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perspectives

***An Analysis and Commentary on Federal Health Care Issues
by Larry Goldberg***

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CMS Issues Final FY 2023 Inpatient Psychiatric Facility PPS Update



The Centers for Medicare and Medicaid Services (CMS) have issued a final rule to update the Medicare Inpatient Psychiatric Facility (IPF) Prospective Payment System (PPS) for Fiscal Year (FY) 2023.

CMS is finalizing the following;

Adjusting the market basket update (4.1 percent) less a productivity adjustment of 0.3 percentage point resulting in a final IPF payment rate update of 3.8 percent for FY 2023.

Establishing a permanent mitigation policy in order to smooth the impact of year-to-year changes in IPF payments related to decreases in a IPF wage index.

The rule also updates:

- The IPF PPS Federal per diem base rate;
- The IPF PPS Federal per diem base rate for providers who failed to report quality data;
- The ECT payment per treatment;
- The ECT payment per treatment for providers who failed to report quality data;
- The labor-related share;
- The wage index budget-neutrality factor;
- The fixed dollar loss threshold amount.

Comment

We have added selected page numbers in **red**.

The rule is scheduled for publication July 29, 2022

CMS provides the following table to explain the changes in overall payments to IRFs. **(Page 4)**

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Provision Description	Total Transfers & Cost Reductions
FY 2023 IPF PPS payment update	The overall economic impact of this final rule is an estimated \$90 million in increased payments to IPFs during FY 2023.

Comment

CMS estimates that the total impact of changes for FY 2023 payments compared to FY 2022 payments will be a net increase of approximately \$90 million. This reflects a \$130 million increase from the update to the payment rates, as well as a \$40 million decrease as a result of the update to the outlier threshold amount. Outlier payments are estimated to change from 3.2 percent in FY 2022 to 2.0 percent of total estimated IPF payments in FY 2023. (Page 89)

Addenda Items (Page 2)

Addendum A summarizes the FY 2023 IPF PPS payment rates, outlier threshold, cost of living adjustment factors (COLA) for Alaska and Hawaii, national and upper limit cost-to-charge ratios, and adjustment factors.

Addenda B shows the complete listing of ICD-10 Clinical Modification (CM) and Procedure Coding System (PCS) codes, the FY 2023 IPF PPS comorbidity adjustment, and electroconvulsive therapy (ECT) procedure codes.

The A and B Addenda are available online at: <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientPsychFacIPPS/tools>.

Tables setting forth the FY 2023 Wage Indexes are at: <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/IPFPPS/WageIndex.html>.

Comment

A word of caution here. Some of the CMS tables in Addenda A & B do not reflect final actions. They have proposed FY 2023 values.

Summary of the Major Provisions

Inpatient Psychiatric Facilities Prospective Payment System (Pages 14 & 17)

Based on IGI’s second quarter 2022 forecast with historical data through the first quarter of 2022, the final FY 2023 IPF market basket update is 4.1 percent and the final FY 2023 productivity adjustment is a minus 0.3 percentage point. Therefore, the final IPF productivity-adjusted market basket update is 3.8 percent (4.1 percent less 0.3 percentage point), compared to the proposed 2.7 percent productivity-adjusted market basket update.

FY 2023 IPF Labor-Related Share (Page 19)

CMS is finalizing a FY 2023 labor-related share equal to 77.4 percent based on the latest available IGI forecast. The current share is 77.2.

Update of the Federal Per Diem Base Rate and Electroconvulsive Therapy Payment Per Treatment (Page 19)

The current Federal per diem base rate is \$832.94. For the final FY 2023 Federal per diem base rate, CMS applied the payment rate update of 3.8 percent and a wage index budget-neutrality factor of 1.0012 to the FY 2022 Federal per diem base rate, yielding a final Federal per diem base rate of **\$865.63**.

Similarly, CMS applied the 3.8 percent payment rate update and the 1.0012 wage index budget-neutrality factor to the FY 2022 ECT payment per treatment of \$358.60, yielding a final ECT payment per treatment of **\$372.67**

For IPFs that fail to report required quality data, CMS applied a 1.8 percent payment rate update and the wage index budget-neutrality factor of 1.0012 to the FY 2022 Federal per diem base rate of \$832.94, yielding a Federal per diem base rate of **\$848.95**.

For IPFs that fail to report required quality data, CMS applied the 1.8 percent annual payment rate update and the final 1.0012 wage index budget-neutrality factor to the FY 2022 ECT payment per treatment of \$358.60, yielding an ECT payment per treatment of **\$365.49**.

Code First (Page 24)

CMS is finalizing its proposal to delete 2 ICD-10-PCS codes to add 48 ICD-10-PCS codes to the IPF Code First table. The FY 2023 Code First table is shown in Addendum B at: <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientPsychFacilPPS/tools.html>

Updates to the IPF PPS Patient-Level Adjustment Factors (Page 22)

IPF PPS Patient-Level Adjustments

MS-DRG Adjustments (Page 24)

The diagnoses for each IPF MS-DRG will be updated as of October 1, 2022, using the final IPPS FY 2023 ICD-10-CM/PCS code sets. Both the FY 2023 IPPS final rule and the tables of final changes to the ICD-10-CM/PCS code sets, which underlie the FY 2023 MS-DRGs, are available on the CMS IPPS website at: <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/index.html>.

Comorbidity Adjustments (Page 27)

The FY 2023 comorbidity adjustment factors are found in Addendum A, available at: <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientPsychFacilPPS/tools.html>.

Age Adjustments (Page 28)

For FY 2023, CMS will continue to use the patient age adjustments currently in effect in FY 2022.

Variable Per Diem Adjustments (Page 28)

For FY 2023, CMS will continue to use the variable per diem adjustment factors currently in effect.

Updates to the IPF PPS Facility-Level Adjustments

The IPF PPS includes facility-level adjustments for the wage index, IPFs located in rural areas, teaching IPFs, cost of living adjustments for IPFs located in Alaska and Hawaii, and IPFs with a qualifying Emergency Department source of admission.

Update to the Area Wage Index (Page 33)

CMS is proposing to continue to use the concurrent pre-floor, pre-reclassified IPPS hospital wage index as the basis for the IPF wage index.

Permanent Cap on Wage Index Decreases (Page 35 & 43)

For FY 2023 and subsequent years, CMS will apply a 5.0 percent cap on any decrease to a provider's wage index from its wage index in the prior year, regardless of the circumstances causing the decline. That is, an IPF's wage index for FY 2023 would not be less than 95 percent of its final wage index for FY 2022, regardless of whether the IPF is part of an updated CBSA, and that for subsequent years, a provider's wage index would not be less than 95 percent of its wage index calculated in the prior FY.

Adjustment for Rural Location (Page 44)

For FY 2023, CMS will continue to apply a 17 percent payment adjustment for IPFs located in a rural area

Teaching Adjustment (Page 47)

CMS will retain the coefficient value of 0.5150 for the teaching adjustment to the Federal per diem base rate.

Cost of Living Adjustment for IPFs Located in Alaska and Hawaii (Page 47)

The IPF PPS includes a payment adjustment for IPFs located in Alaska and Hawaii based upon the area in which the IPF is located.

The rule's table 2 shows the IPF PPS COLA factors effective for FY 2022 through FY 2025.

Adjustment for IPFs with a Qualifying Emergency Department (ED) (Page 50)

CMS will continue to retain the 1.31 adjustment factor for IPFs with qualifying EDs.

Outlier Update (Page 59)

CMS says it estimates that IPF outlier payments as a percentage of total estimated payments are approximately 3.2 percent in FY 2022. Therefore, CMS is updating the outlier threshold amount to \$24,630 to maintain estimated outlier payments at 2.0 percent of total estimated aggregate IPF payments for FY 2023. This update is an increase from the FY 2022 threshold of \$16,040.

Inpatient Psychiatric Facilities Quality Reporting (IPFQR) Program (Page 2)

CMS did not propose any changes to the IPFQR Program and is not finalizing any changes.

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Final Comments

Again, there is no of table of contents, which has become a standard from CMS, and there is just too much unneeded history.

A number of the addenda on the website are difficult to open and some contain proposed FY 2023 values that have not been updated.

CMS proposed a number of solicitations on proposed quality and health equity issues. CMS has offered much comment, but the bottom line is the material is to be used for future rulemaking.