

106TH CONGRESS  
1ST SESSION

# S. 1002

To amend title XVIII of the Social Security Act to provide for a prospective payment system for services furnished by psychiatric hospitals under the Medicare Program.

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## IN THE SENATE OF THE UNITED STATES

MAY 11, 1999

Mr. MACK (for himself and Mr. BREAUX) introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend title XVIII of the Social Security Act to provide for a prospective payment system for services furnished by psychiatric hospitals under the Medicare Program.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Medicare Psychiatric  
5 Hospital Prospective Payment System Act of 1999”.

6 **SEC. 2. MEDICARE PROSPECTIVE PAYMENT SYSTEM FOR**  
7 **PSYCHIATRIC FACILITIES.**

8 (a) ESTABLISHMENT OF PROSPECTIVE PAYMENT  
9 SYSTEM.—Section 1886 of the Social Security Act (42

1 U.S.C. 1395ww) is amended by adding at the end the fol-  
 2 lowing:

3 “(l) PROSPECTIVE PAYMENT SYSTEM FOR INPA-  
 4 TIENT PSYCHIATRIC SERVICES.—

5 “(1) AMOUNT OF PAYMENT.—

6 “(A) DURING TRANSITION PERIOD.—Not-  
 7 withstanding section 1814(b), but subject to the  
 8 provisions of section 1813, the amount of pay-  
 9 ment with respect to the operating and capital-  
 10 related costs of inpatient hospital services of a  
 11 psychiatric facility (as defined in paragraph  
 12 (7)(C)) for each day of services furnished in a  
 13 cost reporting period beginning on or after Oc-  
 14 tober 1, 2000, and before October 1, 2003, is  
 15 equal to the sum of—

16 “(i) the TEFRA percentage (as de-  
 17 fined in paragraph (7)(D)) of the facility-  
 18 specific per diem rate (determined under  
 19 paragraph (2)); and

20 “(ii) the PPS percentage (as defined  
 21 in paragraph (7)(B)) of the applicable  
 22 Federal per diem rate (determined under  
 23 paragraph (3)).

24 “(B) UNDER FULLY IMPLEMENTED SYS-  
 25 TEM.—Notwithstanding section 1814(b), but

1 subject to the provisions of section 1813, the  
2 amount of payment with respect to the oper-  
3 ating and capital-related costs of inpatient hos-  
4 pital services of a psychiatric facility for each  
5 day of services furnished in a cost reporting pe-  
6 riod beginning on or after October 1, 2003, is  
7 equal to the applicable Federal per diem rate  
8 determined under paragraph (3) for the facility  
9 for the fiscal year in which the day of services  
10 occurs.

11 “(C) NEW FACILITIES.—In the case of a  
12 psychiatric facility that does not have a base  
13 fiscal year (as defined in paragraph (7)(A)),  
14 payment for the operating and capital-related  
15 costs of inpatient hospital services shall be  
16 made under this subsection using the applicable  
17 Federal per diem rate.

18 “(2) DETERMINATION OF FACILITY-SPECIFIC  
19 PER DIEM RATES.—

20 “(A) BASE YEAR.—The Secretary shall de-  
21 termine, on a per diem basis, the allowable op-  
22 erating and capital-related costs of inpatient  
23 hospital services for each psychiatric facility for  
24 its cost reporting period (if any) beginning in  
25 the base fiscal year (as defined in paragraph

1 (7)(A)), such costs determined as if subsection  
 2 (b)(8) did not apply.

3 “(B) UPDATING.—The Secretary shall up-  
 4 date the amount determined under subpara-  
 5 graph (A) for each cost reporting period after  
 6 the cost reporting period beginning in the base  
 7 fiscal year and before October 1, 2003, by a  
 8 factor equal to the market basket percentage  
 9 increase (as defined in subsection  
 10 (b)(3)(B)(iii)).

11 “(3) DETERMINATION OF FEDERAL PER DIEM  
 12 RATE.—

13 “(A) BASE YEAR.—The Secretary shall de-  
 14 termine, on a per diem basis, the allowable op-  
 15 erating and capital-related costs of inpatient  
 16 hospital services for each psychiatric facility for  
 17 its cost reporting period (if any) beginning in  
 18 the base fiscal year (as defined in paragraph  
 19 (7)(A)), such costs determined as if subsection  
 20 (b)(8) did not apply.

21 “(B) UPDATING TO FIRST FISCAL YEAR.—  
 22 The Secretary shall update the amount deter-  
 23 mined under subparagraph (A) for each cost re-  
 24 porting period up to the first cost reporting pe-  
 25 riod to which this subsection applies by a factor

equal to the market basket percentage increase  
(as defined in subsection (b)(3)(B)(iii)).

“(C) COMPUTATION OF STANDARDIZED  
PER DIEM RATE.—The Secretary shall stand-  
ardize the amount determined under subpara-  
graph (B) for each facility by—

“(i) adjusting for variations among  
facilities by area in the average facility  
wage level per diem; and

“(ii) adjusting for variations in case  
mix per diem among facilities (based on  
the patient classification system estab-  
lished by the Secretary under paragraph  
(4)).

“(D) COMPUTATION OF WEIGHTED AVER-  
AGE PER DIEM RATES.—

“(i) SEPARATE RATES FOR URBAN  
AND RURAL AREAS.—Based on the stand-  
ardized amounts determined under sub-  
paragraph (C) for each facility, the Sec-  
retary shall compute a separate weighted  
average per diem rate—

“(I) for all psychiatric facilities  
located in an urban area (as defined  
in subsection (d)(2)(D)); and

1 “(II) for all psychiatric facilities  
 2 located in a rural area (as defined in  
 3 subsection (d)(2)(D)).

4 “(ii) FOR HOSPITALS AND UNITS.—In  
 5 the areas referred to in clause (i), the Sec-  
 6 retary may compute a separate weighted  
 7 average per diem rate for—

8 “(I) psychiatric hospitals; and

9 “(II) psychiatric units described  
 10 in the matter following clause (v) of  
 11 subsection (d)(1)(B).

12 If the Secretary establishes separate aver-  
 13 age weighted per diem rates under this  
 14 clause, the Secretary shall also establish  
 15 separate average per diem rates for psy-  
 16 chiatric facilities in such categories that  
 17 are owned and operated by an agency or  
 18 instrumentality of Federal, State, or local  
 19 government and for psychiatric facilities  
 20 other than such facilities.

21 “(iii) WEIGHTED AVERAGE.—In com-  
 22 puting the weighted averages under clauses  
 23 (i) and (ii), the standardized per diem  
 24 amount for each facility shall be weighted  
 25 for each facility by the number of days of

1 inpatient hospital services furnished during  
 2 its cost reporting period beginning in the  
 3 base fiscal year.

4 “(E) UPDATING.—The weighted average  
 5 per diem rates determined under subparagraph  
 6 (D) shall be updated for each fiscal year after  
 7 the first fiscal year to which this subsection ap-  
 8 plies by a factor equal to the market basket  
 9 percentage increase (as defined in subsection  
 10 (b)(3)(B)(iii)).

11 “(F) DETERMINATION OF FEDERAL PER  
 12 DIEM RATE.—

13 “(i) IN GENERAL.—The Secretary  
 14 shall compute for each psychiatric facility  
 15 for each fiscal year (beginning with fiscal  
 16 year 2001) a Federal per diem rate equal  
 17 to the applicable weighted average per  
 18 diem rate determined under subparagraph  
 19 (E), adjusted for—

20 “(I) variations among facilities  
 21 by area in the average facility wage  
 22 level per diem;

23 “(II) variations in case mix per  
 24 diem among facilities (based on the  
 25 patient classification system estab-

1                   lished by the Secretary under para-  
2                   graph (4)); and

3                   “(III) variations among facilities  
4                   in the proportion of low-income pa-  
5                   tients served by the facility.

6                   “(ii) OTHER ADJUSTMENTS.—In com-  
7                   puting Federal per diem rates under this  
8                   subparagraph, the Secretary may adjust  
9                   for outlier cases, the indirect costs of med-  
10                  ical education, and such other factors as  
11                  the Secretary determines to be appropriate.

12                  “(iii) BUDGET NEUTRALITY.—The ad-  
13                  justments specified in clauses (i)(I),  
14                  (i)(III), and (ii) shall be implemented in a  
15                  manner that does not result in aggregate  
16                  payments under this subsection that are  
17                  greater or less than those aggregate pay-  
18                  ments that otherwise would have been  
19                  made if such adjustments did not apply.

20                  “(4) ESTABLISHMENT OF PATIENT CLASSIFICA-  
21                  TION SYSTEM.—

22                  “(A) IN GENERAL.—The Secretary shall  
23                  establish—

24                  “(i) classes of patients of psychiatric  
25                  facilities (in this paragraph referred to as



1           ‘case mix groups’), based on such factors  
2           as the Secretary determines to be appro-  
3           priate; and

4           “(ii) a method of classifying specific  
5           patients in psychiatric facilities within  
6           these groups.

7           “(B) WEIGHTING FACTORS.—For each  
8           case mix group, the Secretary shall assign an  
9           appropriate weighting factor that reflects the  
10          relative facility resources used with respect to  
11          patients classified within that group compared  
12          to patients classified within other such groups.

13          “(5) DATA COLLECTION; UTILIZATION MONI-  
14          TORING.—

15          “(A) DATA COLLECTION.—The Secretary  
16          may require psychiatric facilities to submit such  
17          data as is necessary to implement the system  
18          established under this subsection.

19          “(B) UTILIZATION MONITORING.—The  
20          Secretary shall monitor changes in the utiliza-  
21          tion of inpatient hospital services furnished by  
22          psychiatric facilities under the system estab-  
23          lished under this subsection and report to the  
24          appropriate committees of Congress on such  
25          changes, together with recommendations for

1           legislation (if any) that is needed to address un-  
2           warranted changes in such utilization.

3           “(6)       SPECIAL       ADJUSTMENTS.—Notwith-  
4           standing the preceding provisions of this subsection,  
5           the Secretary shall reduce aggregate payment  
6           amounts that would otherwise be payable under this  
7           subsection for inpatient hospital services furnished  
8           by a psychiatric facility during cost reporting periods  
9           beginning in fiscal years 2001 and 2002 by such  
10          uniform percentage as is necessary to assure that  
11          payments under this subsection for such cost report-  
12          ing periods are reduced by an amount that is equal  
13          to the sum of—

14               “(A) the aggregate increase in payments  
15               under this title during fiscal years 1999 and  
16               2000, that is attributable to the operation of  
17               subsection (b)(8); and

18               “(B) the aggregate increase in payments  
19               under this title during fiscal years 2001 and  
20               2002 that is attributable to the application of  
21               the market basket percentage increase under  
22               paragraphs (2)(B) and (3)(E) of this subsection  
23               in lieu of the provisions of subclauses (VI) and  
24               (VII) of subsection (b)(3)(B)(ii). Reductions  
25               under this paragraph shall not affect computa-

tion of the amounts payable under this subsection for cost reporting periods beginning in fiscal years after fiscal year 2002.

“(7) DEFINITIONS.—For purposes of this subsection:

“(A) The term ‘base fiscal year’ means, with respect to a hospital, the most recent fiscal year ending before the date of enactment of this subsection for which audited cost report data are available.

“(B) The term ‘PPS percentage’ means—

“(i) with respect to cost reporting periods beginning on or after October 1, 2000, and before October 1, 2001, 25 percent;

“(ii) with respect to cost reporting periods beginning on or after October 1, 2001, and before October 1, 2002, 50 percent; and

“(iii) with respect to cost reporting periods beginning on or after October 1, 2002, and before October 1, 2003, 75 percent.

“(C) The term ‘psychiatric facility’ means—

1 “(i) a psychiatric hospital; and

2 “(ii) a psychiatric unit described in  
3 the matter following clause (v) of sub-  
4 section (d)(1)(B).

5 “(D) The term ‘TEFRA percentage’  
6 means—

7 “(i) with respect to cost reporting pe-  
8 riods beginning on or after October 1,  
9 2000, and before October 1, 2001, 75 per-  
10 cent;

11 “(ii) with respect to cost reporting pe-  
12 riods beginning on or after October 1,  
13 2001, and before October 1, 2002, 50 per-  
14 cent; and

15 “(iii) with respect to cost reporting  
16 periods beginning on or after October 1,  
17 2002, and before October 1, 2003, 25 per-  
18 cent.”.

19 (b) LIMIT ON REDUCTIONS UNDER BALANCED  
20 BUDGET ACT.—Section 1886(b) of the Social Security Act  
21 (42 U.S.C. 1395ww(b)) is amended by adding at the end  
22 the following:

23 “(8) Notwithstanding the amendments made by  
24 sections 4411, 4414, 4415, and 4416 of the Bal-  
25 anced Budget Act of 1997, in the case of a psy-

1        chiatric facility (as described in subsection  
2        (l)(7(C)(ii)), the amount of payment for the oper-  
3        ating costs of inpatient hospital services for cost re-  
4        porting periods beginning on or after October 1,  
5        1998, and before October 1, 2000, shall not be less  
6        than 95 percent of the amount that would have been  
7        paid for such costs if such amendments did not  
8        apply.

9        (c) EFFECTIVE DATE.—The amendments made by  
10       subsections (a) and (b) shall apply as if included in the  
11       enactment of the Balanced Budget Act of 1997.

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