

290 - The Prospective Payment System (PPS)

(Rev. 4, 10-01-01)

The Social Security Amendments of 1983 (P.L. 98-21) provided that, effective with cost reporting periods beginning on or after October 1, 1983, most Medicare payments for Part A hospital inpatient operating costs are to be made prospectively on a per discharge basis. Part A Inpatient Hospital operating costs include costs (including malpractice insurance cost) for general routine services, ancillary services, and intensive care type unit services. However, they exclude capital-related costs incurred prior to October 1, 1991, when capital-related costs began to be paid based on a separate prospective payment rate and direct medical education costs (which are paid using a different method). Part B inpatient ancillary and outpatient service will continue to be paid retrospectively on a reasonable cost basis.

The following hospitals and hospital units are exempt from the PPS:

- Hospitals located outside the 50 States and the District of Columbia;
- Psychiatric hospitals;
- Rehabilitation hospitals
- Long term hospitals;
- Children's hospitals;
- Psychiatric and rehabilitation units of general hospitals which meet the separate entity requirement of the Provider Reimbursement Manual, Part I, or §§1814 or 1886(c); of the Act; and
- Hospitals subject to State rate setting authority operated under §§1814 or 1886(c) of the Act.

These hospitals will continue to be paid on the basis of reasonable costs, subject to applicable target rate ceilings contained in §1886(b) of the Act.

NOTE: The exemption is not optional on the part of the provider but is required as long as the hospital or hospital unit meets the definition for exemption.

In addition, other entities are paid on a prospective basis (including SNFs, Outpatient Hospitals, etc.) under §1888(d) of the Act. Payments made for services will be governed by the same rules that are used for Medicare beneficiaries not enrolled in a HMO/CMP.

For a detailed discussion of the PPS provision, see the Provider Reimbursement Manual and the Intermediary Manual.