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# Program Memorandum Intermediaries

Department of Health and  
Human Services (DHHS)  
HEALTH CARE FINANCING  
ADMINISTRATION (HCFA)

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## CHANGE REQUEST 1509

**SUBJECT: Exemption of Critical Access Hospital Swing Beds From Skilled Nursing Facility Prospective Payment System**

The purpose of this Program Memorandum (PM) is to correct the CAH cost allocation methodology to be used for critical access hospital (CAH) acute care and swing bed days. The changes are shown in Section C, and are printed in bold type for easy identification. This new cost allocation procedure is required as a result of the implementation of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA 2000).

**A. Current System for Payment of Swing Bed Facility Services Under Part A of the Medicare Program**

Section 1883 of the Social Security Act (the Act) permits certain small rural hospitals and critical access hospitals (CAH) to enter into a swing-bed agreement, under which the hospital can use its beds to provide either acute or skilled nursing facility (SNF) care, as needed. Currently, Part A pays for extended care services furnished in Medicare swing-bed hospitals on a cost-related basis, with both calculated rate and retrospective reasonable cost-based rate components. Under Medicare payment principles set forth in §1883(a)(2)(B) of the Act and regulations at 42 CFR 413.114, swing bed facilities receive payment for two major categories of costs: routine and ancillary.

In general, routine costs are the costs of those services included by the provider in a daily service charge. Routine service costs include regular room, dietary, nursing services, minor medical supplies, medical social services, psychiatric social services, and the use of certain facilities and equipment for which a separate charge is not made. Ancillary costs are costs for specialized services, such as therapy, drugs, and laboratory services that are directly identifiable to individual patients. Capital-related costs, such as the cost of land, building, equipment, and the interest incurred in financing the acquisition of such items, are not reimbursed separately. Instead, they are incorporated into the routine and ancillary cost components of the rate.

Under Medicare rules, the reasonable cost of ancillary services is paid in full. For routine operating costs, swing-bed providers are paid a pre-determined rate equal to the average reasonable routine cost of all freestanding SNFs in the census region. This pre-determined rate is based on the latest available annual cost report data, is adjusted for inflation, and is calculated on a calendar year basis.

**B. BIPA 2000 Changes**

Under §203 of the BIPA 2000, swing beds in CAHs are exempt from §1888(e)(7) of the Act (as enacted by §4432(a) of the Balanced Budget Act of 1997), which applies the SNF Prospective Payment System (PPS) to SNF services furnished by swing-bed hospitals generally. In addition, this provision establishes a new reimbursement system for CAHs that provides full reasonable cost payment for CAH swing-bed services. This provision is effective with cost reporting periods beginning on or after the date of the enactment of the BIPA 2000, December 21, 2000.

These changes apply solely to CAHs with swing beds. Other rural hospitals with swing beds are not affected by this provision and will continue to be reimbursed as described in §1883 of the Act and summarized in A above. Regulations and instructions concerning the transition of rural hospital swing bed reimbursement to the SNF PPS will be issued at a later date.

**HCFA-Pub. 60A**

## C. FI Processing Instructions

### Current Provision

Currently, to calculate the swing bed cost carve out from routine services, Medicare substitutes the pre-determined regional rate as a proxy for total swing bed routine costs and then applies that same pre-determined rate to total swing bed days.

### BIPA 2000 Provision

Intermediaries will need to adjust the CAH swing bed rate effective with the first day of the provider's fiscal year beginning on/after December 21, 2000. Instead of using the pre-determined rate **for SNF-like swing bed days**, calculate an interim payment rate reflecting an estimate of each facility's routine cost in the current year. This interim payment rate will be calculated from the latest available cost reporting data. To reimburse a CAH for its swing bed services based on cost, it will be necessary to refer to the CAH's most recent cost report to track the number of **SNF-like** swing bed days, **NF-like swing bed days**, total patient days, and total routine costs. Presently, the cost report calculates total routine costs through worksheet D-1 of the Form HCFA-2552-96.

**NF-like swing bed routine costs should be calculated using existing procedures; i.e., multiplying the average statewide rate per patient day paid under the state Medicaid plan by the number of NF-like swing bed days. The NF-like swing bed costs should then be deducted from the hospital's total routine costs. Then, to calculate the SNF-like swing bed cost per day, the adjusted routine costs are divided by the sum of the total number of inpatient routine care days and total SNF-like swing bed days. This cost per day is then applied against the SNF-like swing bed days to arrive at the carve out for SNF swing bed costs. That same per diem is then applied against the Medicare swing bed days resulting in Medicare's share of routine swing bed costs.**

The cost report instructions will be modified on Worksheet D-1 to accommodate this change in payment procedures for CAHs.

The ancillary costs are apportioned to Medicare based on billed charges. The cost report currently calculates Medicare's share of ancillary costs through worksheet D-4 of the same cost reporting Form HCFA-2552-96. No change would be required to the cost report for calculating swing bed ancillary costs.

Settlement for CAHs for swing bed services will continue to be calculated on Worksheet E-2.

Notify providers of this information as soon as possible. In addition, post the information to your web site as soon as possible.

Although this provision does not require a systems change, it does affect the cost reports.

**The effective date for this PM is for cost reporting periods beginning on or after December 21, 2000.**

**The implementation date for this PM is March 4, 2001.**

**These instructions should be implemented within your current operating budget.**

**This PM may be discarded after December 31, 2001.**

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