



**American Hospital  
Association**

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July 1, 2004

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Centers for Medicare & Medicaid Services  
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Washington, DC 20201

**Withdrawal of area wage index reclassification requests pertaining to CMS-1428-P - Medicare Program; Proposed Changes to the Hospital Inpatient Prospective Payment System and Fiscal Year 2005 Rates (69 Federal Register 28196).**

Dear Dr. McClellan:

The American Hospital Association (AHA), on behalf of our nearly 5,000 member hospitals, health care systems, networks and other providers of care, urges the Centers for Medicare & Medicaid Services (CMS) to use its administrative authority to protect hospitals that have been approved for reclassifications from any decline in their wage index the reclassification might cause.

The FY 2005 inpatient prospective payment systems (PPS) proposed rule, issued May 18, is one of the most complicated and lengthy in the history of the Medicare program. Especially complex are the legislative and regulatory provisions affecting the hospital wage index. CMS' proposal to adopt revised metropolitan statistical areas (MSAs) based on the 2000 Census not only creates new MSAs but also significantly reconfigures existing MSAs. The result is that the wage indexes associated with where a hospital has been reclassified, or where it is physically located, may have significantly changed. Of the 3,918 hospitals in our database, we calculate that 2,901 (74 percent) experience an increase or decrease in their wage index solely due to the new configuration of MSAs.

Hospitals that wished to reclassify to another labor market for FY 2005 needed to submit an application to the Medicare Geographic Classification Review Board (MGCRB) by September 1, 2003. The MGCRB then reviewed the applications and issued its reclassification decisions at the end of February 2004. Thus, hospitals that applied to be reclassified did so based on the current FY 2004 labor market areas and wage index values, not on the revised labor market areas or proposed FY 2005 wage index values. CMS says that 339 hospitals received reclassification



approval for 2005, and, given that reclassifications are good for three years, another 102 hospitals were approved in 2004 and 55 in 2003 – bringing the total to almost 500 hospitals that will be reclassified in 2005. Hospitals who wish to withdraw their reclassification requests, however, must do so within 45 days of the release of the May 18 inpatient PPS proposed rule, which is Friday, July 2 – before FY 2005 wage index values are finalized.

In the rule, hospitals were urged to ensure that the wage index for the area to which they reclassified (Tables 4C and 4D in the notice of proposed rulemaking) was greater than the wage index of the labor market where they are now (Tables 4A and 4B). But the wage index values in all four tables had errors, making it difficult for hospitals to make accurate decisions regarding their reclassification status.

To further complicate matters, CMS either discusses or proposes additional changes affecting reclassifications, including: lowering the threshold requirements for urban rural referral centers; allowing sole community hospitals to adopt the wage index of another geographic area within its state; creating an imputed “rural floor” for all urban states; and changing the calculation of the threshold for dominant hospitals, single-hospitals, and, potentially, all hospitals. These provisions would alter the wage indexes published in the proposed rule.

In addition, the Medicare Modernization Act of 2003 (MMA) provided for a special one-time geographic reclassification of hospitals that meet certain qualifications, as well as wage index adjustments based on the commuting patterns of hospital employees, which has unexpectedly changed the wage indexes of many hospitals. This could result in a larger number of potential withdrawals of requests for reclassification, thus changing the rates in the proposed rule further. **Taken together, the wage indexes published in the final rule will likely be quite different than those in the proposed rule.**

Although the statute provides that a reclassified rural hospital may not have a lower wage index after reclassification than before, there is not a similar protection for urban hospitals. **Because hospitals cannot appropriately evaluate the impacts of their reclassification decisions prior to the deadline for withdrawing an approved reclassification, the AHA urges CMS to also protect urban hospitals so that their wage index does not decline after reclassification.** This, in effect, would allow CMS to grant both rural and urban hospitals the most advantageous wage index value possible for 2005.

Under this proposal, some hospitals granted the most advantageous wage index by CMS may not wish to maintain it even though it results in a higher wage index. This may be true of rural hospitals reclassifying to urban areas that wish to remain designated as rural for other purposes.

**The AHA recommends that CMS allow these hospitals 30 days after publication of the 2005 inpatient PPS final rule to withdraw their reclassification request.** We believe that very few hospitals, if any, would implement this option, as it would mean moving from a higher wage area to a lower wage area and thus reduced Medicare hospital payments. If hospitals do withdraw their reclassification, we do not recommend that CMS recalibrate all wage indexes, because the movement of the hospital to the lower wage area will result in only minor changes in Medicare program spending.

While CMS is required to give hospitals an opportunity to withdraw their reclassification within 45 days of the release of the proposed rule, our legal analysis can find no prohibition from offering a second opportunity for hospitals to withdraw their reclassification after publication of the final rule.

We appreciate CMS' consideration of this special, one-time request to protect reclassifying hospitals given all of the significant, and unforeseeable, proposed changes to the 2005 wage index. If you have any questions, please feel free to contact me or Ashley Thompson, senior associate director of policy, at 202-626-2340.

Sincerely,

Rick Pollack  
Executive Vice President