Medicare discharges by facility status under the prospective payment system, 1984-86

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When the Health Care Financing Administration implemented the Medicare prospective payment system (PPS), several types of hospitals and hospital units were excluded from the new reimbursement system, and they remained under the reasonable cost reimbursement system, subject to the target rate of increase limits.

The implementation of PPS has been accompanied by several changes in hospital classification and in utilization patterns. This article examines some of these changes based on excluded facility counts and discharges by facility status under the PPS for fiscal years 1984-86.

Introduction

On April 20, 1983, the President signed Public Law 98-21, the 1983 Amendments to the Social Security Act. Title VI of this law authorizes Medicare payment for inpatient hospital services under the prospective payment system (PPS), rather than on a reasonable cost basis.

The statute excludes several types of hospitals and hospital units from the prospective payment system, such as psychiatric, long-term, children's, rehabilitation, and alcohol and drug hospitals as well as psychiatric, rehabilitation, and alcohol and drug units operating as distinct parts of acute care hospitals. Hospitals located outside the 50 States and the District of Columbia are also excluded (short-stay hospitals in Puerto Rico will be included in the PPS on October 1, 1987). Excluded facilities continue to be reimbursed on the basis of reasonable costs subject to the target rate of increase limits set forth in the amended regulations (Code of Federal Regulations, 1983).

In addition to these categorical exclusions from prospective payment, the statute provides for other special exclusions, such as hospitals covered by approved State reimbursement control systems, i.e., hospitals located in waiver States and hospitals in certain demonstration projects. For fiscal years 1984 and 1985, hospitals in Maryland, Massachusetts, New Jersey, and New York were waived from PPS regulations. During fiscal year 1986, hospitals in Massachusetts phased into the PPS based on each hospital's fiscal year ending date. Except for hospitals located in the Rochester and Finger Lakes demonstration projects, New York hospitals phased into the PPS on January 1, 1986.

The number of excluded facilities by category and fiscal year is shown in Table 1.

| Table 1 | Number of excluded facilities, by exclusion category and fiscal year: 1984-86 |
|---|---|---|---|
| Exclusion category | 1984 | 1985 | 1986 |
| Hospital | | | |
| Total | 665 | 737 | 784 |
| Psychiatric | 439 | 481 | 515 |
| Rehabilitation | 49 | 68 | 79 |
| Alcohol and drug | 25 | 28 | 22 |
| Long-term | 84 | 86 | 92 |
| Children's | 47 | 53 | 55 |
| Christian Science | 21 | 21 | 21 |
| Unit | | | |
| Total | 1,250 | 1,446 | 1,731 |
| Psychiatric | 722 | 733 | 906 |
| Rehabilitation | 398 | 386 | 473 |
| Alcohol and drug | 220 | 326 | 352 |

Source: Health Care Financing Administration: Data from the Health Standards and Quality Bureau.

The implementation of the Medicare prospective payment system has been accompanied by several changes in hospital classification and in utilization patterns. First, as shown in Table 1, there has been a substantial increase in the number of hospitals and of units in acute care hospitals categorically excluded from the PPS. Second, there has been a dramatic reversal in the continuous increase in the total number of Medicare stays and the rate per 1,000 hospital insurance enrollees. Third, length of stay has dropped. Fourth, there has been a growing number of stays in PPS excluded units within short-stay hospitals and categorically exempt hospitals and increased utilization in outpatient hospitals and other alternative settings. This shift in care among inpatient hospital settings, based on bills received in central office, is examined.

Readers are cautioned in interpreting these and similar Medicare data because of the reclassification of hospitals and hospital units under the PPS. Prior to the PPS, classification of providers was based on average length of stay. It is now on the basis of reimbursement. Trend analyses are particularly influenced because some hospitals formerly classified as short-stay general or specialty hospitals are now classified as psychiatric, rehabilitation, or alcohol and drug hospitals, with newly assigned provider numbers. Similarly, portions or units of short-stay hospitals have been and continue to be designated as excluded units, i.e., excluded from the PPS.
Table 2
Number and percent distribution of Medicare discharges, by facility status under the prospective payment system:
Fiscal years 1984-86

| Fiscal Year | All hospitals and units | Short-stay hospitals and excluded units | Excluded units | Excluded hospitals |
|-------------|-------------------------|----------------------------------------|-----------|-----------------|
|             |                         | Prospective payment system             | Nonprospective payment system¹ | Total | Psychiatric | Rehabilitation | Alcohol and drug | Total | Psychiatric | Rehabilitation | Children's | Alcohol and drug | Long-term |
| Fiscal year | All hospitals and units| Short-stay hospitals                  | Total | Psychiatrist     | Rehabilitation | Alcohol and drug | Total | Psychiatrist | Rehabilitation | Children's | Alcohol and drug | Long-term |
| 1984        | 11,279,000              | 11,162,700                            | 5,143,700 | 5,952,300 | 66,700         | 42,900         | 21,400 | 2,400      | 116,300      | 68,800      | 8,000          | 1,100       | 400          | 38,000      |
| 1985¹       | 10,053,500              | 9,941,600                            | 8,275,800 | 1,524,700 | 141,100        | 88,500        | 44,700 | 9,800      | 111,500      | 66,000      | 19,800         | 1,700       | 1,200        | 23,400      |
| 1986²       | 9,721,300               | 9,599,300                            | 5,785,600 | 941,200   | 173,400        | 107,200       | 53,600 | 12,600     | 121,700      | 75,000      | 27,900         | 1,800       | 1,400        | 15,600      |

¹ Includes short-stay hospitals in waiver States, in outlying areas, and in demonstration areas, and the preprospective payment system experience for short-stay hospitals that had not transitioned into the prospective payment system.
² Incomplete.

NOTE: Total hospital admission notices received to date are as follows:

| Fiscal year | Number in thousands |
|-------------|---------------------|
| 1984        | 11,765              |
| 1985        | 11,175              |
| 1986        | 10,706              |

SOURCE: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System.
Readers are also advised to consider file completeness in forming conclusions from discharge data, especially for 1985 and 1986.

The number of short-stay hospital admissions notices received, which gives an indication of the number of discharge bills expected, are shown in the note at the bottom of Table 2.

Some highlights worthy of note are as follows:

• PPS reimbursement is now made for 9 out of 10 Medicare stays (Figure 1).
• From 1984 to 1986, the proportion of stays in the combination of categorically exempt hospitals and excluded units has almost doubled, from 1.6 to 3.0 percent.
• The proportion of stays in excluded units has tripled.
• Psychiatric stays account for most of the discharges in excluded units and exempt hospitals (Figures 2 and 3).

References

Code of Federal Regulations: Public Health. Title 42, Part 405, Subpart D, Section 405.463. Office of the Federal Register, National Archives and Records Administration. Washington, U.S. Government Printing Office, September 1, 1983.
Figure 1
Percent distribution of Medicare discharges, by facility status under the prospective payment system:
Fiscal years 1984–86

1984
Prospective payment system (45.6)
Excluded units (0.6)
Waiver and other (52.8)
Exempt hospitals (1.0)

1985
Prospective payment system (82.3)
Excluded units (1.4)
Waiver and other (15.2)
Exempt hospitals (1.1)

1986
Prospective payment system (90.4)
Excluded units (1.8)
Waiver and other (6.6)
Exempt hospitals (1.3)

SOURCE: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System.
Figure 2
Percent distribution of Medicare discharges from inpatient hospitals, by facility status under the prospective payment system and from exempt hospitals, by exclusion category: Fiscal year 1985

![Diagram showing distribution of Medicare discharges](image)

Excluded units — 1.4
Waiver and other — 15.2
Exempt hospitals — 1.1
Prospective payment system — 82.3

Inpatient hospitals

Exempt hospitals

SOURCE: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System.

Figure 3
Percent distribution of Medicare discharges from inpatient hospitals, by facility status under the prospective payment system and from excluded units, by exclusion category: Fiscal year 1985

![Diagram showing distribution of Medicare discharges](image)

Excluded units — 1.4
Waiver and other — 15.2
Exempt hospitals — 1.1
Prospective payment system — 82.3

Excluded units

Inpatient hospitals

SOURCE: Health Care Financing Administration, Bureau of Data Management and Strategy: Data from the Medicare Statistical System.