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CMS Wage Index Rules for FY 2012

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CMS's revisions to the calculation of the Medicare wage index include a major change in how pension costs are calculated, as well as use of a new occupational mix survey, changes in how multicampus hospitals report their data and the unexpected continuation of the imputed rural floor adjustment. CMS published these revisions as part of the final inpatient prospective payment system rule for FY 2012, in the August 18, 2011 Federal Register. CMS's preamble in which it discusses the wage index changes is attached here [PDF]. A short description of some of the highlights is provided below.

Pension Costs

The biggest news in the area of wage index is CMS's announcement that it is changing how pension costs are reported for purposes of the wage index. CMS acknowledged that it was necessary to have two distinct policies in order to address the different goals of determining a hospital's pension costs for cost reporting purposes versus wage index purposes.

Averaging: Beginning with the FY 2013 wage index, pension costs reported for wage index purposes will be equal to a hospital's average actual cash contributions over a three year period. The use of cash contributions was adopted to ensure uniformity among all hospitals, regardless of their tax status or ERISA coverage. The 3-year average is intended to reduce the volatility that can occur due to timing of contributions. The three years which are used center on the cost year whose data is used for the wage index. For example, the FY 2013 wage index will use wage data from hospitals' cost reporting periods beginning in FFY 2009; the average of the pension contributions will be based on the contributions made in the hospitals' cost reporting periods beginning during FFYs 2008, 2009 and 2010.

> *Ober|Kaler's Comment:* In adopting the averaging methodology, CMS appears to have implicitly acknowledged that its prior policy of looking only at a snapshot year failed to meet one of the purposes of the wage index, that is, to reduce wage index volatility.

Transition Policy: Some commenters expressed concern that hospitals with prefunded pension plans would be disadvantaged by their inability to ever reflect those earlier fundings, while hospitals with underfunded pension plans would be rewarded by their ability to reflect all future contributions necessary to fully fund the plans. CMS acknowledged this as a legitimate problem and adopted a transition policy to recognize funding that may have exceeded the amounts reportable for the FY 2007 through FY 2012 wage index periods. These are the years when CMS believes contributions may have exceeded the amounts reportable for Medicare purposes.

Under the new transition policy, a hospital may determine its "prefunding balance" based on pension contributions made but not reflected in the wage index in certain prior periods. The prefunding balance would be equal to A minus B, where A equals the sum of cash contributions made during a period of consecutive provider cost reporting periods beginning no earlier than October 1, 2002 (the cost reporting period applicable for the FY 2007 wage index), and ending with the cost reporting period applicable for the FY 2012 wage index, and (B) is the sum of pension costs actually reflected in the wage index. Hospitals would then be permitted to include 1/10th of the prefunding balance in the wage index pension cost each year commencing with the FY 2013 wage index and ending with the FY 2022 wage index, so that there would be 10 equal prefunding installments.

> Ober|Kaler's Comment: While this may help many providers, those that prefunded their plans prior to 2002 would not be able to have that funding recognized.

New Occupational Mix Survey

CMS is using a new occupational mix survey to calculate the occupational mix adjustment for FY 2013. The data, from providers' FY 2010 cost reports, was due on July 1, 2011. CMS intends to release the preliminary, unaudited data in early October of this year when it releases the FY 2013 Worksheet S-3 wage data for the FY 2013 wage index review and correction process. CMS will continue not to penalize providers who fail to provide the occupational mix data, but will be seeking an explanation from those providers as to why they did not respond.

Wage Data

In compiling the FY 2012 wage index, CMS stated that it excluded 27 hospitals due to aberrant data and 23 hospitals because they converted to critical access hospital status during the data year.

Multicampus hospitals no longer have the option to use FTEs or discharge data to allocate their wage data among their campuses. Due to changes on the FY 2008 cost year cost report that collects FTE??? data based on the location of the campus, all allocations will be made using that FTE data beginning with the FY 2012 wage index.

Imputed Rural Floor

The imputed rural floor was proposed to expire on September 30, 2011. However, CMS decided to extend the imputed rural floor through FY 2013. As a result, 39 providers in New Jersey will receive an increase to their wage index.

Section 508 Reclassifications

Section 508 of the Medicare Prescription Drug, Improvement, and. Modernization Act of 2003, allowed certain qualifying hospitals to receive wage index reclassifications and assignments. Although Section 508 reclassifications originally were scheduled to expire after three years, those reclassifications have continued to be extended by statute to the present. The latest extension, however, is scheduled to expire on September 30, 2011, and these reclassifications will no longer be applicable effective with the FY 2012 wage index.