

October 6, 2006

MEDICARE INPATIENT PPS: FINAL RATES AND WAGE INDICES FOR FISCAL YEAR 2007

AT A GLANCE

The Issue:

The Centers for Medicare & Medicaid Services (CMS) on September 29 released a final notice that included the fiscal year (FY) 2007 hospital inpatient prospective payment system (PPS) final wage indices and payment rates. This supplements the final inpatient PPS rule that was published in the August 18 *Federal Register*. The delay in the final wage indices and payment rates was due to the federal appellate court's April decision in *Bellevue Hospital Center v. Leavitt* that required CMS to collect new occupational mix data and fully implement the adjustment to the wage index by October 1, 2006.

The final notice will be published in the October 11 *Federal Register*, but all changes took effect October 1. A display copy is currently available at <http://www.cms.hhs.gov/AcuteInpatientPPS/downloads/CMS-1488-N.pdf>. This advisory highlights some of the changes.

Final Rates. The final inpatient PPS standardized amounts will be approximately \$4 less (0.1 percent) than those initially published by CMS. The final standardized amounts are:

Area Wage Index Greater Than 1.0

Full Update (3.4%)		Reduced Update (1.4%)	
Labor-Related	Non-labor-Related	Labor-Related	Non-labor-Related
\$3,397.52	\$1,476.97	\$3,331.80	\$1,448.40

Area Wage Index Less Than 1.0

Full Update (3.4%)		Reduced Update (1.4%)	
Labor-Related	Non-labor-Related	Labor-Related	Non-labor-Related
\$3,022.18	\$1,852.31	\$2,963.73	\$1,816.48

DRG Relative Weights. The use of occupational mix adjusted wage indices had just a minor effect on the diagnosis-related group (DRG) relative weights. No DRG weight changed more than 0.8 percent from the tentative weights announced in the final inpatient PPS rule.

Quality Reporting. Along with the notice, CMS identified on <http://www.qualitynet.org> those hospitals receiving a full market basket update for FY 2007 for successfully reporting on various quality measures. Under federal law, hospitals that submit data on quality measures for heart attack, heart failure, pneumonia and surgical care are eligible for a full inflationary update of 3.4 percent, while those that do not submit data will receive just a 1.4 percent update. According to CMS, of the 3,490 acute care hospitals eligible to participate, all but 28 chose to submit quality data. However, 143 hospitals that did report data failed the submission requirements and will not receive the full update. Hospitals not on the list of qualifying hospitals will be notified on how to appeal the decision by the Iowa Foundation for Medical Care.

Outlier Threshold. The use of the revised wage data resulted in an increase in the outlier fixed-loss threshold from the \$24,475 initially announced to \$24,485.

Occupational Mix Adjustment. The occupational mix adjustment neutralizes the effect a hospital's mix of employees has on the wage index. CMS initially planned to adjust only 10 percent of the wage index for occupational mix in FY 2007 because of questionable data. However, due to the court ruling, CMS is fully implementing the occupational mix adjustment using data collected from January 1 to March 31, 2006. For hospitals that did not report occupational mix data, CMS has used the average mix for that hospital's labor market area. The final wage index values for 70.2 percent of rural areas and 46.9 percent of urban areas will increase as a result of this adjustment, while 29.8 percent of rural areas and 52.1 percent of urban areas will experience a decrease in their wage index.

Geographic Reclassification. Hospitals typically have 45 days from the publication of the proposed rule to accept or deny their geographic reclassifications. This year, though, the wage-related information on which hospitals normally base that decision was not available within that timeframe. Thus, CMS waived the 45-day deadline for FY 2007 and instead chose the most favorable wage index for each hospital, including Section 505 (out-migration), Section 508 (one-time reclassification) and other reclassifications, such as Lugar status, unless otherwise notified by the hospitals.

CMS included the occupational mix adjusted wage indices, out-migration adjustments and their decisions on hospital reclassifications in the final notice on the CMS Web site at <http://www.cms.hhs.gov/AcuteInpatientPPS/downloads/CMS-1488-N.pdf>. Hospitals should review these tables carefully and determine whether they would like to revise CMS' decision on their FY 2007 geographic reclassification. **Hospitals have until 5 p.m. EST October 30 to notify CMS and the Medicare Geographic Classification Review Board (MGCRB) at the addresses below if they wish to reverse the reclassification decision made by CMS or choose a different reclassification for which they are eligible.**

Centers for Medicare & Medicaid Services
Division of Acute Care
C4-08-06
7500 Security Boulevard
Baltimore, MD 21244
Attn: Marianne Myers

AND

Medicare Geographic Classification Review Board
2520 Lord Baltimore Drive, Suite L
Baltimore, MD 21244-2670.

The deadline for FY 2008 geographic reclassification applications was September 1. **Hospitals have until 5 p.m. EST October 30 to cancel a previous withdrawal or termination, or to supplement their FY 2008 applications with the three-year average hourly wage data included in the final notice and available on the CMS Web site at <http://www.cms.hhs.gov/AcuteInpatientPPS/WIFN/list.asp>. Hospitals must submit the requests in writing to CMS and the MGCRB at the addresses above.**

Financial Impact. According to the CMS impact assessment, the overall changes would be similar to that of the final rule published August 18. The changes will provide, on average, a 3.5 percent payment increase to hospitals overall and a 3.4 percent average increase to urban hospitals. However, rural hospitals will receive a 3.9 percent average increase as compared to the initially announced 3.7 percent. CMS continues to estimate that the total impact of these changes for FY 2007 operating payments will result in a \$3.4 billion increase over FY 2006.

Our Take:

The AHA is currently analyzing the impact the final rates would have on hospitals. Given the major changes included in this year's rule, the AHA encourages hospital leaders to estimate the rule's impact on their facilities based on the revised figures included in the final notice. We will continue to work with CMS over the next year on major policy issues like DRG reform, quality reporting and the occupational mix adjustment.

What You Can Do:

- ✓ Share this advisory with your senior management team.
- ✓ Ask your chief financial officer to examine the impact the payment changes will have on your Medicare revenue for FY 2007.
- ✓ Check <http://www.qualitynet.org> to verify that your facility is listed among those receiving a full market basket update for FY 2007. If not, appeal that decision to CMS.
- ✓ Check the geographic reclassification choice CMS may have made on your behalf and notify CMS and the MGCRB in writing by October 30 if you disagree with that choice.
- ✓ Supplement any FY 2008 geographic reclassification applications previously submitted with the three-year average hourly wage data now available on the CMS Web site.

Further Questions:

For policy questions, contact Danielle Lloyd, AHA senior associate director of policy, at (202) 626-2340 or dlloyd@aha.org. For problems with the Web site or transmission of this advisory, please contact AHA Member Relations at (800) 424-4301.