OMFS Update for Inpatient Hospital Services  
(Effective for discharges occurring on or after December 1, 2022)

1. Data Sources
   1. The Medicare FY23 update to the inpatient prospective payment system was published on August 10, 2022 in the Federal Register (Vol. 87 FR 48780) and is entitled “Medicare Program; Hospital Inpatient Prospective Payment Systems for Acute Care Hospitals and the Long-Term Care Hospital Prospective Payment System and Policy Changes and Fiscal Year 2023 Rates; Quality Programs and Medicare Promoting Interoperability Program Requirements for Eligible Hospitals and Critical Access Hospitals; Costs Incurred for Qualified and Non-Qualified Deferred Compensation Plans; and Changes to Hospital and Critical Access Hospital Conditions of Participation.”The Medicare Acute Inpatient Hospital FY 2023 Final Rule (CMS-1771-F) and related tables are available on the Centers for Medicare and Medicaid Services’ (CMS) [FY 2023 IPPS Final Rule Home Page.](https://www.cms.gov/medicare/acute-inpatient-pps/fy-2023-ipps-final-rule-home-page)
   2. The public use file used to calculate the composite rates is entitled “FY 2023 Final Impact File (ZIP).” The file contains wage data posted on the CMS website.
2. Composite Rate Calculation
   1. Update to the standardized amount. L.C. 5307.1(g)(1)(A)(i) provides that the annual inflation adjustment for inpatient hospital facility fees shall be determined solely by the estimated increase in the hospital market basket. Thus, in lieu of using the Medicare FY2023 rates to determine the updated OMFS amounts, the estimated increase in the hospital market basket was applied to the 2022 OMFS rates for dates of discharge effective, December 1, 2022.
   2. OMFS rate for operating costs
      1. Based on the Medicare Hospital Inpatient Prospective Payment System, all hospitals are paid the same standard rate for operating costs (based on the rate for hospitals located in large urban areas). The 2022 rate was $7,370.88. The estimated increase in the market basket is 4.1%. (FY 2023 Final Rule, 87 Federal Register 48780, 49056.) The 2023 standard rate under the OMFS is $7,673.09 ($7,370.88. x 1.041).
      2. The Medicare Hospital Inpatient Prospective Payment System provides that if a hospital’s wage index is less than or equal to 1.0, the labor-related share is .62 of the standard rate. If the wage index is greater than 1.0, the labor-related share is .676. (FY 2023 Final Rule, 87 Federal Register 48780, 49431.) The wage-adjusted standard rate is determined as follows:

a. For discharges occurring on or after December 1, 2022, use FY 2023 wage index, which can be found in the Impact File for FY 2023.

b. If FY 2023 wage index >1.0, wage-adjusted rate = $7,676.09 x (.676 x FY 2023 wage index + .324)

c. If FY 2023 wage index <=1.0, wage-adjusted rate = $7,673.09 x (.62 x FY 2023 wage index + .38)

* + 1. The wage-adjusted operating rate is further adjusted for any additional payments for teaching and serving a disproportionate share of low-income patients.
       1. OMFS operating DSH adjustment factor equals the sum of a) the Medicare DSH operating adjustment and b) 3 x the Medicare DSH operating adjustment x the Uncompensated Care adjustment.
       2. Adjusted operating rate = wage-adjusted standard rate x (1 + TCHOP + DSHOPP x 4 x DSH adjustment factor). The DSH adjustment factor for 2023 is 0.742825 (75% x Medicare DSH factor 2 which is 65.71% +25)/100. (DSH Factor 2 - FY 2023 Final Rule, 87 Federal Register 48780, 49033.)
  1. OMFS rate for capital-related costs
     1. The estimated increase in the capital market basket is 2.5%. (87 Federal Register 48780, 49437.)  
        The 2023 capital standard federal payment rate is $527.82 ($514.95 x 1.025).
     2. The capital standard federal payment rate is adjusted for the capital geographic adjustment factor, teaching, and for serving low-income patients.
     3. For discharges occurring on or after December 1. 2022, use FY 2023 GAF, which can be found in the FY 2023 Final Rule Impact File:
        1. Adjusted capital standard federal payment rate = $527.82 x FY 2023 GAF x (1+ DSHCPP + TCHCP).
  2. The standard composite rate is the sum of the OMFS rate for operating costs and the OMFS rate for capital-related costs.
  3. Sole community hospitals (PTYPE = 16 or 17) receive the higher of the standard composite rate or a composite rate based on a hospital-specific rate for operating costs plus the OMFS rate for capital-related costs. When the hospital-specific composite rate (FY 23 HSP Rate) is higher than the standard composite rate, the amount is shown in italics. The FY 23 HSP Rate is the FY 1982/1987/1996/2006 Hospital Specific Payment (HSP) Rate updated to FY 2023 for SCH providers.

1. Cost-to-charge ratio (CCR) used to determine an outlier payment is the sum of the operating and capital cost-to-charge ratios. CCR = Operating CCR + Capital CCR
2. Hospital-specific outlier factor
   1. The fixed loss cost outlier threshold is $38,859. (87 Federal Register 48780, 49428.)
   2. The fixed loss cost outlier threshold is allocated to operating and capital components and adjusted for geographic location as follows:
      1. For discharges occurring on or after December 1, 2022, use FY 2023 wage index, which can be found in the FY 2023 Final Rule Impact File:
         1. If FY 2023 wage index > 1.0, operating outlier factor = $38,859 x Operating CCR/CCR x (FY 2023 wage index x .676 +. 314)
         2. If FY 2023 wage index < =1.0, operating outlier factor = $38,859 x Operating CCR/CCR x (FY 2023 wage index x .62 + .38)
      2. For discharges occurring on or after December 1, 2022, use FY 2023 GAF, which can be found in the FY 2023 Final Rule Impact File:
         1. Capital outlier factor = $38,859 x Capital CCR/CCR x FY 2023 GAF
      3. Hospital-specific outlier factor = operating outlier factor + capital outlier factor
3. DRG Relative Weights: Updated DRG relative weights table is entitled “Table 5: List of Medicare Severity Diagnosis-Related Groups (MS-DRGs), Relative Weighting Factors, and Geometric and Arithmetic Mean Length of Stay – FY 2023 Final Rule.” Table 5 is available on the [CMS’ FY 2023 IPPS Final Rule Home Page.](https://www.cms.gov/medicare/acute-inpatient-pps/fy-2023-ipps-final-rule-home-page) Section 9789.24, Diagnostic Related Groups, Relative Weights, Geometric Mean Length of Stay is revised to adopt these changes effective with discharges occurring on or after December 1, 2022.
4. Maximum Allowable Fees: To determine the standard payment rate, the hospital-specific composite rate would be multiplied by the DRG relative weight and 1.20 multiplier. Additional payments will be made for high cost outlier cases and for certain pass-through costs in accordance with the regulations.
5. Acute Care Transfers: Section 9789.22(j)(2)(A) is amended to conform to Medicare’s updates to the qualifying Medicare Severity DRGs when an acute care patient is discharged to a post-acute care provider, which were indicated in the August 10, 2022 Final Rule at Federal Register (Vol. 87 FR 48780). Table 5 lists how the transfer policy will apply when an acute care patient in a particular MS-DRG is discharged to a post-acute care provider. The Final Rule and Table 5 are available on the CMS’ [FY 2023 IPPS Final Rule Home Page](https://www.cms.gov/medicare/acute-inpatient-pps/fy-2023-ipps-final-rule-home-page).
6. Section 9789.22(j)(2)(B) is amended to conform to Medicare’s updates to Medicare-Severity DRGs subject to payment under this subsection which are indicated with a “yes”, in the “FY2023 Special Pay DRG” column, listed in Table 5, which was indicated in the August 10, 2022 Federal Register (Vol. 87 FR 48780). The Final Rule and Table 5 are available on the CMS’ [FY 2023 IPPS Final Rule Home Page](https://www.cms.gov/medicare/acute-inpatient-pps/fy-2023-ipps-final-rule-home-page).
7. The Order amends sections 9789.20 through 9789.25 to incorporate by reference the applicable Federal Register final rule and Federal Regulations in effect as of the date the Order becomes effective, to be applied to discharges occurring on or after December 1, 2022.