



# American Hospital Association

## Wage Index Chart Pack

November, 2011



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# Introduction

- The area wage index adjusts Medicare hospital inpatient and outpatient payments for the approximately 3400 prospective payment system (PPS) hospitals for differences in wage rates across geographic regions.
- The basic premise is that if it costs more to hire a nurse in one market area than another, for example, payments should reflect that difference because area labor costs are beyond a health care provider's control.
- Hospitals report wage data for their employees on their Medicare cost reports. These wage data are used to calculate the average hourly wage (AHW) for the area. To calculate the area wage index, each area's AHW is compared to the national average. However, there is a 4-year delay from reporting to the time wage data are included in the wage index. For example, the FY 2012 wage index is based on data from FY 2008 cost reports.



# Introduction (cont.)

- Currently, core-based statistical areas (CBSAs), which are based on counties, are used as market areas for wage index purposes.
- CBSAs usually include a city and its surrounding suburbs. All counties in the state not in a CBSA together form the statewide rural area.
- The basic wage index system can result in large differences between adjoining geographic areas.
- Because of this, numerous exceptions to the basic calculation have been incorporated into the system that permit hospitals to have their payments adjusted by a higher wage index value.
- For example, a hospital may apply for a reclassification to a higher wage index area when it is located near a different CBSA and pays wages comparable to those paid by hospitals in that CBSA.
- There are seven different reclassifications and exceptions hospitals can obtain.

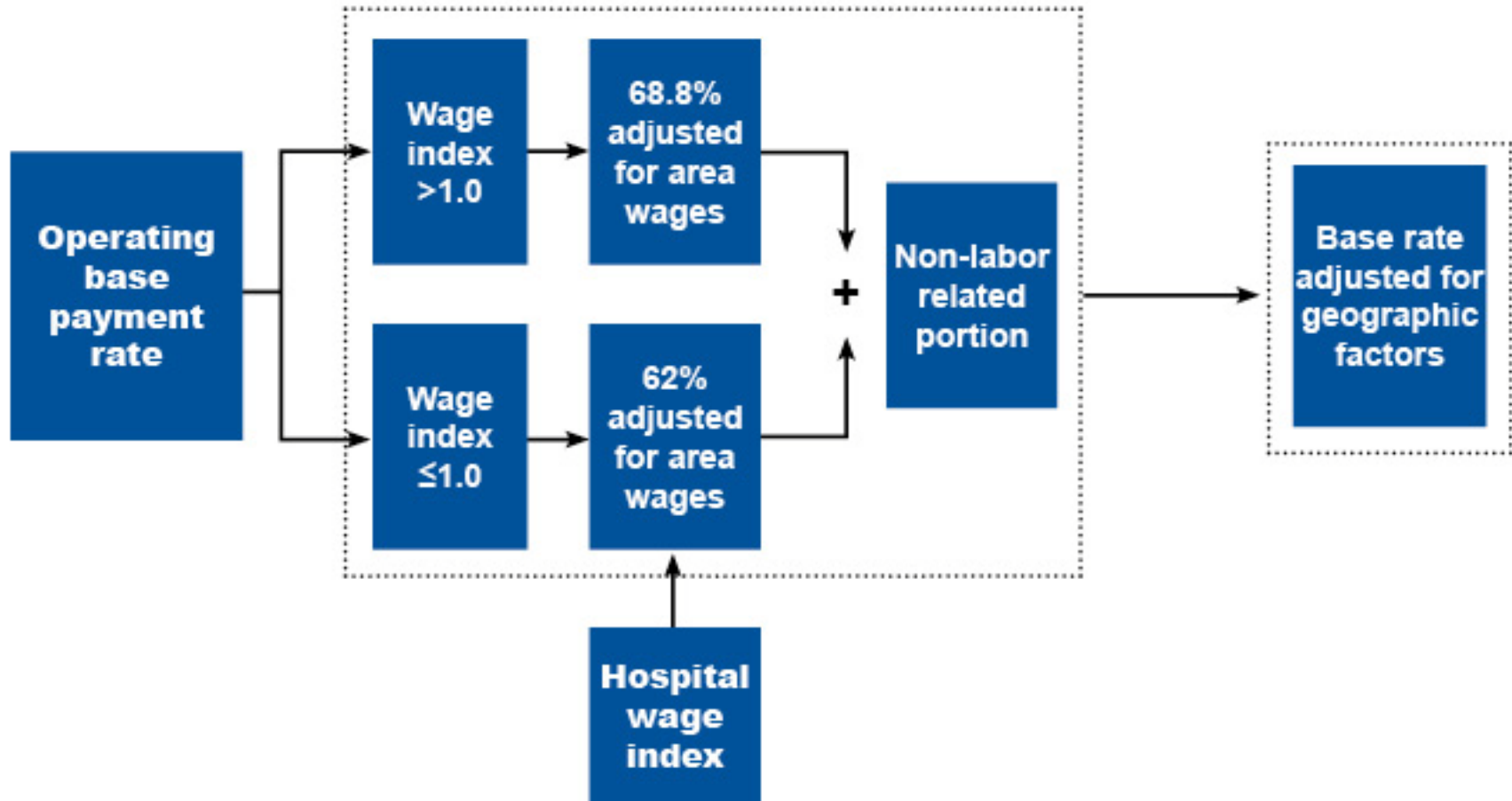


# Executive Summary



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# Hospitals' base payment rates are adjusted by the wage index.



# The wage index has a large effect on hospital payments.

How the Wage Index Affects the Base Payment for Inpatient Hospitals, FY 2012

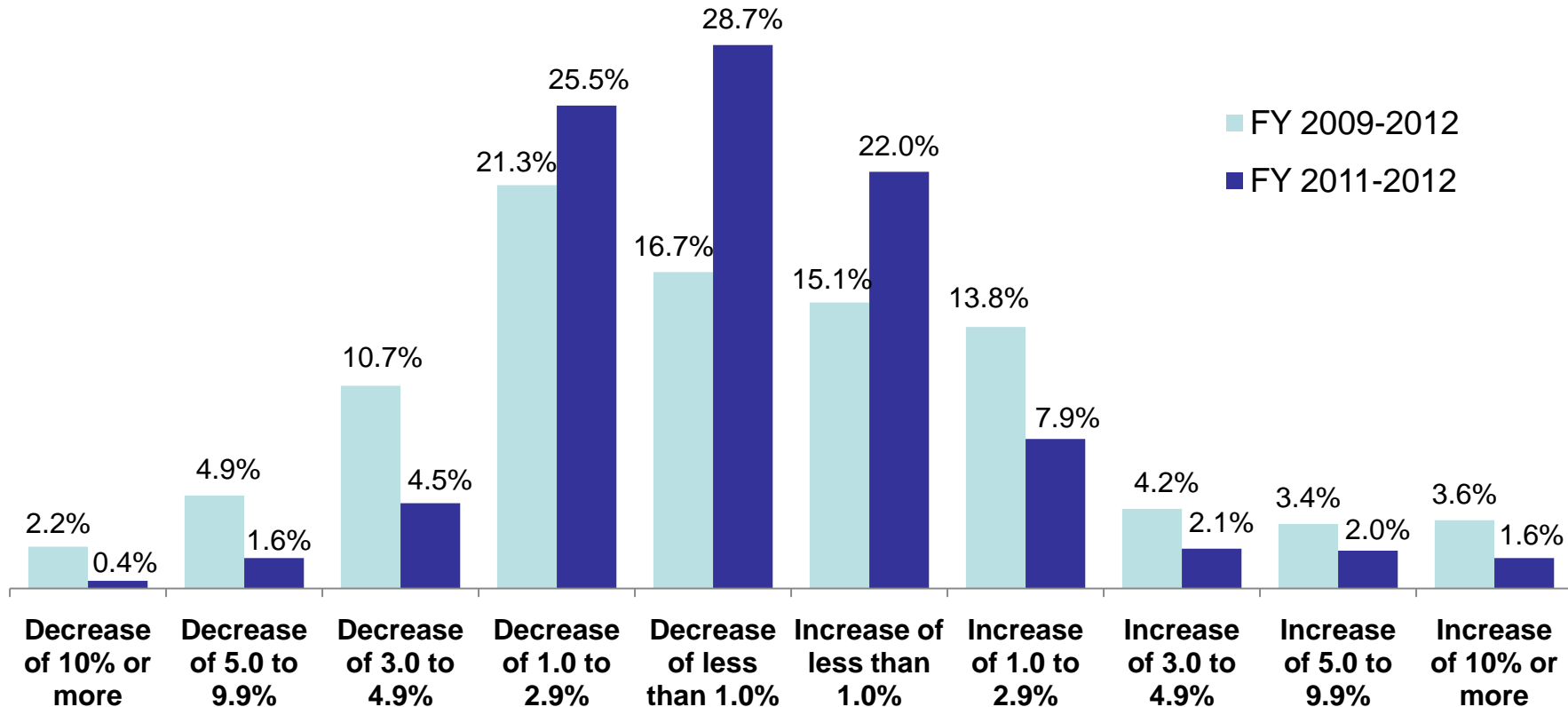
<u>Wage index</u>	FY12 Base Rate	Labor-related Share	Labor-related Portion	Wage Index	Wage - adjusted Labor-related Portion	Non-labor-related Portion	Wage-adjusted Base Rate
<b>Highest</b>	\$5,209.74	0.688	\$3,584.30	1.6996	\$6,091.88	\$1,625.44	<b>\$7,717.32</b>
<b>Exactly 1</b>	\$5,209.74	0.620	\$3,230.04	1.0000	\$3,230.04	\$1,979.70	<b>\$5,209.74</b>
<b>Lowest</b>	\$5,209.74	0.620	\$3,230.04	0.7277	\$2,350.50	\$1,979.70	<b>\$4,330.20</b>

Source: Wage indices per CMS final FY2012 Inpatient PPS payment impact file. Labor share and base rate are from the FY 2012 final IPPS rule, 8/18/11.



# Wage indices can vary greatly from year-to-year, causing volatility in hospital payments.

Distribution of PPS Hospitals Based on Change in Area Wage Index from FY 2009-2012 and FY 2011-2012

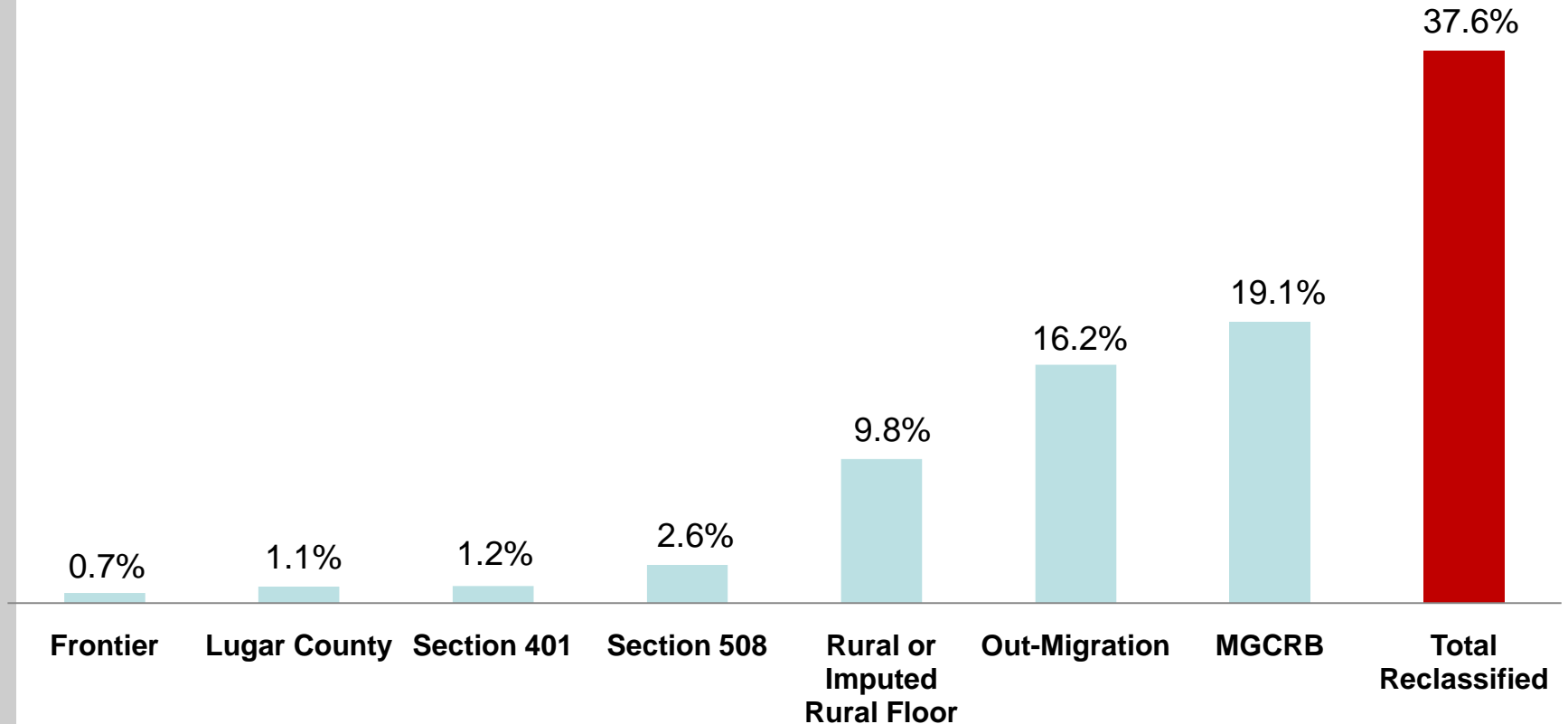


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Source: CMS final IPPS payment impact files for FYs 2009, 2010, 2011 and 2012. Comparisons of wage indexes include only those hospitals present in both years 2009 and 2012, or 2011 and 2012.

# Over one-third of PPS hospitals have an exception or reclassification for a higher wage index.

Percent of PPS Hospitals with Wage Index Exception or Reclassification, by type, FY 2012



Source: CMS final FY2012 inpatient PPS payment impact file, released Aug. 2011. Section 508 hospitals per CMS list in 4/7/11 Federal Register. Lugar hospitals per Table 9A in FY2012 inpatient PPS final rule. Out-migration hospitals per Table 4J in FY2012 inpatient PPS final rule. Some hospitals are reclassified under more than one method - these are counted only once in the 'total' column. Assumes Section 508 program is extended in FY 2012. The total number of hospitals with each reclassification in FY 2012 is: Frontier (26), Lugar County (39), Section 401 (40), Section 508 (89), Rural or Imputed Rural Floor (336), Out-Migration (556), MCCRGB (655).





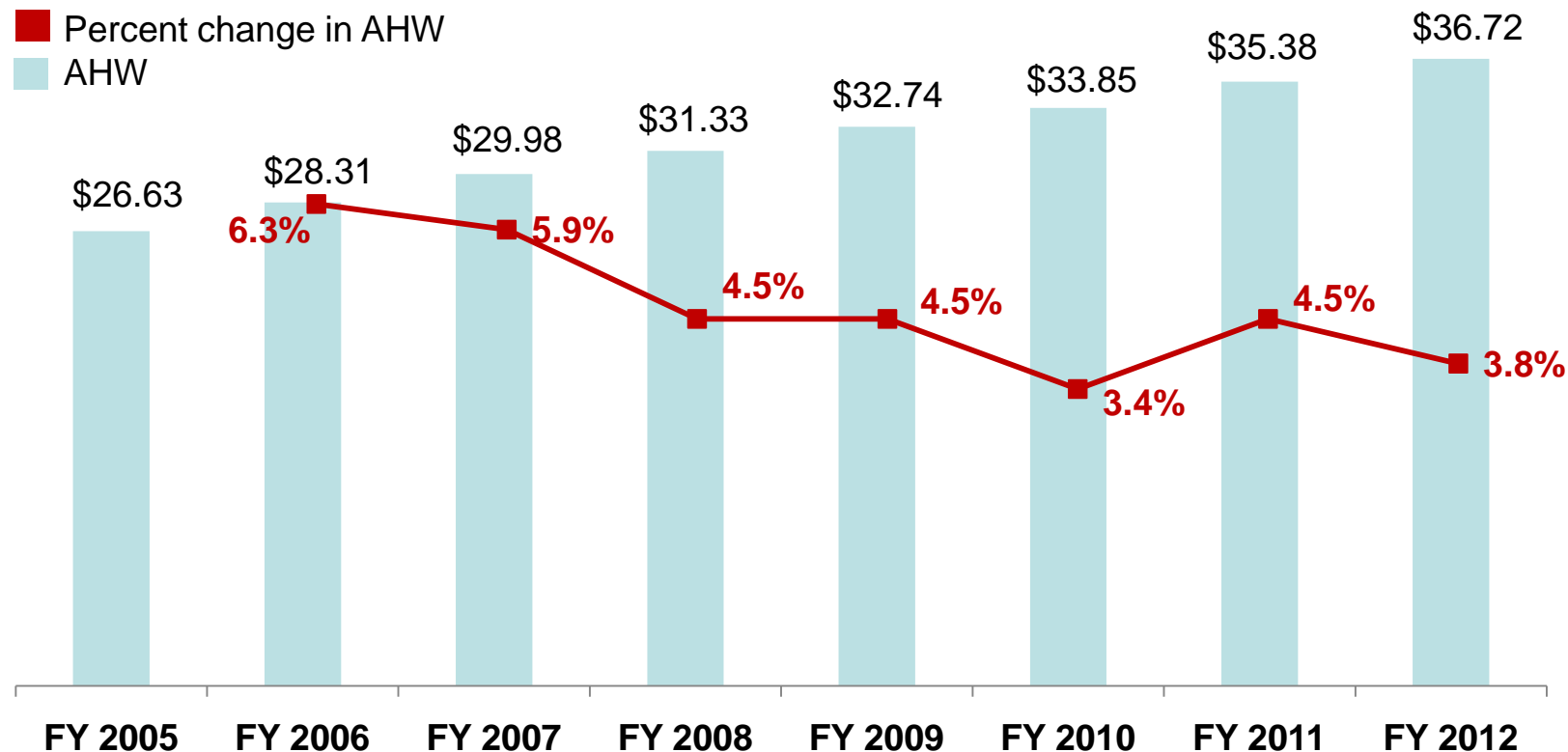
# Average Hourly Wage and The Wage Index



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# The nationwide AHW has been increasing rapidly.

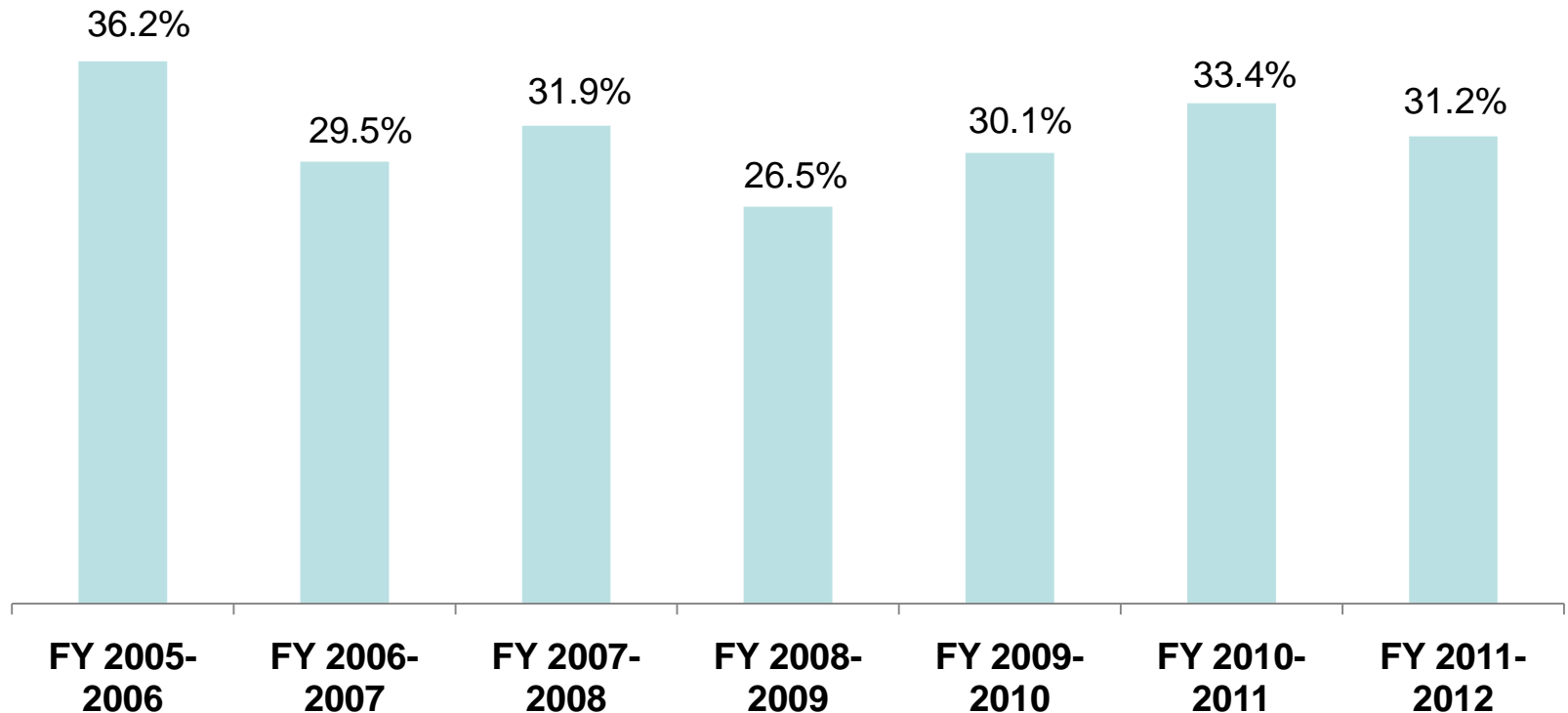
Nationwide AHW and Percent Change in AHW, FY 2005-2012



Source: AHWs are from CMS tables published in the FY2005-2012 inpatient PPS final rules. Public health service hospitals, hospitals in Maryland, and hospitals missing wage index or AHW are excluded.

# Hospitals often experience a decrease in their area wage indices despite an increase in their AHWs.

Percent of PPS Hospitals With a Decrease in Their Wage Indices Even Though Their AHWs Increased More Than the Market Basket, FY 2005-2012



Source: AHWs are from CMS tables published in the FY2005-2012 inpatient PPS final rules. Public health service hospitals, hospitals in Maryland, and hospitals missing wage index or AHW data are excluded. AHW is weighted by inpatient PPS revenue in each fiscal year. FY2005-2009 are from reported data on HCRIS files, FY2010-2012 are based on AHA IPPS models. FY2007 wage index is the index that applied from 4/1/07 - 9/30/07.



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# The percent of hospitals with a decrease in wage indices despite an increase in AHWs varies by location.

Percent of PPS Hospitals with a Decrease in their Wage Indices Even Though Their AHWs Increased More Than the Market Basket in FY 2012, by Location



Source: AHWs are from CMS tables published in the FY2012 inpatient PPS final rules. Public health service hospitals, hospitals in Maryland, and hospitals missing wage index or AHW data are excluded. AHW is weighted by inpatient PPS revenue in each fiscal year and are based on AHA IPPS models.



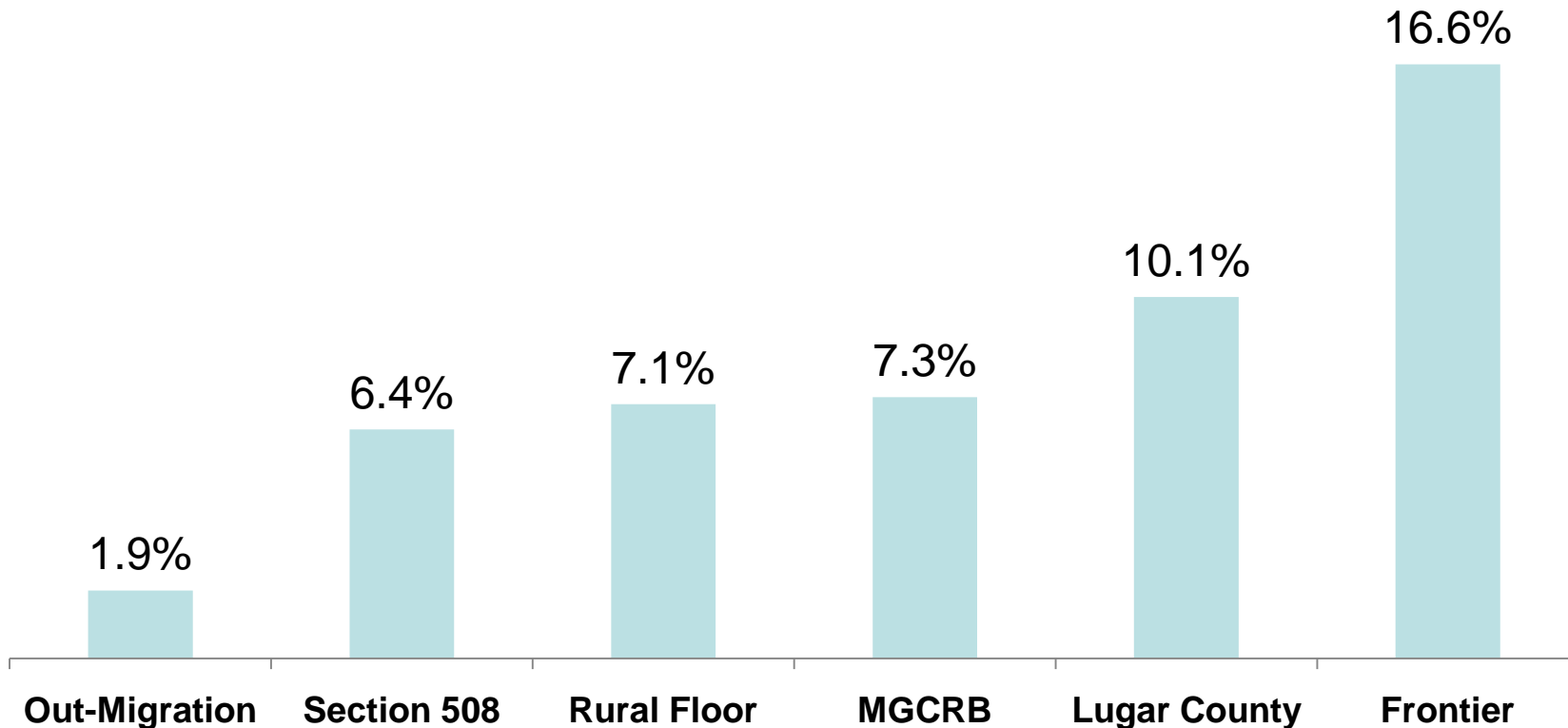
# Reclassifications and Exceptions



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# The dollar impact of reclassifications and exceptions varies by type.

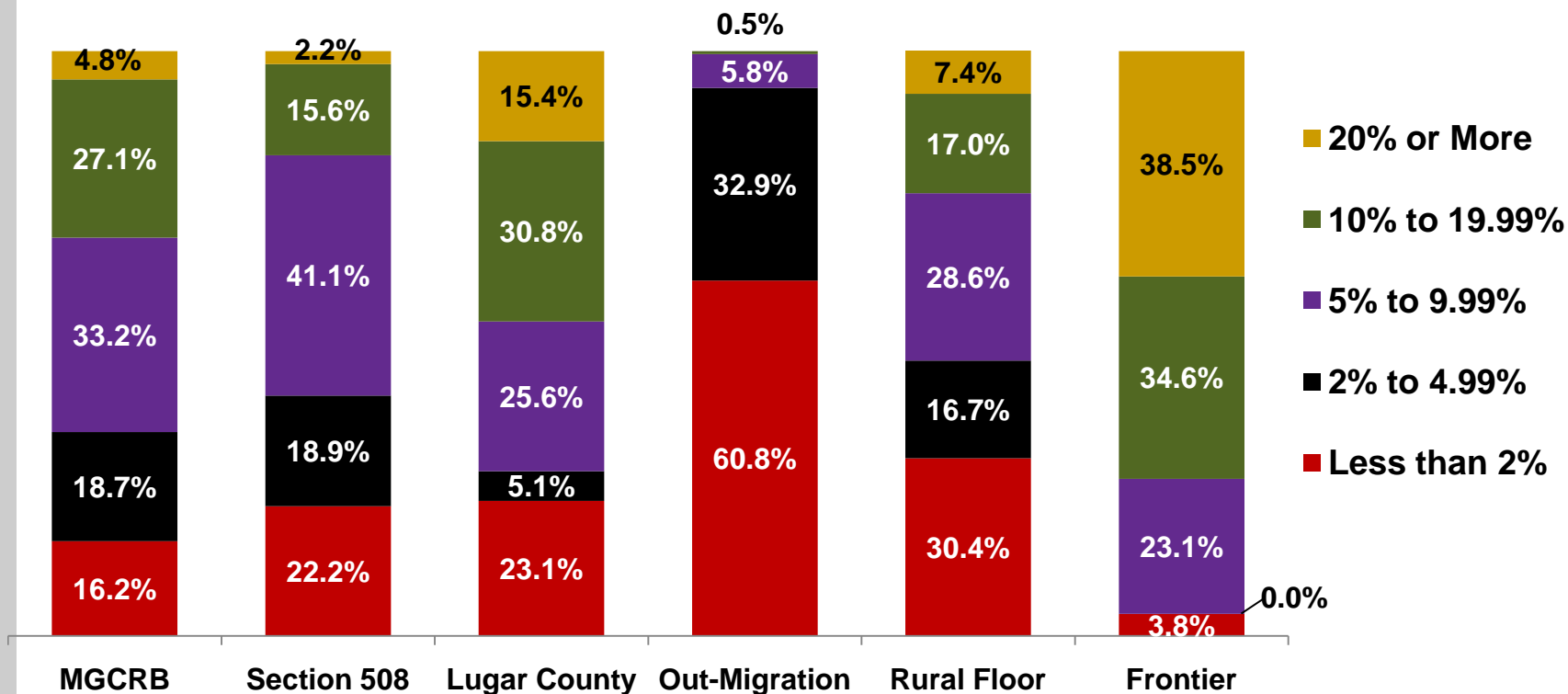
Average Percent Gain in the Wage Index as a Result of Reclassifications and Exceptions, by Type, FY 2012



Source: CMS final FY2012 inpatient PPS payment impact file, released Aug. 2011. Lugar hospitals per Table 9A in FY2012 inpatient PPS final rule. Rural floor numbers per final FY2012 IPPS rule. Sec. 508 based on FY11 wage index change. Cannot calculate impact of Section 401 reclassification because it does not directly translate into a higher wage index.

# Certain reclassifications and exceptions can result in very large increases in hospitals' wage indices.

Percent of PPS Hospitals with Wage Index Gains as a Result of a Reclassification or Exception, by Type and Amount of Wage Index Increase, FY 2012

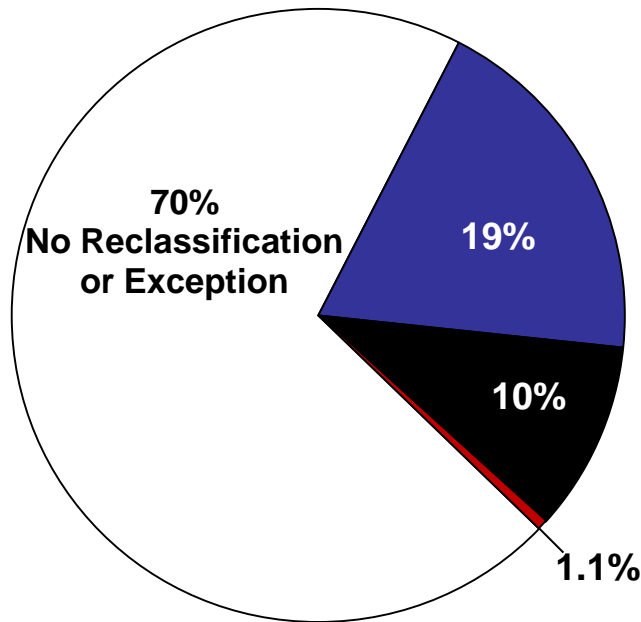


Source: CMS final FY2012 inpatient PPS payment impact file, released Aug. 2011. Section 508 hospitals per CMS list in 4/7/11 Federal Register. Lugar hospitals per Table 9A in FY2012 inpatient PPS final rule. Out-migration hospitals per Table 4J in FY2012 inpatient PPS final rule. Sec. 508 based on FY11 wage index change. Cannot calculate impact of Section 401 reclassification because it does not directly translate into a higher wage index.

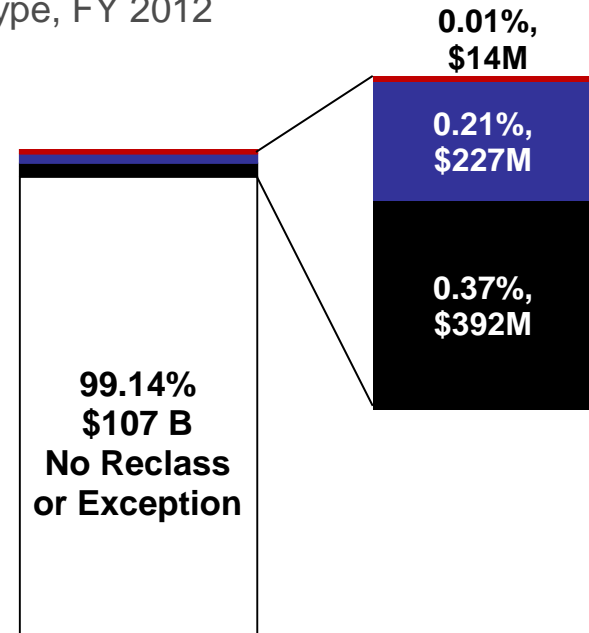


# Budget neutral reclassifications and exceptions redistribute less than 1% of PPS payments, or \$633 million.

Percent of PPS Hospitals Receiving Budget Neutral Wage Index Reclassifications or Exceptions, by Type, FY 2012



Projected Payments Redistributed Due to Budget Neutral Wage Index Reclassifications or Exceptions, by Type, FY 2012



■ MGCRB Wage Reclassification   
 ■ Rural and Imputed Rural Floor   
 ■ Lugar County

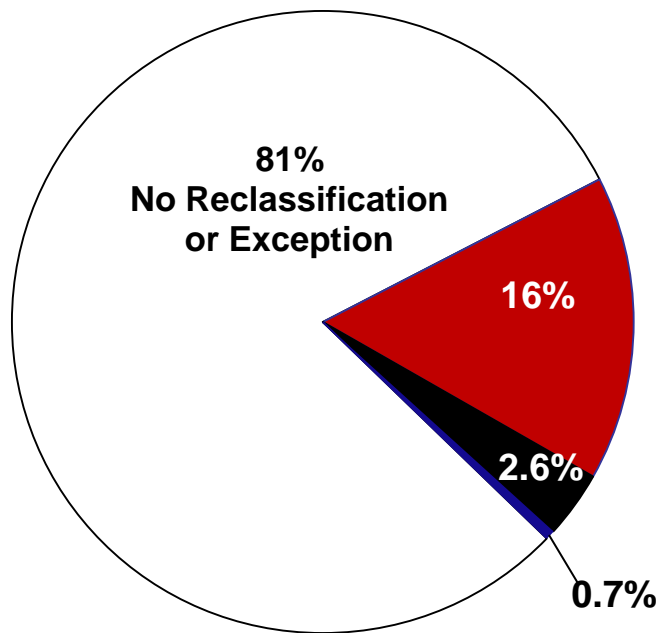
Source: CMS final FY2012 inpatient PPS payment impact file, released Aug. 2011. Lugar hospitals per Table 9A in FY2012 inpatient PPS final rule. Rural floor numbers per final FY2012 IPPS rule.





# Non-budget neutral reclassifications and exceptions add about \$315 million to the system.

Percent of PPS Hospitals Receiving vs. Not Receiving Non-Budget Neutral Wage Index Reclassifications or Exceptions, by Type, FY 2012

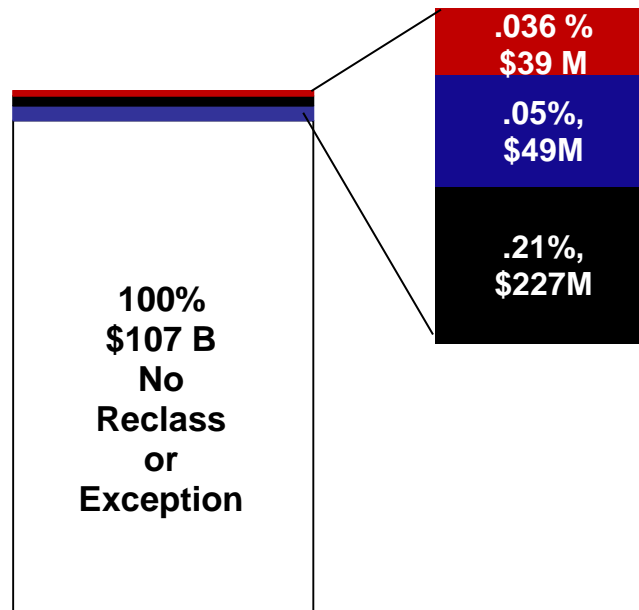


■ Out-Migration

■ Section 508

■ Frontier

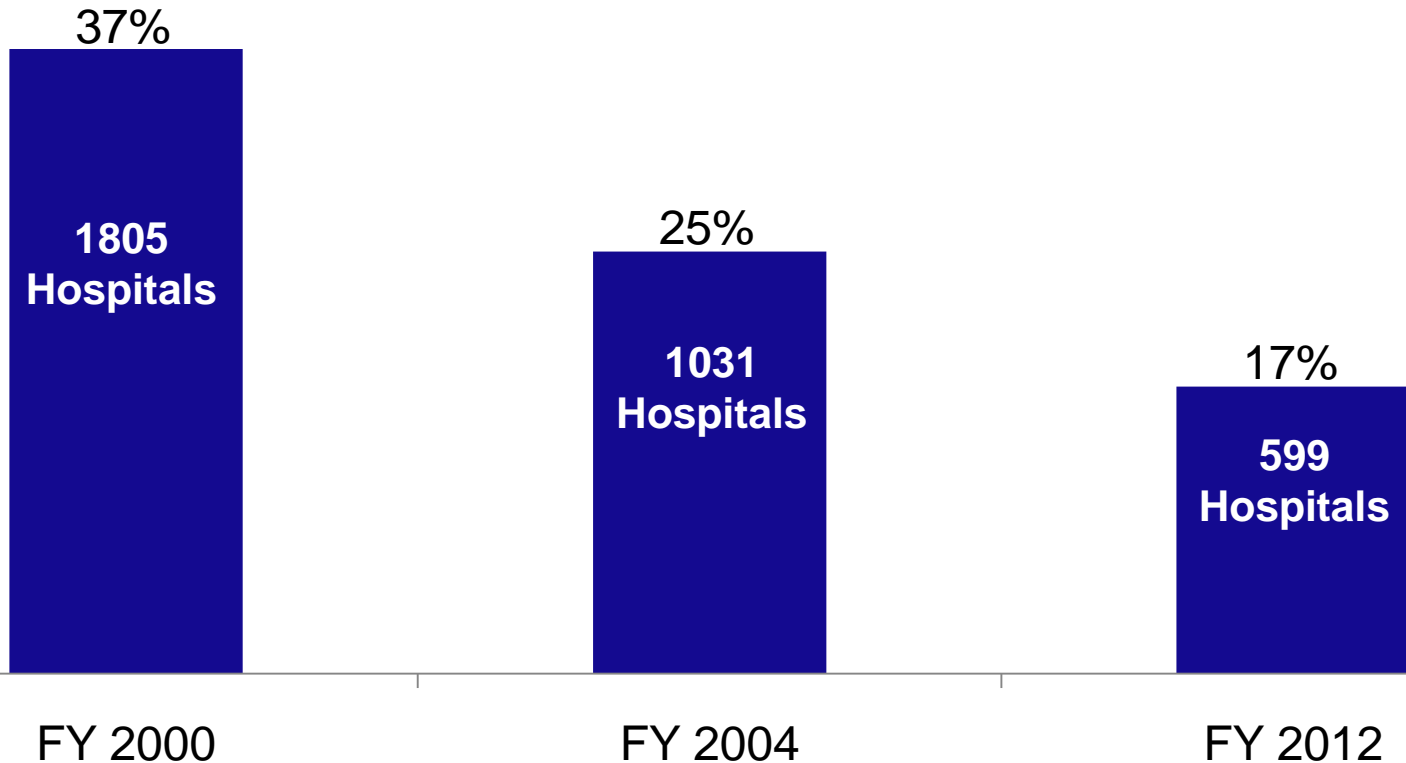
Projected Additional Payments From Non-Budget Neutral Wage Index Reclassifications and Exceptions, by Type, FY 2012



Source: CMS final FY2012 inpatient PPS payment impact file, released Aug. 2011. Section 508 hospitals per CMS list in 4/7/11 Federal Register. Out-migration hospitals per Table 4J in FY2012 inpatient PPS final rule. Assumes Section 508 program is extended in FY 2012.

# A decreasing number of hospitals have been used to calculate the rural floor.

Estimated Number and Percent of Hospitals Used to Calculate Rural Floor, FY 2000, FY 2004 and FY 2012



Source: CMS final inpatient PPS payment impact files for fiscal years 2000, 2004 and 2012. Counts in 2000 and 2004 are based on the number of hospitals in each post-wage re-class rural area. Count in 2012 is based on the post re-class CBSA.