

**Impact of Behavioral Offset in FY2008 Medicare Inpatient Prospective Payment System Final Rule
 Operating and Capital Payments
 Notes on Impact Estimates**

1. The source for all hospital-specific data is the CMS inpatient PPS payment impact file (released 8/1/07). PHS Indian hospitals, hospitals in Maryland, and hospitals in Puerto Rico are excluded. The final N is 3,428 hospitals. Critical Access Hospitals (CAHs) are not affected by this rule.
2. Operating and capital standardized amounts as published in the FY2008 final rule reflect a 1.2% "behavioral offset" reduction. In order to estimate the impact of this proposed change, new rates that exclude the offset were calculated (based on rate calculation processes described by CMS on pages 1144 and 1182 of the rule). FY08 rates used in the models are:

	with 1.2% <u>Offset</u>	No <u>Offset</u>
<u>for AWI LE 1.0</u>		
labor	3077.46	3114.84
non-labor	1886.18	1909.09
 <u>for AWI GT 1.0</u>		
labor	3459.66	3501.68
non-labor	1503.98	1522.25
 Capital	423.34	428.48

3. FY2009 capital PPS payments are estimated by inflating the above FY08 rates by 1.2% (CMS 4th quarter 2006 forecast). The FY09 capital rates are estimated to be:

	with 1.8% <u>Offset</u>	No <u>Offset</u>
FY2009	418.37	431.22
FY2010	413.46	433.97

The FY2010 rate is done in a similar manner -- assumes a 1.4% update and another 1.8% behavioral offset. Rates for FY2011 and FY2012 assume a full 1.4% increase in both years under both scenarios.

4. Estimated operating payments for FY2009-2012 are based on CMS 4th quarter 2006 market basket estimates. The update for FY2009 is forecast to be 2.6%, which translates into a 0.8% update with the 1.8% offset. The update for FY2010 is forecast to be 2.3%, which translates to a 0.5% update with another 1.8% offset. Updates for FY2011 and FY2012 are identical in both scenarios and reflect a full market basket increase:

	with 1.8% <u>Offset</u>	No <u>Offset</u>
FY2009	0.8%	2.6%
FY2010	0.5%	2.3%
 FY2011	3.0%	3.0%
FY2012	3.0%	3.0%