

## Sources and Notes

### FY 2008 Medicare Inpatient PPS Proposed Rule One Year and Five Year Impact of Selected Provisions

*(2.4% behavioral offset, freeze in capital payments for all urban hospitals and elimination of large urban capital add-on)*

Please note that all figures are estimates based on provisions in the FY 2008 Medicare Inpatient PPS Proposed Rule applied to hospital specific claims experience for FY 2006. The Final Rule is likely to be different. The actual payment changes experienced by hospitals in FY 2008 will vary.

We calculated a five year impact because many of the changes affect base payment and therefore continue to have an effect in subsequent years. For example, the 2.4% offset affects payment in year one, but because it is a *permanent reduction to the base* the impact is doubled in year two (2.4% loss in year one carries forward *plus* there is a second 2.4% reduction in year two.) In years three and beyond, payment would continue to be 4.8% lower than it would have been had CMS not implemented this cut.

The source for all hospital-specific data is the CMS inpatient PPS payment impact file (released 4/16/07). PHS Indian hospitals, hospitals in Maryland, and hospitals in Puerto Rico are excluded. The final N is 3,482 hospitals.

Operating and capital standardized amounts as published in the FY2008 proposed rule reflect a 2.4% "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 622 and 656 of the NPRM).

FY2009 capital PPS payments are estimated by inflating the above FY08 rates by 1.1% (CMS 3rd quarter 2006 forecast).

The capital impact estimates are based on a "no changes" FY2008 payment vs. an "all changes" FY2008 payment. That is, the base case assumes that capital rates will be equal for rural and urban hospitals, large urbans will get a 3% add-on, and rates will not be offset by 2.4%. The "all changes" scenario includes everything put forth in the NPRM: a 0.8% rate differential for rurals, no add-on for large urbans, and a 2.4% offset to the rates.

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 .02% update with the 2.4% offset. Updates in FY2010-2012 are identical under both scenarios:

FY2010	2.3%
FY2011	3.0%
FY2012	3.0%

Estimated capital payments for FY2010-2012 are based on CMS 3rd quarter 2006 market basket estimates. Updates in FY2010-2012 are identical in both scenarios:

FY2010	1.2%
FY2011	1.4%
FY2012	1.4%