

July 11, 2006

ESTIMATED FY 2007

OCCUPATIONAL MIX ADJUSTMENT

## *AT A GLANCE*

### ***The Issue:***

On June 29, the Centers for Medicare & Medicaid Services (CMS) released a public use file (PUF) with the preliminary data from the Jan. 1, 2006 through March 31, 2006 occupational mix collection that will be used to adjust the fiscal year (FY) 2007 inpatient area wage index (AWI). To help individual hospitals gauge the impact of this adjustment, the AHA has posted at [http://www.aha.org/aha/key\\_issues/ipps/member/ipps\\_occmix.html](http://www.aha.org/aha/key_issues/ipps/member/ipps_occmix.html) our estimate of what a hospital's AWI would have been using the previous occupational mix adjustment as well as the AWI using the estimated new occupational mix adjustment.

### ***Our take:***

Hospitals should review our estimates to see how the new system will affect them, keeping in mind that the values may change when CMS releases its final data ... which won't happen until after the agency releases its final inpatient prospective payment system (PPS) rule.

### ***What You Can Do:***

Review the attached Advisory, and the AHA estimate of how the new wage index values may affect your hospital. Be sure to also review the PUF <http://www.cms.hhs.gov/AcuteInpatientPPS/WIFN/list.asp#TopOfPage> for errors and notify your fiscal intermediary (FI) of any errors by July 13.

### ***Further Questions:***

Contact Danielle Lloyd, AHA senior associate director of policy, at (202) 626-2340 or [ippsquestions@aha.org](mailto:ippsquestions@aha.org).

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### BACKGROUND

*The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000* requires the Centers for Medicare & Medicaid Services (CMS) to collect data every three years on the occupational mix of employees from hospitals subject to the Medicare inpatient prospective payment system (PPS), in order to construct an occupational mix adjustment to the area wage index (AWI). This adjustment is used to control for the effects of hospitals' employment choices – such as the use of registered nurses versus licensed practical nurses – rather than geographic differences in the costs of labor.

On Feb. 10, 2006, CMS published in the *Federal Register* an information collection notice finalizing a revised survey instrument for the second collection of occupational mix data. CMS intended to use that data to adjust the AWI of the inpatient PPS for fiscal years (FYs) 2008, 2009 and 2010. However, as a result of a court ruling, CMS released a Joint-Signature Memorandum (JSM) on April 21 and a proposed rule on May 12 that revised the occupational mix adjustment portion of the FY 2007 inpatient PPS proposed rule and superseded the February 10 final notice. While a detailing of hours and wages for employees from Jan. 1 through June 30, 2006 was initially due to fiscal intermediaries (FIs) by July 31, the JSM and proposed rule required hospitals to submit data by June 1 for the first calendar quarter of the year and by August 31 for the second calendar quarter. Data from the first quarter will be used to adjust the FY 2007 AWI, while data for the full six months will be used to adjust the AWI for FYs 2008 and 2009.

The AHA has used this data file to estimate what the new wage index values will be for FY 2007, and has posted an Excel file with the information at [http://www.aha.org/aha/key\\_issues/ipps/member/ipps\\_occmix.html](http://www.aha.org/aha/key_issues/ipps/member/ipps_occmix.html). These estimates are based on CMS' preliminary file, which may contain errors, and our estimates assume that hospitals will chose to reclassify to the areas in which they were listed in the FY 2007 inpatient PPS proposed rule. As a result, hospitals should remember that these values may change when CMS releases its final files. **The agency will not be able to incorporate this data into the FY 2007 inpatient PPS final rule, which should be released by August 1. CMS will instead publish the final wage tables to its Web site between August 1 and October 1.**

## **RECOMMENDED ACTIONS**

- Share this advisory with your chief financial officer and occupational mix survey team (such as key staff in human resources, payroll and information services).
- Download the Excel file and supporting technical appendix from [http://www.aha.org/aha/key\\_issues/ipps/member/ipps\\_occmix.html](http://www.aha.org/aha/key_issues/ipps/member/ipps_occmix.html) to understand the expected impact of the adjustment on your facility.
- Carefully review the June 29 preliminary PUF on the CMS Web site at <http://www.cms.hhs.gov/AcuteInpatientPPS/WIFN/list.asp#TopOfPage> and notify your FI of any errors by July 13.
- Review the final PUF file when it is released later this year and notify CMS within 30-days of its posting if the facility does not want to be reclassified to the area CMS chose for the facility.
- Complete the survey for the second quarter of calendar year 2006 by August 31, paying close attention to contract labor and staff who work in more than one department.
- For more information on the adjustment see the May 22 AHA Regulatory Advisory at [http://www.aha.org/aha/key\\_issues/ipps/member/ipps\\_occmix.html](http://www.aha.org/aha/key_issues/ipps/member/ipps_occmix.html).