

DEPARTMENT OF HEALTH & HUMAN SERVICES  
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**Office of External Affairs**

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## **MEDICARE NEWS**

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### **MEDICARE PROVIDES PAYMENT INCREASE, POLICY CHANGES FOR INPATIENT PSYCHIATRIC FACILITIES**

Inpatient psychiatric facilities (IPFs) will receive an average 4 percent increase in Medicare payments, beginning in July.

The higher payments, for discharges occurring July 1 or later, will be under a final rule announced today by the Centers for Medicare & Medicaid Services (CMS). This increase includes the effects of market basket updates resulting in a 4.5 percent increase in total payments for Rate Year 2007, July 1, 2006 to June 30, 2007. The market basket shows how much the costs of goods and services used by a particular industry have changed over time.

Within this average, government-operated psychiatric hospitals receive the largest share of the total increase. The final rule also includes several changes in payment policies for these facilities.

The payment increase will go to approximately 1,800 inpatient psychiatric facilities, including hospitals limited to psychiatric treatment, distinct part psychiatric units of acute care hospitals, and critical access hospitals that are paid under a prospective payment system (PPS). This system, which was mandated by the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999 and made effective Jan. 1, 2005, is intended to foster higher quality and more efficient care for Medicare beneficiaries with severe mental illnesses.

“Many beneficiaries, after receiving appropriate psychiatric care in an inpatient facility, can return home or move to an alternative setting,” said CMS Administrator Mark B. McClellan, M.D., Ph.D. “The changes in this final rule support our continuing efforts to improve the quality of mental health care for Medicare beneficiaries. The IPF prospective payment system is helping to support effective care in the appropriate setting for patients with mental illnesses.”

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Payments under the IPF PPS are based on a single federal per diem rate that includes both inpatient operating costs and capital-related costs, including routine and ancillary services. The per diem rate for Rate Year 2007 is \$595.09, up from \$575.95 in Rate Year 2006.

This base rate is adjusted for four patient characteristics: age, diagnostic-related group assignment, the presence of certain other diseases or conditions (comorbidities), and the patient's length of stay.

Adjustments also are made to the base rate to reflect these facility characteristics: the presence of a qualifying emergency department, teaching status, rural location, and each facility's wage index. Facilities in Alaska and Hawaii also receive a cost-of-living adjustment. In addition, the IPF PPS provides additional payment for each electroconvulsive therapy treatment furnished during a stay.

Medicare also continues to pay separately for certain costs, including physician and non-physician practitioner services paid under the Medicare physician fee schedule, bad debt and direct graduate medical education costs.

In this first update to the PPS for inpatient psychiatric facilities, CMS is adopting a number of refinements to the payment policies affecting these facilities, including:

- Adoption of a new market basket to estimate inflation in the costs of goods and services provided in inpatient psychiatric facilities. The new market basket is based on data from three types of hospitals excluded from the inpatient PPS for acute care hospitals – inpatient rehabilitation facilities, inpatient psychiatric facilities and long-term care hospitals.
- Implementation of the Office of Management and Budget's geographic areas definitions based on the new Core Based Statistical Areas for use in determining the wage index adjustment.
- An increase in the fixed dollar loss threshold amount for outlier payments from \$5,700 to \$6,200 to keep overall estimated outlier payments at 2 percent of total payments as per diem rates increase. This threshold is the amount by which the hospital's costs for treating a case must exceed the Medicare payment amount for that case before Medicare will make an additional payment to the facility.
- A payment increase for electroconvulsive therapy using the new market basket from \$247.96 to \$256.20.
- Changes to other policies, including recreational therapy and physician recertification.

This rule also incorporates changes in coding and Diagnosis Related Group classifications that were adopted in the inpatient PPS final rule for fiscal year 2006.

The IPF PPS rule went on display today (May 1) at the Federal Register.

More information is available at [www.cms.hhs.gov/InpatientPsychFacilPPS/](http://www.cms.hhs.gov/InpatientPsychFacilPPS/)

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