



Medicare Area Wage Index Task Force



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Task Force Deliberations

- Met in November 2011 and January, April and June 2012
- Calls in May, July, August, October 2012
 - Education
 - Key Concerns
 - Principles
 - Recommendations

Task Force Deliberations

- Task Force Report to Board in November
 - Accepted report
 - Requested modeling
- Modeling discussed at Spring RPBs/Governing Councils
- Board determined more feedback needed
 - Created Review Committee + Open Forum



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Key Task Force Concerns

Accuracy and Consistency

Volatility

Circularity

Labor Markets

Reclassifications and Exceptions



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Key Task Force Concerns

Accuracy and Consistency

- Complex regulations on how hospitals must report wage data
- FIs and MACs work to ensure regulations are applied consistently – reviews, audits, appeals
- However, hospital concern that FI/MAC practices not consistent



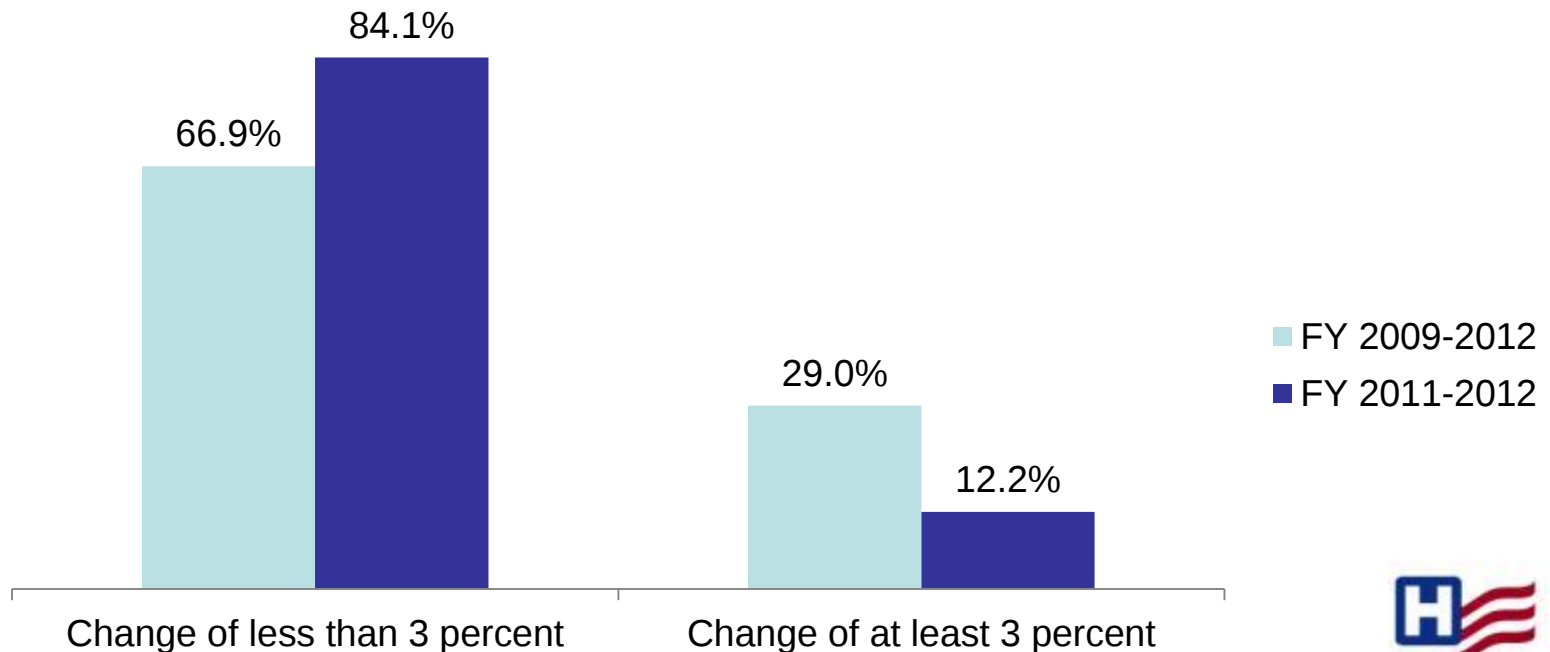
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Key Task Force Concerns

Volatility

- Wage indices vary from year-to-year, sometimes significantly

Distribution of PPS Hospitals Based on Change in Area Wage Index



Key Task Force Concerns

Circularity

- Concern from low-wage hospitals – “downward spiral”
- Known as circularity – the fact that hospitals can directly influence their own wage index
 - Because wage index based on hospital-reported data
- Especially likely to occur in areas with only a few hospitals, or one or a few dominant hospitals



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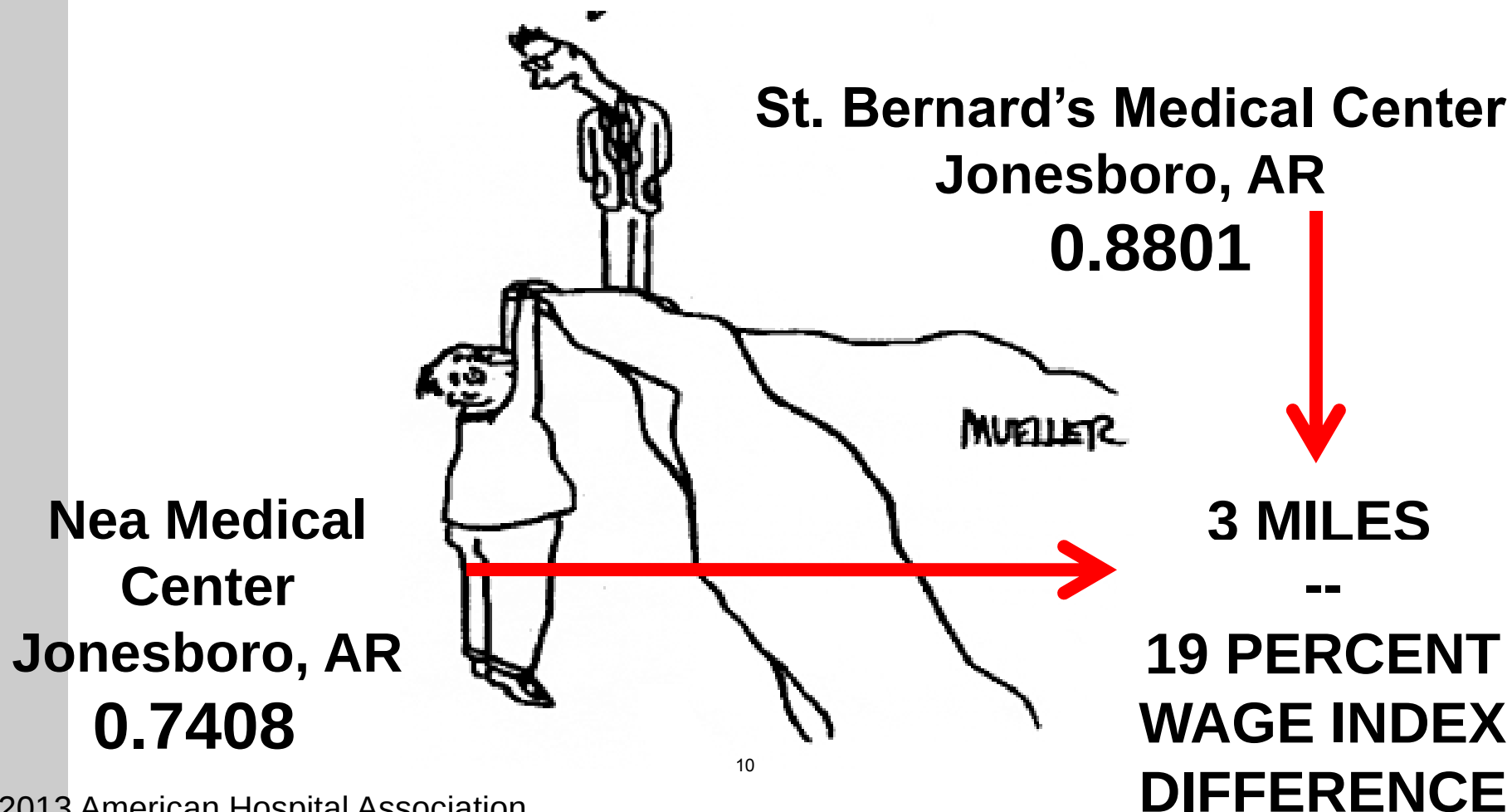
Key Task Force Concerns

Labor Market

- The 411 metropolitan statistical areas (MSAs) serve as wage index labor markets
- Non-MSA areas grouped into 1 statewide rural labor per state
- Concerns:
 - “wage cliffs”
 - 1 statewide area too large

Wage Index Labor Markets

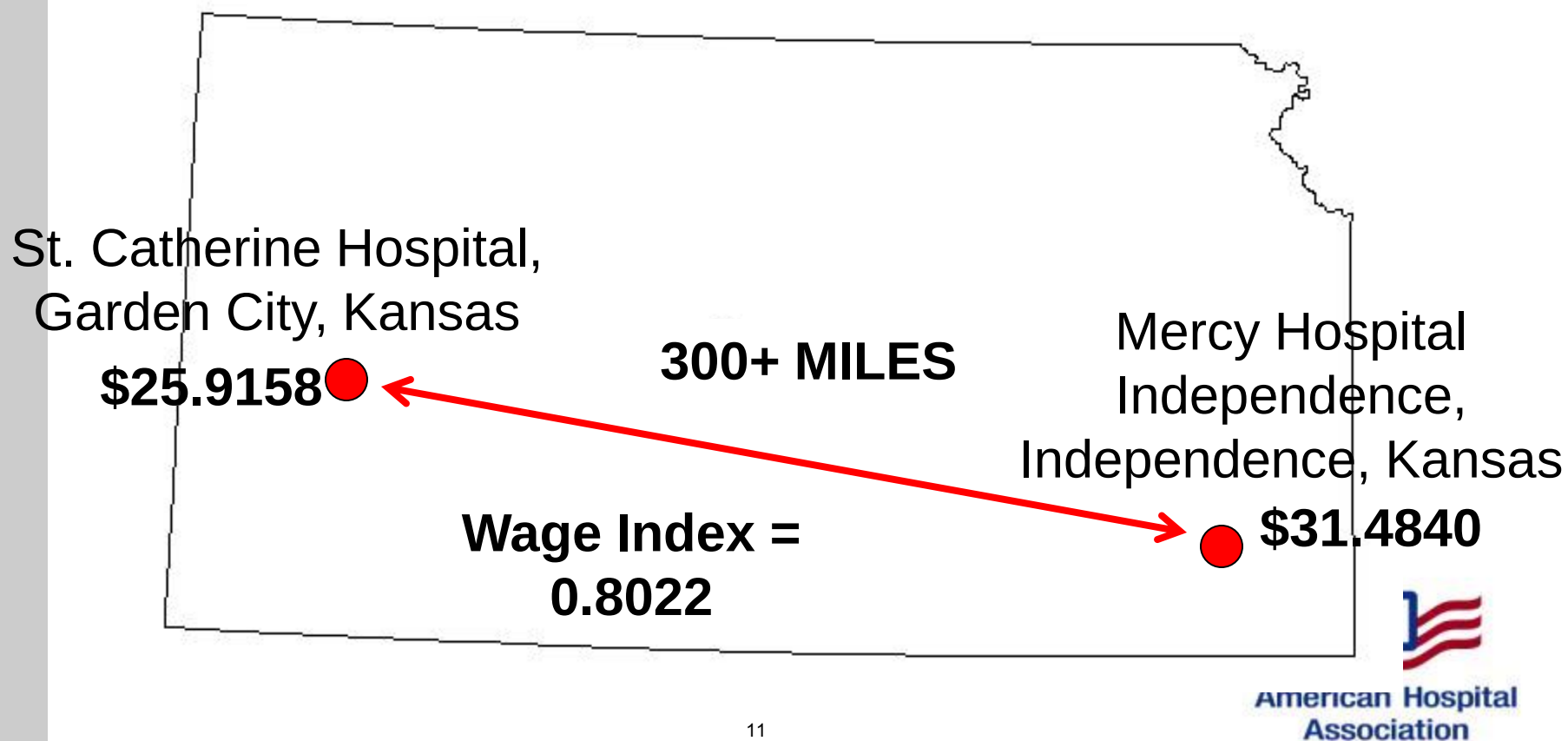
Current labor markets often create
“wage cliffs”



Key Task Force Concerns

Labor Markets

- Concern about one statewide rural area



Key Task Force Concerns

Reclassifications and Exceptions

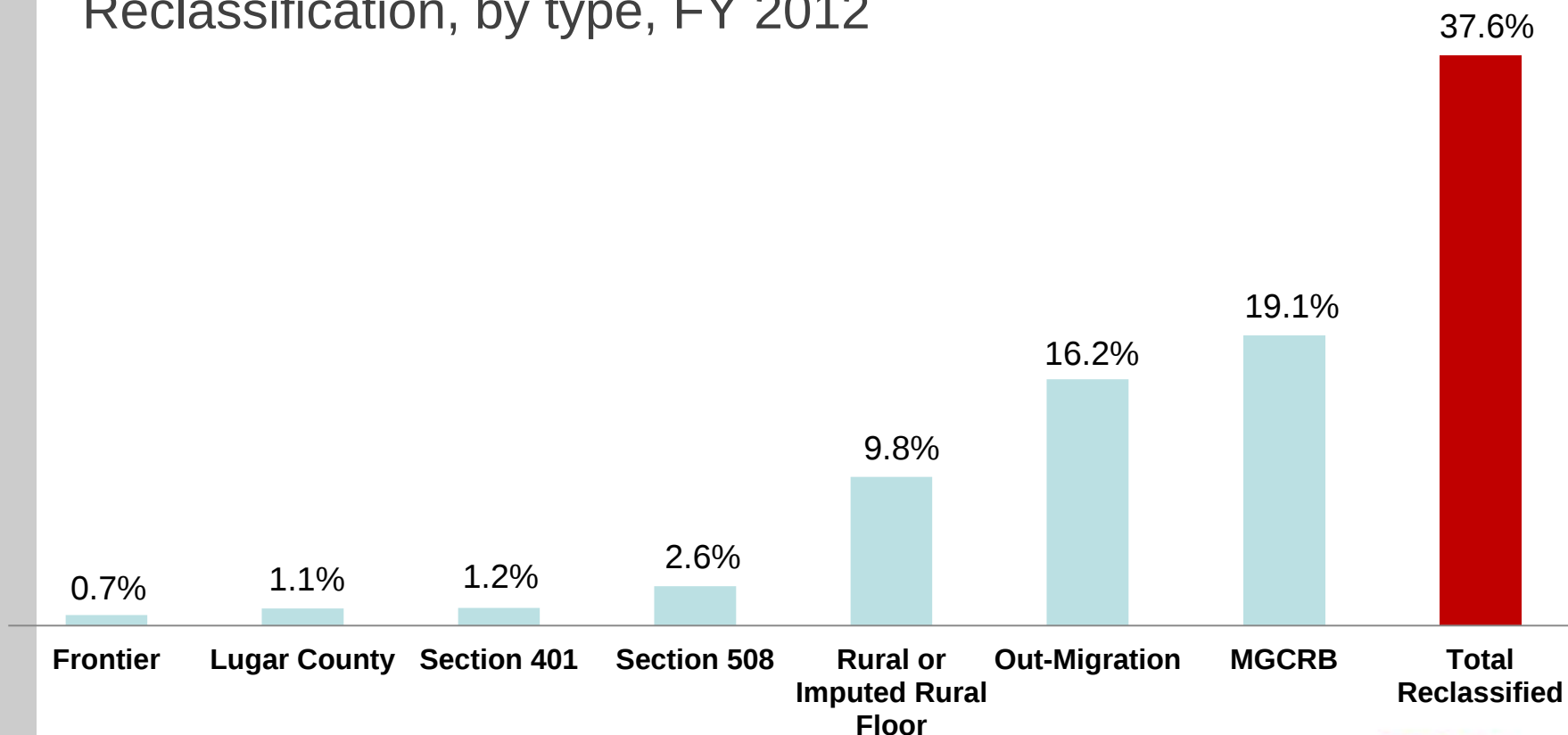
- Wage index system can create “wage cliffs”
 - Hospital near a border may have lower wage index than nearby hospital
- Led to numerous exceptions
 - Exceptions permit hospitals that meet specific criteria to have their payments adjusted by a higher wage index
- The Task Force expressed overwhelming concern about the number of reclassifications and exceptions in current system



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Key Task Force Concerns

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



MGCRB, Lugar county, and rural or imputed rural floor reclassifications are budget neutral. Frontier state, Section 508 and out-migration exceptions and reclassifications are not.



Task Force Principles

1. Comprehensive reform of the wage index is absolutely necessary.
2. Wage index reform must be implemented in a transitional and budget-neutral manner.
3. The wage index should reflect, as accurately as possible, relative differences in the labor costs hospitals face in a market area.



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Task Force Principles

4. The wage index data and methodology should be as consistent, easy to administer, transparent and understandable as possible.
5. The wage index system should minimize large year-to-year changes in individual hospitals' wage indices.
6. The wage index should minimize circularity and, thereby, seek to limit the possibility of creating unjustifiably large differences between the highest and lowest wage indices.



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Task Force Principles

7. While certain adjustments to the wage index may be necessary to accurately capture differences in labor costs across hospitals, the current system of reclassifications and exceptions is unacceptable.
8. The wage index system should account for the fact that labor markets cannot realistically be defined as hard boundaries.
9. The wage index system should use labor markets that are defined broadly enough to encompass all hospitals competing for the same workers, but narrowly enough to avoid encompassing hospitals with wage costs that vary widely.



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Task Force Recommendations

1. CMS should designate one FI/MAC to complete all wage index data collection and processing.
2. Congress should phase-in reform using a transitional period of at least 5 years.

Task Force Recommendations

3. Congress should include all hospitals and hospital distinct-part units paid using the inpatient PPS wage index, including inpatient rehabilitation facilities, inpatient psychiatric facilities, and long-term care hospitals, in the wage index data set.
4. Congress should institute budget-neutral 3-percent stop-loss and stop-gain policies that would limit the amount by which a hospital's wage index could decrease or increase in a single year. These policies should apply both during and after the five-year transitional period.



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Task Force Recommendations

5. Congress should increase wage indexes that are less than 1.0 using an exponential methodology similar to what is done with the geographic adjustment factor currently used by CMS in adjusting capital payments.



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Task Force Recommendations

Actual Wage Index Value	Exponential Wage Index Value	Percentage Increase
0.4230	0.6797	60.7
0.6797	0.7677	12.9
0.7000	0.7833	11.9
0.7500	0.8212	9.5
0.8000	0.8583	7.3
0.8500	0.8947	5.3
0.9000	0.9304	3.4
0.9500	0.9655	1.6
1.0000	1.0000	0.0

1.2 % budget neutrality adjustment

Task Force Recommendations

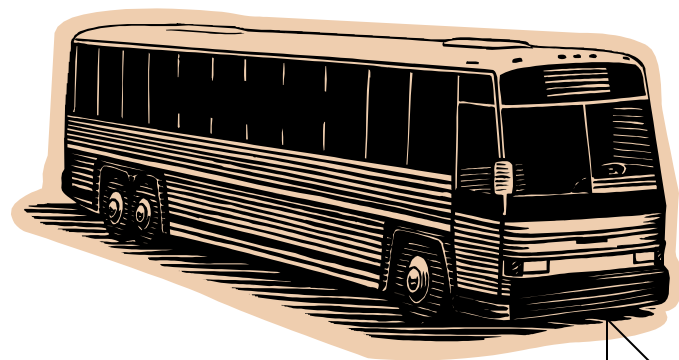
6. The Congress should eliminate the current system of reclassifications and exceptions, except when reclassifications are done in a non-budget-neutral manner, and replace it with a wage index out-commuting adjustment, together with a 10-percent smoothing adjustment.

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

Small town
average wage
= \$24/hour



\$26/hour



One Hour Drive

Big city average
wage = \$30/hour

Out-commuting adjustment: if the small town nurse commutes to the big city hospital for \$30/hour, the small town's wage index increases from \$24/hour to \$26/hour



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

Small town
average wage
= \$24/hour



\$26/hour



\$27/hour



One Hour Drive

Big city average
wage = \$30/hour

Smoothing: after out-commuting applied, further ensure that border differences are limited to no more than 10%



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Task Force Recommendations

7. The Congress should require the use of up-to-date data on hospital-specific commuting patterns to administer the out-commuting adjustment.



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Modeling Task Force Recommendations

- Calculated hospital-specific and state-level impacts compared to FY 2013 AWIs and operating payments
- Included recommendations:
 - 5-year transition
 - Budget neutrality
 - Stop-gain and stop-loss policies
 - Exponential adjustment
 - Eliminate budget-neutral reclassifications
 - Out-commuting adjustment
 - Smoothing adjustment

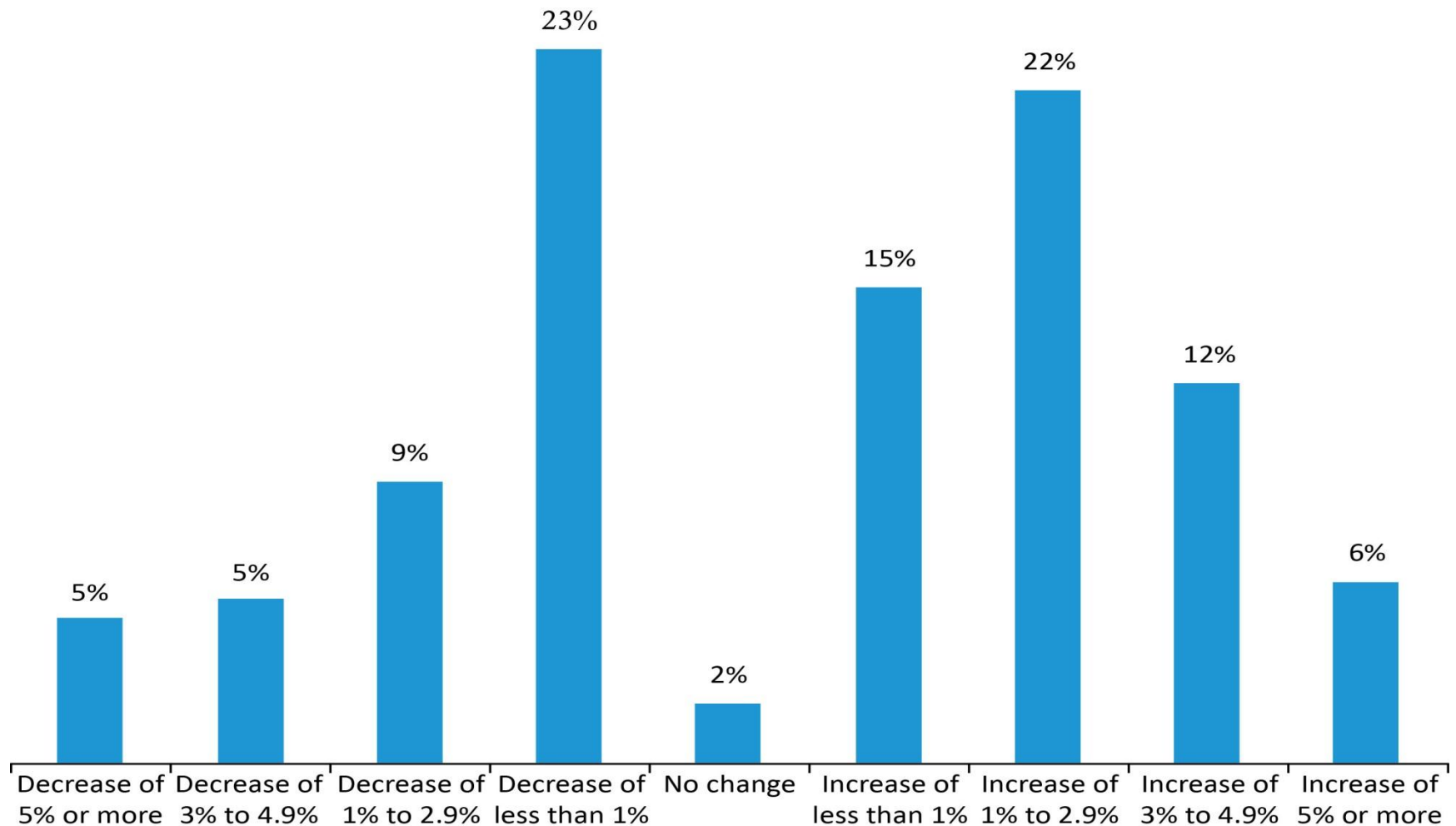


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Modeling Task Force Recommendations

- Recommendations we were not able to model:
 - One FI/MAC process data
 - Including data from all hospitals/DPUs paid using wage index
 - Using up-to-date commuting data on hospital-specific commuting patterns

Distribution of PPS Hospitals Based on Change in FY 2013 Operating Payments Under Task Force Recommendations





Medicare Area Wage Index Task Force

