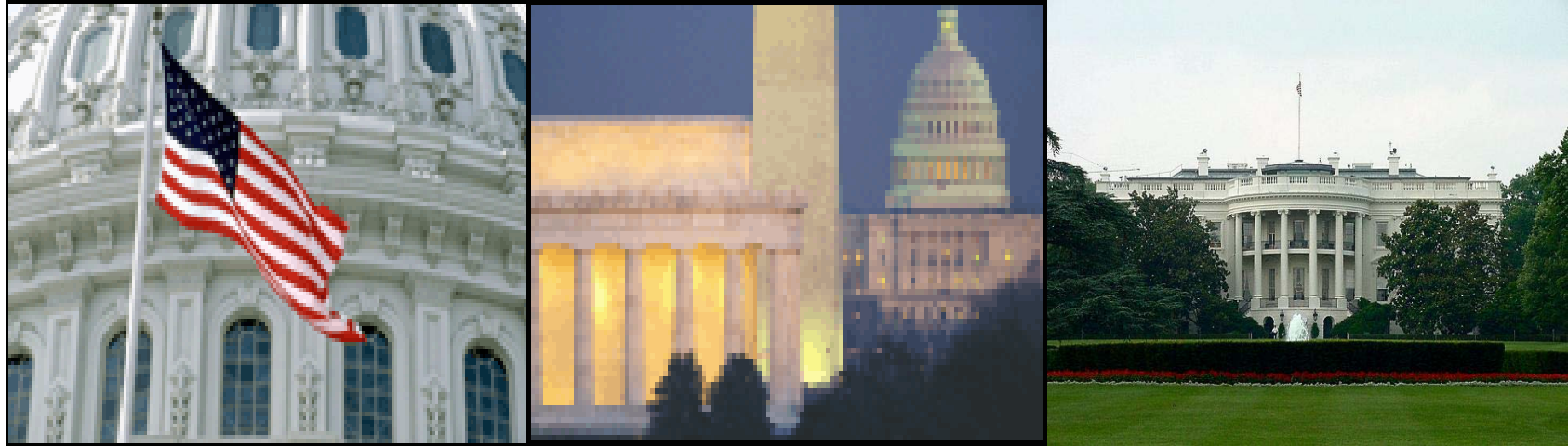


Recent Wage Index Reports



Regional Policy Boards Governing Councils May 2012



Recent Reports on the Wage Index

- **2007 Medicare Payment Advisory Commission (MedPAC) Report**
- **2011 Institute of Medicine (IOM) Report**
 - **June 2012 report expected on impacts of recommendations**
- **2012 Centers for Medicare & Medicaid Services (CMS) Report**



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Labor Market Definitions

- **All three reports made recommendations on wage index labor markets**
- **Labor markets are important component of the area wage index**
 - **Used to group together hospitals competing for the same workers**



Labor Market Definitions

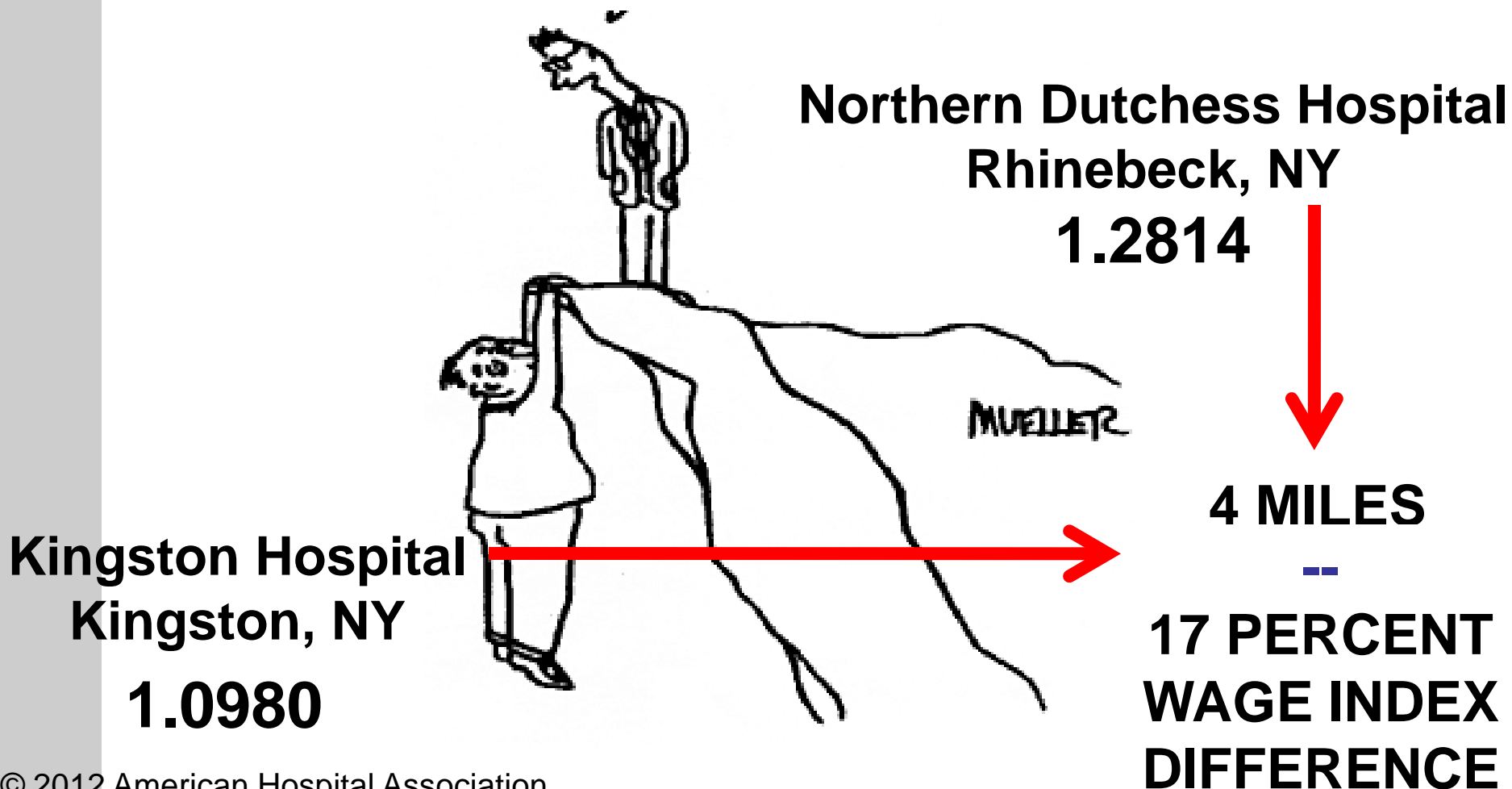
- **CMS currently uses 411 metropolitan statistical areas (MSAs) as wage index labor markets**
- **CMS then groups non-MSA areas into 1 statewide rural area per state**
- **Concerns:**
 - creates “wage cliffs”
 - many workers commute across MSA boundaries



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Wage Index Labor Markets

Current labor markets often create
“wage cliffs”



Wage Index Labor Markets

- These large differences may reflect true variation in labor costs
 - But may also be because an MSA's wage index is an average of all hospital wages in that MSA
- Some have suggested that better accounting for commuting patterns across labor markets would minimize large differences between adjoining areas
 - Would also remove the need for reclassifications and exceptions



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Wage Index Labor Market Adjustments

- Several options for addressing large differences between areas:
 - MedPAC smoothing adjustment
 - IOM out-commuting adjustment
 - CMS in-commuting adjustment



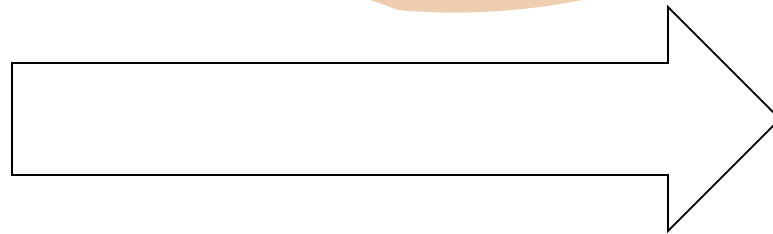
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How Would Hiring a Nurse from a Small Town Affect Wage Indexes?

Small town
average wage
= \$24/hour
(\$240/10-hour
shift)



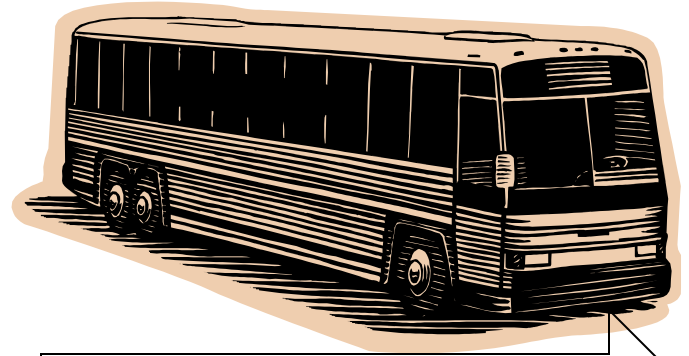
Big city average
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One Hour Drive

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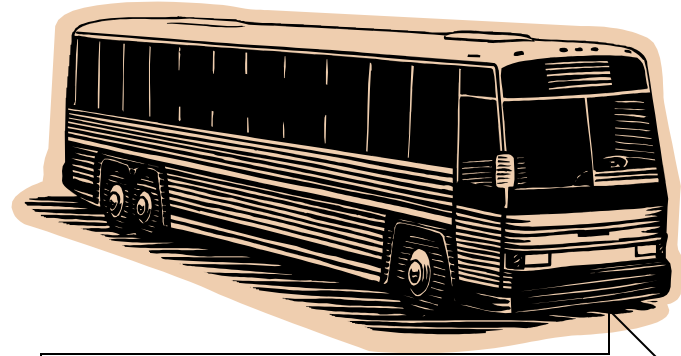


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MedPAC smoothing: limit border differences to 10%; whether or small town nurse commutes to big city doesn't affect wage index

How Would Hiring a Nurse from a Small Town Affect Wage Indexes?

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**(\$270/10-hour
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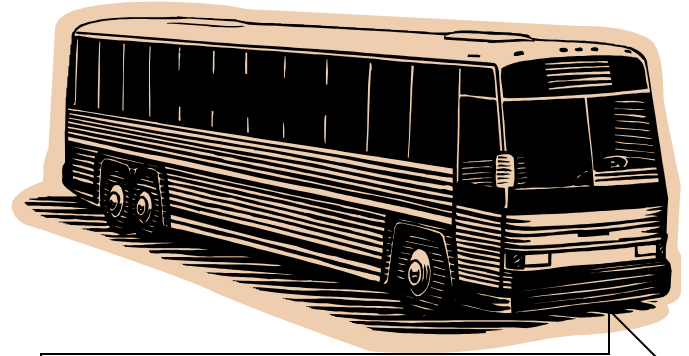
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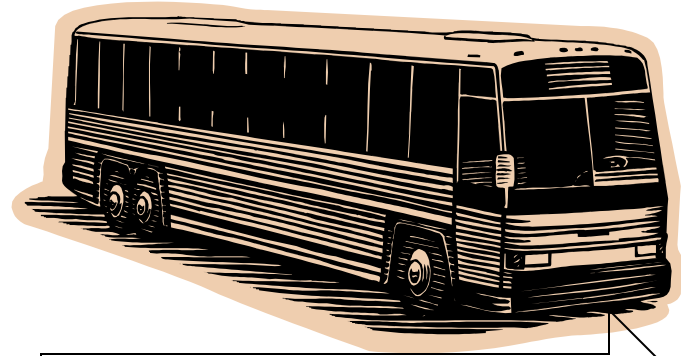
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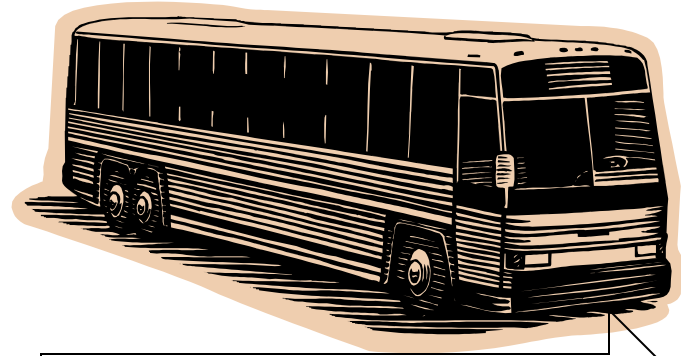
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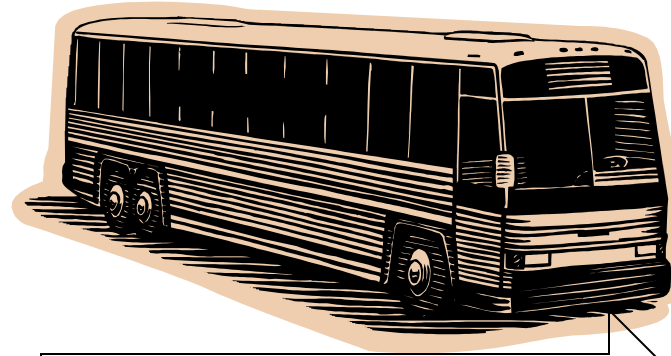
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Small town average wage = \$24/hour (\$240/10-hour shift)



One Hour Drive

Big city average wage = **\$27/hour** (**\$216/10-hour day (8-hour shift + 2-hour commute)**)

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Wage Index Labor Market Adjustments

- MedPAC and IOM recommended using data from the Bureau of Labor Statistics (BLS) as the basis for the wage index
 - CMS stuck with cost report data
- However, each labor market adjustment can be used independent of data source used
- All three are budget neutral



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