							Excluded hospitals					
			Short-stay hospitals			Excluded units				Total	Psychiatric	Rehabilitation	Child- ren's	Alcohol and drug	Long- term
			Total	Prospective payment system	Nonprospective payment system ¹	Total	Psychi- atric	Rehabil- itation	Alcohol and drug						
Number of discharges															
1984	11,279,000	11,162,700	11,096,000	5,143,700	5,952,300	66,700	42,900	21,400	2,400	116,300	68,800	8,000	1,100	400	38,000
1985 ²	10,053,500	9,941,600	9,800,500	8,275,800	1,524,700	141,100	86,500	44,700	9,900	111,900	66,000	19,600	1,700	1,200	23,400
1986 ²	9,721,300	9,599,600	9,426,200	8,785,000	641,200	173,400	107,200	53,600	12,600	121,700	75,000	27,900	1,800	1,400	15,600
Percent distribution															
1984	100.0	99.0	98.4	45.6	52.8	0.6	0.4	0.2	0.0	1.0	0.6	0.1	0.0	0.0	0.3
1985 ²	100.0	98.9	97.5	82.3	15.2	1.4	0.9	0.4	0.1	1.1	0.7	0.2	0.0	0.0	0.2
1986 ²	100.0	98.7	97.0	90.4	6.6	1.8	1.1	0.6	0.1	1.3	0.8	0.3	0.0	0.0	0.2

¹ Includes short-stay hospitals in waiver States, in outlying areas, and in demonstration areas, and the prospective payment system experience for short-stay hospitals that had not transitioned into the prospective payment system.

² Incomplete.

NOTE: Total hospital admission notices received to date are as follows:

Fiscal year	Number in thousands
1984	11,765
1985	11,175
1986	10,706

SOURCE: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System.

Readers are also advised to consider file completeness in forming conclusions from discharge data, especially for 1985 and 1986.

The number of short-stay hospital admissions notices received, which gives an indication of the number of discharge bills expected, are shown in the note at the bottom of Table 2.

Some highlights worthy of note are as follows:

- PPS reimbursement is now made for 9 out of 10 Medicare stays (Figure 1).
- From 1984 to 1986, the proportion of stays in the combination of categorically exempt hospitals and excluded units has almost doubled, from 1.6 to 3.0 percent.
- The proportion of stays in excluded units has tripled.

- Psychiatric stays account for most of the discharges in excluded units and exempt hospitals (Figures 2 and 3).

References

Code of Federal Regulations: Public Health. Title 42, Part 405, Subpart D, Section 405.463. Office of the Federal Register, National Archives and Records Administration. Washington. U.S. Government Printing Office, September 1, 1983.

Figure 1
Percent distribution of Medicare discharges, by facility status under the prospective payment system:
Fiscal years 1984 - 86

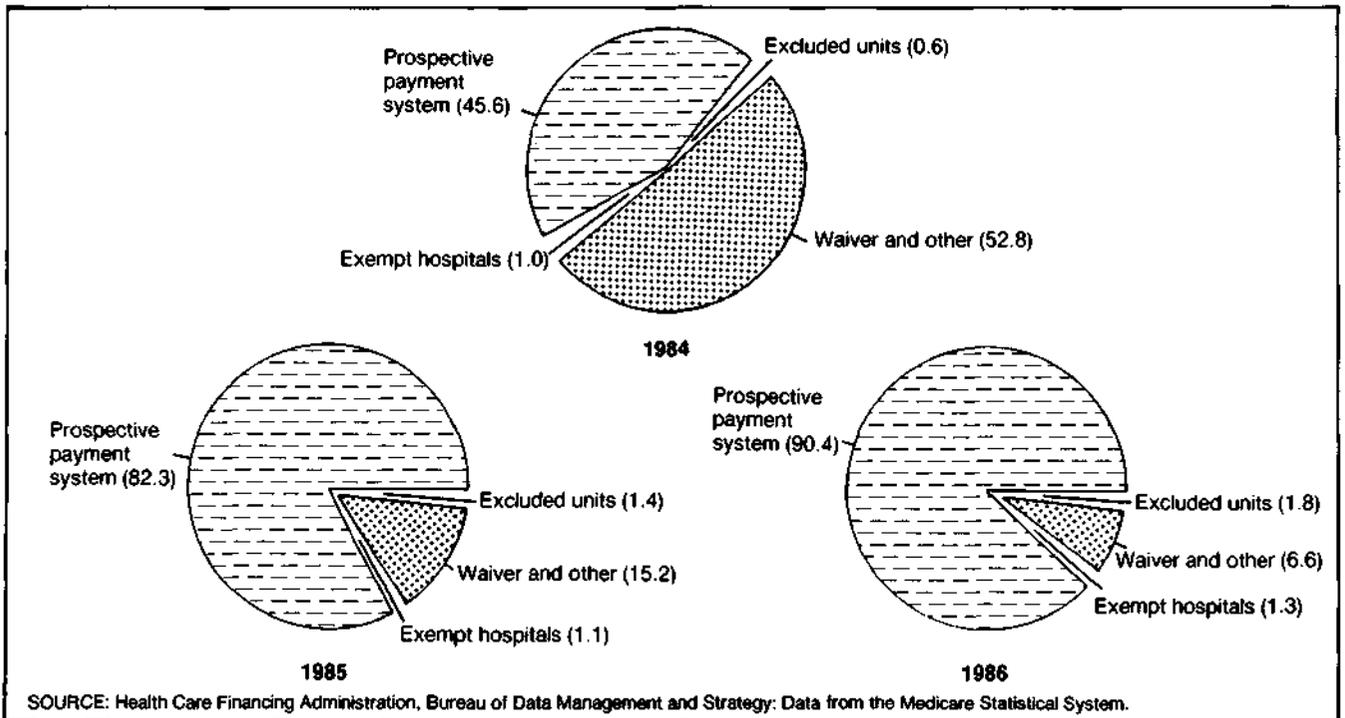


Figure 2

Percent distribution of Medicare discharges from inpatient hospitals, by facility status under the prospective payment system and from exempt hospitals, by exclusion category: Fiscal year 1985

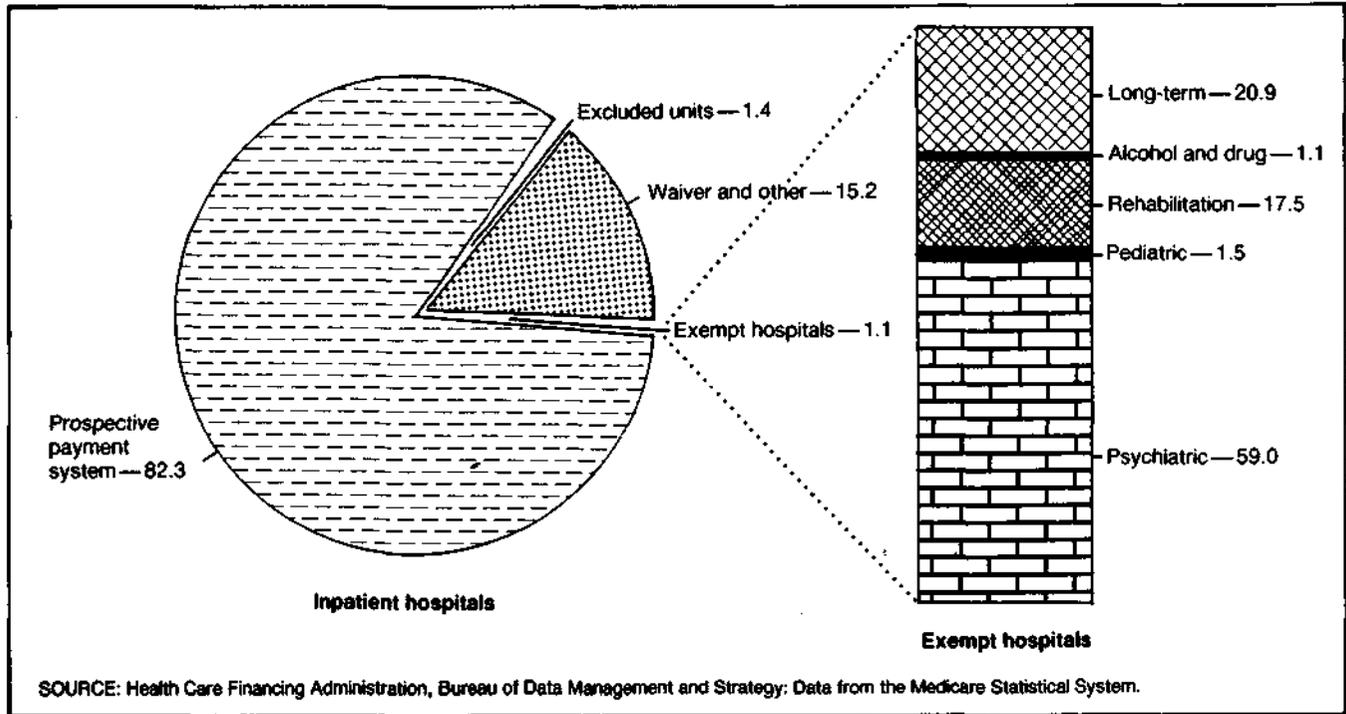


Figure 3

Percent distribution of Medicare discharges from inpatient hospitals, by facility status under the prospective payment system and from excluded units, by exclusion category: Fiscal year 1985

