

# INPATIENT PSYCHIATRIC FACILITY SERVICES PAYMENT SYSTEM

payment**basics**

Revised:  
October 2022

Medicare beneficiaries with serious mental illnesses or alcohol- and drug-related problems may be treated in inpatient psychiatric facilities (IPFs), either freestanding hospitals or specialized hospital-based units.<sup>1</sup> The services furnished by IPFs are intended to meet the urgent needs of those experiencing an acute mental health crisis. Medicare payments to IPFs are estimated to be \$3.4 billion in 2020. On average, Medicare beneficiaries account for over 15 percent of total psychiatric facility days. In 2020, about 189,000 beneficiaries had roughly 283,000 Medicare discharges from IPFs. About 1,530 facilities submitted Medicare cost reports in 2020.

To be admitted to an IPF, patients generally have to be considered a risk to themselves—either intentional or as the result of impaired self-care—or to others. As is the case for stays in general acute care hospitals, beneficiaries treated in IPFs are responsible for a deductible—\$1,600 in 2023—for the first admission during a spell of illness, and for a copayment—\$400 per day—for the 61st through 90th days. Beneficiaries treated for psychiatric conditions in IPFs are covered for 90 days of care per spell of illness, with a 60-day lifetime reserve.<sup>2</sup> Over their lifetimes beneficiaries are limited to 190 days of treatment in freestanding psychiatric hospitals.<sup>3</sup>

## Defining the care Medicare buys

Since January 2005, Medicare has paid IPFs predetermined per diem rates based primarily on the patient's condition (age, diagnosis, comorbidities) and length of stay, and the location of the IPF. Under the IPF prospective payment system (PPS), Medicare's payment rates are intended to cover all routine, ancillary, and capital costs that efficient providers are expected to incur in furnishing inpatient psychiatric care.

## Setting the payment rates

Payments to IPFs are determined by adjusting a daily base payment rate for geographic differences in labor costs and for differences in the costs of care related to specified patient and facility characteristics. The base payment rate for each patient day in an IPF is based on the national average daily routine operating, ancillary, and capital costs in IPFs in 2002, updated for inflation. The IPF base payment rate—\$866 per day in fiscal year (FY) 2023—is adjusted for differences in labor costs by multiplying the labor-related portion of the base payment amount—77.4 percent—by an area wage index (Figure 1). The wage-adjusted base rate is then further adjusted for the following patient- and facility-specific characteristics:

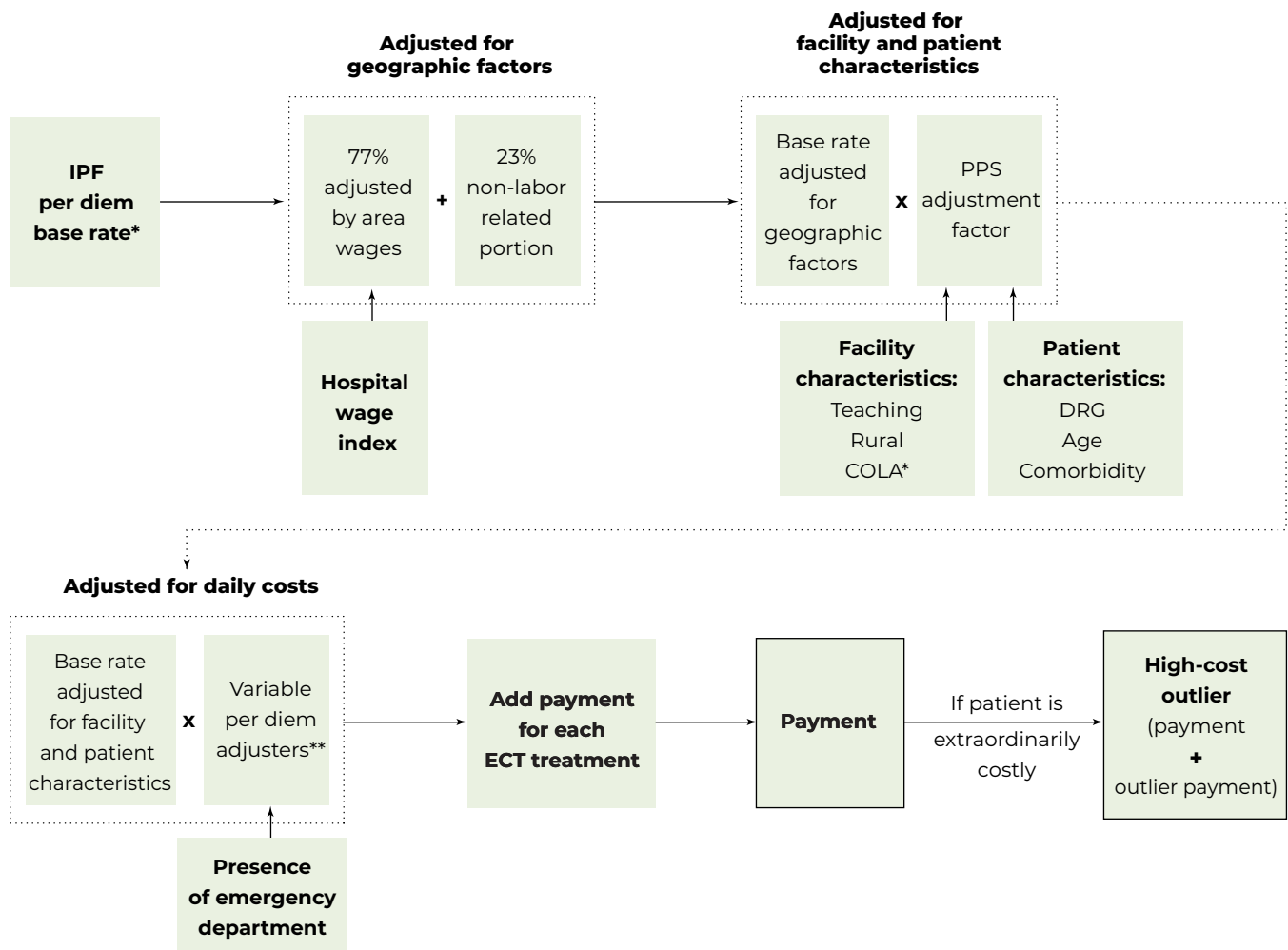
- **Age**—In general, payment increases with increasing patient age over 45.
- **Diagnosis**—Patients are assigned to one of 17 psychiatric Medicare severity diagnosis related groups (MS-DRGs), such as psychoses, depressive neuroses, and degenerative nervous system disorders. Medicare assigns a weight to each of the MS-DRGs reflecting the average costliness of cases in that group compared with that for the most frequently reported psychiatric diagnosis (MS-DRG 885, psychosis).
- **Comorbidities**—This adjustment recognizes the increased costs associated with 17 specific patient conditions—such as renal failure, diabetes, and cardiac conditions—that are secondary to the patient's principal diagnosis and that require treatment during the stay.
- **Length of stay**—Per diem payments decrease as patient length of stay increases (Table 1).
- **Rural location adjustment**—IPFs in rural areas are paid 17 percent more than urban IPFs.
- **Teaching adjustment**—Teaching hospitals have an adjustment based on the ratio

*The policies discussed in this document were current as of September 30, 2022, and reflect any relevant changes implemented in response to the COVID-19 public health emergency as of that date. This document does not reflect proposed legislation or regulatory actions.*

**medpac**

425 I Street, NW  
Suite 701  
Washington, DC 20001  
ph: 202-220-3700  
www.medpac.gov

**Figure 1 Inpatient psychiatric facility services prospective payment system, FY 2023**



Note: FY (fiscal year), IPF (inpatient psychiatric facility), PPS (prospective payment system), COLA (cost of living adjustment), DRG (diagnosis related group), ECT (electro-convulsive therapy).

\*A cost of living adjustment (COLA) to the non-labor related portion is made for facilities in Alaska and Hawaii.

\*\*The variable per diem adjuster is higher for the 1st day when an emergency department is present. The adjuster declines from 1.31 with an emergency department and 1.19 without an emergency department to 0.92 over time. Table 1 shows the adjuster.

of interns and residents to average daily census.

- **Cost of living adjustment**—IPFs in Alaska and Hawaii are paid up to 25 percent more than IPFs located in other areas, reflecting their disproportionately higher costs.
- **Emergency department adjustment**—IPFs with qualifying emergency departments are paid about 10 percent more for their patients' first day of the stay.

IPFs also receive an additional payment for each electroconvulsive therapy (ECT)

treatment furnished to a patient. In FY 2023, the ECT payment is \$373.

Patients who are readmitted to the IPF within three days of discharge are considered to have an interrupted stay. In such cases, Medicare treats the readmission as a continuation of the original stay, with lengths of stay adjustments applied accordingly.

**Outlier payments**—The IPF PPS has an outlier policy for cases that have extraordinarily high costs, drawn from an outlier pool of 2 percent of total payments.

Medicare makes outlier payments when an IPF's estimated total costs for a case exceed the total payment amount for the case plus a fixed loss amount (\$24,630 in FY 2023, adjusted by the wage index and the facility-specific characteristics outlined above). Medicare will cover 80 percent of the costs above this threshold for days 1 through 9, and 60 percent of the costs above the threshold amount for the remaining days. The different risk-sharing rates are intended to counteract the financial incentives to keep outlier cases longer than may be necessary.

### Payment updates

CMS updates the payments to IPFs annually. The base rate is updated using an IPF-specific market basket index, which measures the price increases of goods and services IPFs buy to produce patient care. The Affordable Care Act (ACA) requires that the annual update to the IPF payment rates be reduced by an adjustment for productivity. The annual update to the base payment amount is further reduced by 2 percentage points for any IPF that fails to submit required quality data. ■

- 1 Beneficiaries are also treated for psychiatric or alcohol- and drug-related conditions in regular beds in acute care hospitals. When this happens, the acute care hospital is paid under the acute care inpatient prospective payment system.
- 2 The number of inpatient benefit days in the first benefit period is reduced for individuals who are in a Medicare participating IPF on their first day of entitlement to Medicare Part A. Beneficiaries are liable for a higher copayment for each lifetime reserve day—\$800 per day in 2023.
- 3 This restriction, which was intended to limit the federal government's role in paying for long-term custodial care of beneficiaries with mental illnesses, applies only to services furnished in freestanding IPFs. The limitation does not apply to inpatient psychiatric services furnished in a specialized psychiatric unit of an acute care hospital, nor does it apply to psychiatric stays paid for under the acute care hospital prospective payment system.

**Table 1** The adjusted rate for IPFs is higher for earlier days of a patient's stay

Day of patient's stay	Per diem adjustment
<b>1</b> Facility:	
with a full-service emergency department	1.31
without a full-service emergency department	1.19
<b>2</b>	1.12
<b>3</b>	1.08
<b>4</b>	1.05
<b>5</b>	1.04
<b>6</b>	1.02
<b>7</b>	1.01
<b>8</b>	1.01
<b>9</b>	1.00
<b>10</b>	1.00
<b>11</b>	0.99
<b>12</b>	0.99
<b>13</b>	0.99
<b>14</b>	0.99
<b>15</b>	0.98
<b>16</b>	0.97
<b>17</b>	0.97
<b>18</b>	0.96
<b>19</b>	0.95
<b>20</b>	0.95
<b>21</b>	0.95
<b>22 or more</b>	0.92

Note: IPF (inpatient psychiatric facility). The per diem adjustment is applied to the base rate that is already adjusted for geographic, facility, and patient characteristics.

Source: Centers for Medicare & Medicaid Services, Department of Health and Human Services. 2022. Medicare Program; FY 2023 Inpatient Psychiatric Facilities Prospective Payment System—Rate Update and Quality Reporting - Request for Information for Fiscal Year Beginning October 1, 2022 (FY 2023). *Federal Register* 87, no. 145 (July 29): 46846–46878.