

Medicare Inpatient Psychiatric Facility Prospective Payment System

Final Payment Rule Brief provided by the Wisconsin Hospital Association

Program Year: FFY 2023

Overview and Resources

On July 27, 2022, the Centers for Medicare and Medicaid Services (CMS) released the federal fiscal year (FFY) 2023 final payment rule for the Inpatient Psychiatric Facility (IPF) Prospective Payment System (PPS). The final rule reflects the annual update to the Medicare fee-for-service (FFS) IPF payment rates and policies.

A copy of the final rule and other resources related to the IPF PPS are available on the CMS website at <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientPsychFacilPPS>.

An online version of the final rule is available at <https://www.cms.gov/medicare/medicare-fee-service-payment/inpatientpsychfacilppsipf-pps-regulations-and-notice/cms-1769-f>.

A brief of the final rule along with page references for additional details is provided below. Program changes adopted by CMS would be effective for discharges on or after October 1, 2022, unless otherwise noted. CMS estimates the overall economic impact of this final payment rate update to be an increase of \$90 million in aggregate payments to IPFs in FFY 2023 over FFY 2022.

Note: Text in italics is extracted from the July 27, 2022 *Federal Register* copy of the final rule.

IPF Payment Rates

Federal Register pages 46848 – 46852, and 46859

The table below lists the final IPF federal per diem base rate and the final electroconvulsive therapy (ECT) base rate for FFY 2023 compared to the rates currently in effect:

	Final FFY 2022	Final FFY 2023	Percent Change
IPF Per Diem Base Rate	\$832.94	\$865.63 (proposed at \$856.80)	+3.92% (proposed at +2.86%)
ECT Base Rate	\$358.60	\$372.67 (proposed at \$368.87)	

The following table provides details of the final updates to the IPF payment rates for FFY 2023:

	FFY 2023 IPF Rate Update
Marketbasket (MB) Update	+4.1% (proposed at +3.1%)
ACA-Mandated Productivity MB Adjustment	-0.3 percentage points (PPT) (proposed at -0.4 PPT)
Wage Index Budget Neutrality Adjustment	1.0013 (proposed at 1.0017)
5% Cap Budget Neutrality Adjustment	0.9999 (as proposed)
Overall Rate Change	+3.92 (proposed at +2.86%)

Wage Index, COLA, Labor-Related Share, and Revised CBSA Delineations

Federal Register pages 46850 – 46851, 46854 – 46859, and 46860 – 46861

The labor-related portions of the IPF per diem base rate and the ECT base rate are adjusted for differences in area wage levels using a wage index. CMS will continue to use the current year pre-floor, pre-reclassification inpatient prospective payment system (IPPS) wage index for FFY 2023 to adjust payment rates for labor market differences.

CMS estimates the labor-related portion of the IPF standard rate and also adjusts for differences in area wage levels, using a wage index. CMS will increase the labor-related share of the IPF per diem base rate and the ECT base rate from 77.2% in FFY 2022 to 77.4% (as proposed) for FFY 2023.

A complete list of the final IPF wage indexes for payment in FFY 2023 is available on the CMS website: <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientPsychFacilPPS/WageIndex.html>.

CMS is finalizing a budget neutrality factor of 1.0013 for FFY 2023 to ensure that aggregate payments made under the IPF PPS are not greater or less than would otherwise be made if wage adjustments had not changed. CMS is also adopting a factor of 0.9999 for budget neutrality associated with the 5% wage index cap, described below.

In the past, CMS has implemented wage index transition policies with limited duration in order to phase in significant changes to labor market areas with the intent to mitigate short-term negative impact to affected providers. Additionally, CMS recognizes that there are also year-to-year fluctuations in wage indexes that can occur due to external factors beyond a provider's control. In order to reduce large swings in year-to-year wage index changes and increase the predictability of IPF payments, CMS will apply a 5% cap on any decrease of the FFY 2023 IPF wage index, and all future IPF wage indexes, compared with the previous year's wage index. The cap will be applied regardless of the reason for the decrease and implemented in a budget neutral manner. This also means that if an IPF's prior FFY wage index is calculated with the application of the 5% cap, the following year's wage index would not be less than 95% of the IPF's capped wage index in the prior FFY. Lastly, a new IPF will be paid the wage index for the area in which it is geographically located for its first full or partial FFY with no cap applied, because a new IPF would not have a wage index in the prior FFY.

For IPFs in Alaska and Hawaii, the IPF PPS provides a cost-of-living adjustment (COLA). The COLA is applied by multiplying the non-labor-related portions of the per diem base rate and the ECT base rate by the applicable COLA factor. Under the IPPS COLA policy, the COLA updates are determined every four years, when the IPPS market basket is rebased. CMS will continue to use the existing IPF PPS COLA factors for FFY 2023 which are shown in Addendum A, as well as in Table 2 on page 46861 of the *Federal Register* of the final rule.

Adjustments to the IPF Payment Rates

Federal Register pages 46852 – 46861

For FFY 2023, CMS will retain the facility and patient-level adjustments currently used for FFY 2021 IPF PPS. The adjustments are described below in detail.

- **Emergency Department (ED) Adjustment** (*Federal Register page 46861*): For FFY 2023, IPFs with a qualifying ED will continue to receive an adjustment factor of 1.31 as the variable per diem adjustment for day 1 of each stay. This adjustment is intended to account for the costs associated with maintaining a full-service ED. The ED adjustment applies to all IPF admissions, regardless of whether a patient receives preadmission services in the hospital's ED. The 1.31 ED adjustment is not made when a patient is discharged from an acute care hospital or Critical Access Hospital (CAH) and admitted to the same hospital or CAH's psychiatric unit, and in such cases, the IPF receives an ED adjustment factor of 1.19.
- **Teaching Adjustment** (*Federal Register pages 46859 – 46860*): IPFs with teaching programs will continue to receive an adjustment to the per diem rate to account for the higher indirect operating costs experienced by hospitals that participate in graduate medical education (GME) programs. CMS will maintain the teaching adjustment coefficient value at 0.5150 for FFY 2023. The teaching adjustment is based on the number of full-time equivalent (FTE) interns and residents training in the IPF and the IPF's average daily census (ADC).

CMS is also finalizing the proposal to maintain the formula to calculate the teaching adjustment and to continue to allow temporary adjustments to FTE caps to reflect residents added due to closure of an IPF or closure of an IPF's medical residency training program.

- **Rural Adjustment** (*Federal Register page 46859*): IPFs located in rural areas receive an adjustment to the per diem rate of 1.17. This adjustment is provided because an analysis by CMS determined that the per diem cost of rural IPFs was 17% higher than that of urban IPFs. CMS will continue this adjustment in FFY 2023.
- **Patient Condition (MS-DRG) Adjustment** (*Federal Register pages 46852 – 46853*): For FFY 2023, CMS will continue to utilize the Medicare-Severity Diagnosis Related Group (MS-DRG) system used under the IPPS to classify Medicare patients treated in IPFs.

As has been the case in prior years, principal diagnoses codes (ICD-10-CMs) that group to one of 17 MS-DRGs recognized under the IPF PPS will receive a DRG adjustment. Principal diagnoses that do not group to one of the designated MS-DRGs recognized under the IPF PPS would still receive the federal per diem base rate and all other applicable adjustments, but the payment will not include a DRG adjustment. The following table lists the 17 MS-DRGs that are eligible for a MS-DRG adjustment under the IPF PPS for FFY 2023. These are the same as the adjustment levels currently in place.

MS-DRG	Description	Adjustment Factor
056	Degenerative nervous system disorders w MCC	1.05
057	Degenerative nervous system disorders w/o MCC	1.05
080	Non-traumatic stupor & coma w MCC	1.07
081	Non-traumatic stupor & coma w/o MCC	1.07
876	O.R. procedure w principal diagnoses of mental illness	1.22
880	Acute adjustment reaction & psychosocial dysfunction	1.05
881	Depressive neuroses	0.99
882	Neuroses except depressive	1.02
883	Disorders of personality & impulse control	1.02
884	Organic disturbances & mental retardation	1.03
885	Psychoses	1.00
886	Behavioral & developmental disorders	0.99
887	Other mental disorder diagnoses	0.92
894	Alcohol/drug abuse or dependence, left AMA	0.97
895	Alcohol/drug abuse or dependence w rehabilitation therapy	1.02
896	Alcohol/drug abuse or dependence w/o rehabilitation therapy w MCC	0.88
897	Alcohol/drug abuse or dependence w/o rehabilitation therapy w/o MCC	0.88

- **Patient Comorbid Condition Adjustment** (*Federal Register pages 46853 – 46854*): For FFY 2023, CMS will continue to recognize 17 comorbidity categories for which an adjustment to the per diem rate can be applied. For each claim, an IPF may receive only one comorbidity adjustment per comorbidity category, but it may receive an adjustment for more than one category. The following table lists the final comorbid condition payment adjustments for FFY 2023. These are the same as the adjustment levels currently in place.

Description of Comorbidity	Adjustment Factor
Artificial Openings—Digestive and Urinary	1.08
Cardiac Conditions	1.11
Chronic Obstructive Pulmonary Disease	1.12
Coagulation Factor Deficits	1.13
Developmental Disabilities	1.04
Drug and/or Alcohol Induced Mental Disorders	1.03

Eating and Conduct Disorders	1.12
Gangrene	1.10
Infectious Diseases	1.07
Oncology Treatment	1.07
Poisoning	1.11
Renal Failure, Acute	1.11
Renal Failure, Chronic	1.11
Severe Musculoskeletal and Connective Tissue Diseases	1.09
Severe Protein Calorie Malnutrition	1.13
Tracheostomy	1.06
Uncontrolled Diabetes Mellitus	1.05

- **Patient Age Adjustment** (*Federal Register page 46854*): CMS will maintain the patient age adjustment for FFY 2023 as a previous analysis by CMS had shown that IPF per diem costs increase with patient age. The following table lists the final patient age adjustments for FFY 2023. These are the same as the adjustment levels currently in place.

Age	Adjustment Factor	Age	Adjustment Factor
Under 45	1.00	65 and under 70	1.10
45 and under 50	1.01	70 and under 75	1.13
50 and under 55	1.02	75 and under 80	1.15
55 and under 60	1.04	80 and over	1.17
60 and under 65	1.07		

- **Patient Variable Per Diem Adjustment** (*Federal Register page 46854*): For FFY 2023, the per diem rate will continue to be adjusted based on patient length-of-stay (LOS) using variable per diem adjustment. An analysis by CMS has shown that per diem costs decline as the LOS increases. Currently, variable per diem adjustments begin on day 1 (adjustment of 1.19 or 1.31, depending on the presence of an ED – see “ED Adjustment” section) and gradually decline until day 21 of a patient’s stay. For day 22 and thereafter, the variable per diem adjustment remains the same each day for the remainder of the stay. The following table lists the final variable per diem adjustment factors for FFY 2023. These are the same as the adjustment levels currently in place.

Day-of-Stay	Adjustment Factor	Day-of-Stay	Adjustment Factor
Day 1	1.19 (w/o ED) or 1.31 (w/ED)	Day 12	0.99
Day 2	1.12	Day 13	0.99
Day 3	1.08	Day 14	0.99
Day 4	1.05	Day 15	0.98
Day 5	1.04	Day 16	0.97
Day 6	1.02	Day 17	0.97
Day 7	1.01	Day 18	0.96
Day 8	1.01	Day 19	0.95
Day 9	1.00	Day 20	0.95
Day 10	1.00	Day 21	0.95
Day 11	0.99	After Day 21	0.92

Outlier Payments

Federal Register pages 46861 – 46864

Outlier payments were established under the IPF PPS to provide additional payments for extremely costly cases. Outlier payments are made when an IPF’s estimated total cost for a case exceeds a fixed dollar loss threshold

amount (multiplied by the IPF’s facility-level adjustments) plus the federal per diem payment amount for the case. Costs are determined by multiplying the facility’s overall cost-to-charge ratio (CCR) by the allowable charges for the case. When a case qualifies for an outlier payment, CMS pays 80% of the difference between the estimated cost for the case and the adjusted threshold amount for the first through ninth day of the stay, and then 60% of the difference for the tenth day onwards. The varying 80% and 60% “loss sharing ratios” were established to discourage IPFs from increasing patient LOS in order to receive outlier payments.

CMS has established a target of 2.0% of total IPF PPS payments to be set aside for high cost outliers. To meet this target for FFY 2023, CMS will update the outlier threshold of \$24,630 (proposed at \$24,270), a 53.6% increase over the FFY 2022 threshold of \$16,040. To calculate this outlier threshold, CMS will use FFY 2021 claims, excluding providers if their change in estimated average cost per day is outside 3 standard deviations from the mean.

Updates to the IPF Cost-to-Charge Ratio (CCR) Ceiling

Federal Register page 46864

CMS applies a ceiling to IPF’s CCRs. If an individual IPF’s CCR exceeds the appropriate urban or rural ceiling, the IPF’s CCR is replaced with the appropriate national median CCR for that FFY, either urban or rural. The national urban and rural CCRs and the national urban and rural CCR ceilings for IPFs are updated annually, based on analysis of the most recent data that is available. The national median CCR is applied when:

- New IPFs have not yet submitted their first Medicare cost report;
- IPFs’ overall CCR is in excess of 3 standard deviations above the corresponding national CCR ceiling for the current FFY; and/or
- Accurate data to calculate an overall CCR are not available for IPFs.

CMS will continue to set the national CCR ceilings at 3 standard deviations above the mean CCR, and therefore the final national CCR ceiling for FFY 2023 for rural IPFs would be 2.0412 (proposed at 2.0472) and 1.7437 (proposed at 1.7279) for urban IPFs. If an individual IPF’s CCR exceeds this ceiling for FFY 2023, the IPF’s CCR will be replaced with the appropriate national median CCR, urban or rural. CMS adopted a national median CCR of 0.5720 for rural IPFs and 0.4200 for urban IPFs, with both values being the same as were adopted for FFY 2022.

IPF Quality Reporting (IPFQR) Program

Federal Register pages 46865 – 46873

IPFs that do not successfully participate in the IPFQR Program are subject to a 2.0 percentage point reduction to the market basket update for the applicable year.

CMS had previously finalized 15 measures for the FFY 2023 payment determination and for subsequent years. These, along with the additional measure for FFY 2024, are listed below.

Measure	NQF #	Payment Determination Year
HBIPS-2—Hours of Physical Restraint Use	#0640	FFY 2015+
HBIPS-3—Hours of Seclusion Use	#0641	FFY 2015+
HBIPS-5—Patients Discharged on Multiple Antipsychotic Medications with Appropriate Justification	#0560	FFY 2015+
FUH—Follow-Up After Hospitalization for Mental Illness	#0576	FFY 2016 – FFY 2023
IMM-2—Influenza Immunization	#1659	FFY 2017+
TOB-2/2a—Tobacco Use Treatment Provided or Offered and Tobacco Use Treatment	N/A	FFY 2017+
TOB-3/3a Tobacco Use Treatment Provided or Offered at Discharge and Tobacco Use Treatment at Discharge	N/A	FFY 2018+
SUB-2/2a Alcohol Use Brief Intervention Provided or Offered and Alcohol Use Brief Intervention	N/A	FFY 2018+

Transition record with specified elements received by discharged patients	N/A	FFY 2018+
Timely Transmission of Transition Record	N/A	FFY 2018 - FFY 2023
Screening for Metabolic Disorders Measure	N/A	FFY 2018+
SUB-3/3a Alcohol and Other Drug Use Disorder Treatment Provided or Offered at Discharge and Alcohol and Other Drug Use Disorder Treatment at Discharge	N/A	FFY 2019+
30-Day All-Cause Unplanned Readmission Following Psychiatric Hospitalization in an Inpatient Facility	#2860	FFY 2019+
Medication Continuation Following Inpatient Psychiatric Discharge	#3205	FFY 2021+
COVID-19 Healthcare Personnel (HCP) Vaccination Measure	TBD	FFY 2023+
Follow-Up After Psychiatric Hospitalization (FAPH)	N/A	FFY 2024+

CMS is not making any changes for the IPF QRP.

Request for Information – Overarching Principles for Measuring Healthcare Quality Disparities Across CMS Quality Programs

Federal Register pages 46865 – 46873

CMS is working to advance health equity by designing, implementing, and operationalizing policies and programs that support health for all the people served by our programs, eliminating avoidable differences in health outcomes experienced by people who are disadvantaged or underserved, and providing care and support.

CMS requested comment on the several topics having to do with health equity. Comments can be found on *Federal Register* pages 46872 – 46873.

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