



Illinois Hospital Association

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Technical Bulletin #292: FY2009 Revisions to the Medicare Hospital Wage Index; Medicare Payment Advisory Commission (MedPAC) Recommendations

With all the attention on the recent publications by the Centers for Medicare and Medicaid Services (CMS) on various Medicare payment rule revisions for FY2008 (See IHA Technical Bulletins, [#290](#) and [#290A](#)), it was easy to overlook one of the provisions of the Tax Relief and Health Care Act of 2006 (TRA) that will have a significant impact on how providers are paid beginning in FY2009 and beyond. While the expansion and reform of the Medicare DRG system scheduled for implementation in FY2008 has definitely taken center stage, the Section 106 (b) of the TRA directed the Medicare Payment Advisory Commission (MedPAC) to recommend alternatives to the current method of calculating the Medicare wage index. As you may recall, in FY2004, the most significant change to the wage index values was incorporated; that change involved the use of Core-Based, Statistical Areas (CBSAs) replacing the previously used Metropolitan Statistical Areas (MSAs). But given the plethora of issues and inconsistencies surrounding the current wage index methodology, Congress has directed the Department of Health and Human Services to consider MedPAC's recommendations for wage index reform when it publishes its proposed Medicare payment rules for FY2009. **Very preliminary estimates indicate that Illinois hospitals will lose over \$31.5 million in FY2009 using the wage indices as listed in the Technical Appendix of the June MedPAC report. But again, these are very preliminary.**

Earlier this month, MedPAC did release its annual report, [Promoting Greater Efficiency in Medicare](#), to Congress. Chapter 6 of that report addresses the MedPAC's evaluation of the current wage index methodology and recommendations for improvement. The report is accessible at: <http://www.medpac.gov/> - Click on Report to Congress. Specifically, MedPAC recommends the following:

- **6A:** "The Congress should repeal the existing hospital wage index statute, including reclassifications and exceptions, and give the Secretary (of HHS) authority to establish new wage index systems."
- **6B:** "The Secretary should establish a hospital compensation index that:
 1. Uses wage data from all employers and industry-specific occupational weights
 2. Is adjusted for geographic differences in the ratio of benefits to wages
 3. Is adjusted at the county level and smoothes large differences between counties
 4. Is implemented so that large changes in wage index values are phased in over a transition period."
- **6C:** "The Secretary shall use the hospital compensation index described in recommendation 6B for the home health and skilled nursing facility prospective payment systems and evaluate its use in the other Medicare fee-for-service prospective payment systems."

Problems with the Current System: The MedPAC report highlights several problems with the current wage index development:

1. Medicare cost report information is the current source of wage index information. Audits of the cost reports reveal inaccuracies and inconsistencies among the data. Oftentimes the cost reporting instructions to hospitals are confusing.

2. The presence of one or two hospitals in a given county or area can skew the results for that particular CBSA.
3. Applying exceptions and reclassifications in certain situations is administratively burdensome for CMS.
4. The occupational mix adjustment that is meant to eliminate the effects of skill-mix hiring practices from the cost of labor only accounts for nursing costs and does not take into account other occupations.

MedPAC's Solution: To address those problems, MedPAC recommends replacing the Medicare cost report with the Bureau of Labor Statistics (BLS) survey data and would create separate occupational weights for each industry (hospital, nursing facility and home health agency) using BLS-reported industry-specific data. Data on benefits such as health insurance, pensions and payroll taxes would also be developed. MedPAC's estimated impact tables of moving from the current system to its proposed system are detailed in Chapter 6.

What's next? The TRA doesn't require that CMS incorporate MedPAC's recommendations verbatim in its FY2009 proposed Medicare payment rules (scheduled to be published sometime early next May), but it does require that CMS publish "one or more proposals to revise the wage index adjustment..." Any change to the methodology of calculating wage and benefits-adjusted Medicare payment rates will have a significant impact on individual providers' Medicare payments. In addition to impacts on the hospital acute inpatient payments, skilled nursing facilities and home health agencies will be impacted as well, as they would begin using their own service-level indices to compute payments. Looking back to when CMS converted from MSAs to CBSAs, there was a transition period to allow hospitals time to adapt to the new statistic. MedPAC supports such a transition when this new system is introduced (See Above, #6B-4.) Also, it is likely that a new, wage-related reporting form would be developed to replace the current Medicare cost report worksheet S-3, Part III.

The Illinois Hospital Association will continue to monitor developments in this area. IHA hopes this information is useful to you. If you have any questions or comments, contact [Tom Jendro](#): (630) 276-5516.