



## Medicare Inpatient Psychiatric Facility Prospective Payment System Proposed Rule Impact Analysis Federal Fiscal Year 2023

-Version 1-

### Analysis Description

The federal fiscal year (FFY) 2023 Medicare Inpatient Psychiatric Facility Prospective Payment System (IPF PPS) Proposed Rule Analysis is intended to show providers how Medicare fee-for-service (FFS) payments will change from FFY 2022 to FFY 2023 based on the policies set forth in the FFY 2023 IPF PPS proposed rule.

#### **FFY 2023 IPF Proposed Rule Payment Changes Modeled in this Analysis:**

- **Marketbasket Update:** A 3.1% marketbasket increase to account for cost increases for the services furnished by providers.
- **ACA-Mandated Marketbasket Adjustment:** -0.4 percentage point productivity reduction to the marketbasket authorized by the Affordable Care Act (ACA) of 2010.
- **Wage Index Budget Neutrality (including all other budget neutrality):** A budget neutrality factor adjustment of 1.0017 due to changes in the wage index prior the inclusion of the 5% cap on wage index decreases.
- **5% Wage Index Cap Budget Neutrality:** A budget neutrality factor adjustment of 0.9999 due to the proposed 5% cap on wage index decreases.
- **Wage Index and Labor Share:** Updated wage index values based on the FFY 2023 facility wage index without the rural floor or reclassifications. This impact includes the increase in the labor-share from 77.2% for FFY 2022 to 77.4% for FFY 2023. The impact also includes the result of the 5% cap on any reduction of an eligible hospital's FFY 2023 wage index from the FFY 2022 wage index, the value of which is also broken out separately.

The values shown in the impact table do not include the 2.0% sequestration reduction to all lines of Medicare payment authorized by Congress through FFY 2031. The estimated sequestration reduction applicable to IPF PPS-specific payment has been calculated separately and is provided at the bottom of the impact table.

## **Data Sources**

IPF payments and individual IPF characteristics/factors to derive the IPF rural and teaching adjustments are from the most recent Medicare cost report (FFY 2018, FFY 2019 or FFY 2021) provided by CMS. The federal per diem base rates, wage indexes, and labor shares are from the FFY 2022 IPF PPS final rule October 2021 Correction Notice and the FFY 2023 IPF PPS proposed rule. Wage indexes used in this analysis reflect facility wage index values without the rural floor or reclassifications.

*Note: All components related to facility operations are held constant (e.g. patient volume and case-mix index) in order to measure the impacts of policy changes only.*

## **Methods**

The dollar impact of each component change has been calculated by first estimating 2022 IPF PPS payments. Estimated 2022 payments reflect IPF revenues from the most recent (FFYs 2018, 2019, or 2021) Medicare cost report updated by the component change in the IPF federal per diem base rate. Then the FFY 2022 to FFY 2023 change for each IPF payment component is analyzed, calculated and applied to estimated FFY 2022 payments. The component impacts are applied sequentially in order to capture the compounded dollar impacts. For example, the component changes due to the marketbasket update, as well as the component change in the ACA-mandated marketbasket reductions, are applied to total 2022 payments. Then, the component change of the wage index budget neutrality is applied to the dollar result of the previous changes. This method continues for the remaining changes, creating a compounded effect. The difference between the results after each layered component is the impact of that component.

*This analysis does NOT include impact estimates due to high cost outliers, estimates for payments for Managed Care patients, or any modifications in FFS payments as a result of facility participation in new payment models being tested under Medicare demonstration/pilot programs. Dollar impacts in this analysis may differ from those provided by other organizations/associations due to differences in source data and analytic methods.*

*Note: Individual percentages and dollars shown in this analysis may not add to total due to compounding and rounding. Dollar amounts less than \$50 and percentages less than 0.05% will appear as zeros due to rounding.*