Medicare Inpatient Psychiatric Facility Prospective Payment System

Proposed Payment Rule Brief provided by the Wisconsin Hospital Association

Program Year: FFY 2023

Overview and Resources

On March 31, 2022, the Centers for Medicare and Medicaid Services (CMS) released the federal fiscal year (FFY) 2023 proposed payment rule for the Inpatient Psychiatric Facility (IPF) Prospective Payment System (PPS). The proposed rule reflects the annual update to the Medicare fee-for-service (FFS) IPF payment rates and policies.

A copy of the proposed 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 proposed rule is available at https://www.federalregister.gov/public-inspection/2022-06906/medicare-program-fiscal-year-2023-inpatient-psychiatric-facilities-prospective-payment-system--rate.

A brief of the proposed 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 proposed payment rate update to be an increase of $50 million in aggregate payments to IPFs in FFY 2023 over FFY 2022.

Comments on the proposed rule are due to CMS by May 31, 2022 and can be submitted electronically at http://www.regulations.gov by using the website's search feature to search for file code "1769-P".

Note: Text in italics is extracted from the April 4, 2022 *Federal Register* copy of the proposed rule.

IPF Payment Rates

Federal Register pages 19,418 and 19,419 – 19,420

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

	Final FFY 2022	Proposed FFY 2023	Percent Change
IPF Per Diem Base Rate	**$832.94**	**$856.80**	**+2.86%**
ECT Base Rate	**$358.60**	**$368.87**	

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

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

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

Federal Register pages 19,418 – 19,419, 19,422 – 19,425, and 19,426 – 19,427

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 is proposing to continue to use the current year pre-floor, pre-reclassification 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 is proposing to 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% for FFY 2023.

A complete list of the proposed 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 proposing a budget neutrality factor of 1.0017 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 proposing 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 IRF payments, CMS is proposing to 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 is proposed to 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, CMS proposes that a new IPF 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 is proposing to 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 19,427 of the *Federal Register* of the proposed rule.

Adjustments to the IPF Payment Rates

Federal Register pages 19,420 – 19,422, 19,425 – 19,427

For FFY 2023, CMS is proposing to 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 19,427)*: For FFY 2023, IPFs with a qualifying ED are proposed to 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 19,425 – 19,426)*: IPFs with teaching programs are proposed to 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 is proposing to 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 proposing 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 19,425):* 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 is proposing to continue this adjustment in FFY 2023.

- Patient Condition (MS-DRG) Adjustment *(Federal Register pages 19,420 -19,421):* For FFY 2023, CMS is proposing to 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 proposed to be 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 19,421 – 19,422):* For FFY 2023, CMS is proposing to 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 proposed 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 19,422):* CMS is proposing to 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 proposed 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 19,422):* For FFY 2023, the per diem rate is proposed to 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 proposed 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 19,427 – 19,428

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 is proposing to update the outlier threshold of $24,270, a 51.3% increase over the FFY 2022 threshold of $16,040. To calculate this outlier threshold, CMS is proposing to 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 19,428

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 is proposing to continue to set the national CCR ceilings at 3 standard deviations above the mean CCR, and therefore the proposed national CCR ceiling for FFY 2023 for rural IPFs would be 2.0472 and 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 proposed 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 19,429 –19,437

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	N/A	FFY 2017+

Treatment		
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 proposals for the IPF QRP.

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

Federal Register pages 19,429 – 19,437

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 requests comment on the following topics having to do with health equity:

- *"Identification of Goals and Approaches for Measuring Healthcare Disparities and Using Measure Stratification Across CMS Quality Reporting Programs*
    - *The use of the within- and between-provider disparity methods in IPFs to present stratified measure results.*
    - *The use of decomposition approaches to explain possible causes of measure performance disparities*
    - *Alternative methods to identify disparities and the drivers of disparities*
- *Guiding Principles for Selecting and Prioritizing Measures for Disparity Reporting*
    - *Principles to consider for prioritization of health equity measures and measures for disparity reporting, including prioritizing stratification for validated clinical quality measures, those measures with established disparities in care, measures that have adequate sample size and representation among healthcare providers and outcomes, and measures of appropriate access and care.*
- *Principles for Social Risk Factor and Demographic Data Selection and Use*
    - *Principles to be considered for the selection of social risk factors and demographic data for use in collecting disparity data including the importance of expanding variables used in measure stratification to consider a wide range of social risk factors, demographic variables and other markers of historic disadvantage. In the absence of patient -reported data we will consider use of administrative data, area-based indicators and imputed variables as appropriate.*
- *Identification of Meaningful Performance Differences*
    - *Ways that meaningful difference in disparity results should be considered.*
- *Guiding Principles for Reporting Disparity Measures*
    - *Guiding principles for the use and application of the results of disparity measurement.*

- *Measures Related to Health Equity*
    - *The usefulness of a HESS score for IPFs, both in terms of provider actionability to improve health equity, and in terms of whether this information would support Care Compare website users in making informed healthcare decisions.*
    - *The potential for a structural measure assessing an IPF's commitment to health equity, the specific domains that should be captured, and options for reporting this data in a manner that would minimize burden.*
    - *Options to collect facility-level information that could be used to support the calculation of a structural measure of health equity.*
    - *Other options for measures that address health equity."*

Comment Solicitation on Analysis of IPF PPS Adjustments

Federal Register pages 19,428 – 19,429

Although CMS is proposing to continue to use the existing regression-derived adjustment factors for FY 2023, CMS analyzed cost report data and claims to better understand IPF industry practices in order to refine the IPF PPS in the future, as appropriate. CMS found that the *"existing IPF PPS model continues to be generally appropriate in terms of effectively aligning IPF PPS payments with the cost of providing IPF services, but suggests that certain updates to the codes, categories, adjustment factors, and ECT payment amount per treatment could improve payment accuracy."*

CMS is requesting comments on the results of the analysis as summarized in the report. Specifically, CMS is interested in comments on the following:

- *"….[T]echnical changes to the DRG and comorbidity adjustment factors, consolidation of the age categories for the patient age adjustment, and changes to the adjustment factors for age and length of stay could be appropriate.*
- *The analysis of ancillary costs for IPF stays with ECT suggests that a higher ECT payment amount per treatment could better align IPF PPS payments with the costs of furnishing ECT.*
- *The analysis of the outlier percentage suggests that fewer IPF cases qualify for outliers under the current 2 percent outlier target than were estimated when the IPF PPS was established. We estimate that increasing the outlier percentage would increase the number of IPF cases that qualify for outliers, but would have distributional effects due to budget neutrality.*
- *….[U]pdating the adjustment factors for teaching facilities, rural facilities, and facilities with an ED could improve payment accuracy; however, we estimate such changes could have positive and negative effects on payments for different types of IPFs.*
- *The analysis of occupancy-related control variables included in the regression model indicates that these control variables are correlated with the rural adjustment factor, and that removal of these control variables from the model could result in an increase to the rural adjustment factor in the regression model.*
- *….[A]dditional analyses that we should undertake to better understand how these issues affect the cost of providing IPF services, and how the IPF PPS could better account for these costs:*
    - *….[W]hether there are additional patient characteristics that affect the cost of providing IPF services that may not be consistently reported on claims. Additionally, we are soliciting public comments about how we could better identify such patient characteristics and their effects on costs.*
    - *….[T]he addition of an adjustment factor for disproportionate share intensity could improve the accuracy of IPF PPS payments."*

The report of CMS' analysis results can be found at: https://www.cms.gov/medicare/medicare-fee-for-service-payment/inpatientpsychfacilpps.

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