Medicare Wage Index and Occupational Mix Adjustment

Present and Future Reimbursement Impact to New Jersey Hospitals

October 13, 2011

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Wage Index Overview

• Purpose of Wage Index
• Cost Reporting of Hospital Wage Index Information
• CMS 339 Requirements
• Calculation of Wage Index
• Recent Changes in Regulations
Wage Index Overview

The Wage Index is used for the following payment schemes:

- Hospital PPS payments
- Rehab PPS payments
- Psychiatric PPS payments
- Skilled Nursing PPS payments
- Home Health Agency PPS payments
- APC Payments
- Hospice Payment Caps

CMS Methodology

Section 1886(d)(3)(E) of the Social Security Act requires the Secretary to:

“Adjust standardized amounts for area differences in hospital wage levels by a factor reflecting the relative hospital wage level in the geographic area of the hospital compared to the national average hospital wage level.”
CMS Methodology

Providers submit the following wage index data to CMS from Cost Report work-sheet S-3 PT. II:
- Salaries and Wage Related Costs (Trial Balance)
  - Hospital Employees
  - Home Office and Related Party Employees
- Hours Related to Paid Salaries (Payroll)
- Contract Labor (Contracts, Invoices, Time Studies)
  - Management
  - Administrative & General
  - Dietary
  - Housekeeping
  - Physician (Administrative)
  - Interns and Residents
  - Non Physician Patient Care
  - Executive

CMS uses the provided wage index data to adjust salaries, hours, wage related costs, and contract labor by:
- Overhead Excluded Ratio Calculation – Allocates a portion of overhead salaries, wage related costs, and hours to excluded units
- Cost Report Mid-Point Mark Up Factor – Inflates hospital salaries from the cost report year to the current federal year
- Occupational Mix Factor – Survey collected from CMS every three years applied against the nursing portion of hospital salaries. This adjustment is used to account for labor pools available to providers in various geographic areas
CMS Methodology

Providers are eligible to receive a wage index factor outside of their respective CBSA.

- **Rural Floor** – No hospital can receive a wage index less than its statewide rural wage index
- **Frontier States (Per Affordable Care Act)** – No hospital in a county with less than six people per square mile can receive a wage index less than 1.00 (Alaska and Hawaii excluded)
- **Out-Migration Adjustment** – Increase to the wage index for hospitals in counties that have a relatively high percentage of employees that reside in the county but work in a different county with a higher wage index
- **Geographic Reclassification** – Increase to the wage index for hospitals (individual, county, or statewide) by receiving a neighboring CBSA wage index factor (full wage index or blended, “diluted”, wage index). Providers must apply and pass reclassification criteria to qualify

Healthcare Reform – Wage Index

- CMS has until December 31, 2011 to finalize its decision on wage index reform.
- The rural floor budget neutrality factor will be applied at a national level (rather than state specific level).
- Three year average hourly wage thresholds for geographic reclassifications are restored back to:
  - 84% of the reclassified CBSA for urban hospital
  - 82% of the reclassified CBSA for rural hospitals
  - 85% of the reclassified for group (county) reclassifications
- One time reclassifications under Section 508 are extended through September 30, 2010.
June 2007 MedPac Report

• The 2006 Tax Relief and Health Care Act (TRHCA) allowed congress to order MedPac to develop recommendations for revising the current wage index system.

• There are 3 core areas of concern with the current wage index system:
  • Circularity (area’s ability to maintain AHW with national AHW)
  • Volatility
  • Geographic Boundaries

• CMS engaged with Acumen, LLC to execute an impact analysis between MedPac’s recommendations and the current system.

MedPac Report Recommendations


• Wage data is adjusted at the county level “smoothing,” large differences between counties, and implemented so that large changes in wage index values are phased in over a transition period.
Acumen Report Part I - Conclusion
Source Data for the Wage Index

- Recommends the use of BLS data, but acknowledges there are many issues with the data.
- Recommends that CMS works with BLS to produce a more reliable manner of capturing wage related cost data.
- Recommends a clear set of rules for construction of 30 occupational fixed weights.

Medicare Update: Potential Changes to Wage Index

Use of BLS Data for the Wage Index

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less year to year volatility</td>
<td>Inclusion of non industry, non-acute care hospital labor costs</td>
</tr>
<tr>
<td>Less variation from hospitals in neighboring areas</td>
<td>Does not differentiate between full time and part time employees</td>
</tr>
<tr>
<td>Greater reflection of labor costs for defined areas</td>
<td>Does not include contract labor</td>
</tr>
<tr>
<td>More labor categories are adjusted for occupational mix</td>
<td>Data is less transparent, and under less scrutiny</td>
</tr>
<tr>
<td></td>
<td>Relatively slow response to sudden changes in labor prices</td>
</tr>
<tr>
<td></td>
<td>Use of wage related cost detail from the cost report can create skewed results</td>
</tr>
</tbody>
</table>
Medicare Update: Potential Changes to Wage Index

Acumen Report Part II – Conclusion
Wage Index Geographic Areas

- Acumen does not recommend MedPac’s proposed methods of smoothed county indices.

- Acumen recommends that CMS explore the use of labor market definitions as geographic areas used to develop wage index. Labor market definitions would use specific characteristics (i.e. commuting patterns or the proximity of one hospital to another).

Medicare Update: Potential Changes to Wage Index

Proposed Cost Report Changes
- FORM CMS-2552-10 replaces FORM CMS-2552-96
- CMS has not stated when CMS-2552-10 will be finalized
- Cost Reports Beginning February 1, 2010
- Notable Differences for Wage Index data:
  - No line for salaried teaching physicians.
  - Wage Related Costs (WRC) for teaching physicians grouped with Physician Part A WRC.
  - Replace CMS FORM 339 Exhibit 6 (WRC) with Cost Report Worksheet S-3 Pt. IV.
  - New WS S-3 Pt. V instructs providers to report contract labor professional fees separately from benefits for hospital and sub-provider units.
Medicare Update: Transmittal 20*

Transmittal 20
- Significant Clarifications to Wage Index Instruction
  - Paid Time Off (PTO) Salaries and Hours
  - On Call Hours for Contracted Employees
  - Appropriate Supporting Documentation for Contract Labor
  - Home Office Administrative and General (A&G) Contract Labor

*Provider Reimbursement Manual-Part 2, Provider Cost Reporting Forms and Instructions, Chapter 36, Form CMS-2552-96

Paid Time Off (PTO)
- CMS Instructions
  - Salaries source = General Ledger (accrual basis)
  - Hours source = Payroll Register (cash basis)

Per CMS language in Transmittal 20:

“Although this methodology does not provide a perfect match between paid PTO cost and paid PTO hours for a given year, it should approximate an actual match between cost and hours. Over time, any variances should be minimum”.

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PTO Salaries and Hours - Example

<table>
<thead>
<tr>
<th>General Ledger</th>
<th>Payroll</th>
<th>Wage Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000,000 accrued salaries</td>
<td>$8,000,000 paid salaries</td>
<td>$10,000,000 accrued salaries</td>
</tr>
<tr>
<td>400,000 accrued hours</td>
<td>320,000 paid hours</td>
<td>320,000 paid hours</td>
</tr>
<tr>
<td>$25.00 per hour</td>
<td>$25.00 per hour</td>
<td>$31.25 per hour</td>
</tr>
</tbody>
</table>

Contract Labor: Appropriate Supporting Documentation

- The minimum requirement for supporting documentation is the contract itself.

- If the wage costs, hours, and non-labor costs are not clearly specified in the contract, then other documentation is necessary, such as a representative sample of invoices or a signed declaration from the vendor in conjunction with a sample of invoices.

- Contracts or invoices must specify professional fees apart from non-labor fees (i.e. travel, meals, supplies).
Medicare Update: Transmittal 20*

Contract Labor: Appropriate Supporting Documentation

- BESLER Consulting recommends that providers request vendors to specify professional fees and hours on invoices and/or contracts.

- This may enable reporting for additional contract labor professional fees and hours; especially for the following services that occasionally do not provide professional fees and hours on contracts and/or invoices:
  - Consulting
  - Audit
  - Tax
  - Information Technology

Home Office A&G Contract Labor

“Do not include on (WS S-3 Pt. II) line 22.01 any costs for contract home office personnel (these costs are currently not included in the wage index).”

- Disallowance of Home Office A&G contract labor provides a disadvantage to providers that operate with a home office.

- Freestanding hospitals are effected by this regulation if they share a CBSA with hospitals that operate with a home office.
Medicare Update: Transmittal 20*

Home Office A&G Contract Labor

- **Observations** – Some Fiscal Intermediaries have allowed providers to report home office A&G contract labor in the Federal Year 2011 Wage Index.
- **Recommendations** – Home office providers should file and disclose to their respective Fiscal Intermediary home office A&G contract labor on WS S-3 Pt. II Line 22.01.
  - Home office A&G is reported on WS S-3 PT. II Line 22.01 (Overhead A&G contract labor) rather than line 11 (Home Office).
  - Reporting these amounts on line 22.01 allows for a portion of the fees and hours to be excluded; whereby, amounts reported on line 11 are not subject to the overhead excluded ratio calculation.

Medicare Update: Occupational Mix

**Occupational Mix**

- Purpose is to adjust the AHW by accounting for differences in management choices of staffing.
- Providers with a higher mix of lower paid personnel (i.e. medical assistants and nursing aides) receive higher occupational mix factor.
- Hospitals were required to submit their 2010 surveys (January 1, 2010 through December 31, 2010) by July 1, 2011
- Preliminary (unaudited) survey data to be released in October 2011.
CBSA Analysis
Areas Of Impact to New Jersey

Preliminary Data – AHW Comparison

FFY 2012 Net AHW*

Preliminary FFY 2012 Occupational Mix

Impact to Net AHW

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**Preliminary FFY 2012 Occupational Mix**

Impact to Net AHW

- **New York City**: $0.72
- **Ocean City**: $0.00
- **Trenton**: -$0.35
- **Vineland**: $1.68
- **Wilmington**: $0.63

**CBSA Analysis**

**Areas Of Impact to New Jersey**

Preliminary Data – Total Salaried Personnel

- **Allentown**: $26.00
- **Atlantic City**: $30.54
- **Camden**: $29.76
- **Edison**: $30.30
- **Newark**: $33.19
- **New York City**: $35.49
- **Ocean City**: $27.15
- **Trenton**: $29.50
- **Vineland**: $27.66
- **Wilmington**: $30.84
CBSA Analysis
Areas Of Impact to New Jersey

Preliminary Data – Contract Labor (Patient Care)

FFY 2012 AHW*

- Allentown: $61.26
- Atlantic City: $69.98
- Camden: $43.44
- Edison: $48.96
- Newark: $59.36
- New York City: $62.95
- Ocean City: $44.06
- Trenton: $44.06
- Vineland: $47.79
- Wilmington: $47.79

Preliminary Data – Contracted A&G

FFY 2012 Net AHW*

- Allentown: $102.70
- Atlantic City: $112.38
- Camden: $236.88
- Edison: $169.44
- Newark: $63.99
- New York City: $140.35
- Ocean City: $61.33
- Trenton: $61.33
- Vineland: $92.88
- Wilmington: $0.00

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CBSA Analysis
Areas Of Impact to New Jersey

Preliminary Data – Administrative Physician Contracted Labor

<table>
<thead>
<tr>
<th>CBSA</th>
<th>Net AHW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allentown</td>
<td>$110.77</td>
</tr>
<tr>
<td>Atlantic City</td>
<td>$167.09</td>
</tr>
<tr>
<td>Camden</td>
<td>$86.27</td>
</tr>
<tr>
<td>Edison</td>
<td>$143.05</td>
</tr>
<tr>
<td>Newark</td>
<td>$111.15</td>
</tr>
<tr>
<td>New York City</td>
<td>$133.86</td>
</tr>
<tr>
<td>Ocean City</td>
<td>$83.04</td>
</tr>
<tr>
<td>Trenton</td>
<td>$107.23</td>
</tr>
<tr>
<td>Vineland</td>
<td>$93.54</td>
</tr>
<tr>
<td>Wilmington</td>
<td>$128.54</td>
</tr>
</tbody>
</table>

FFY 2012

Preliminary Data – Home Office Personnel

<table>
<thead>
<tr>
<th>CBSA</th>
<th>Net AHW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allentown</td>
<td>$50.47</td>
</tr>
<tr>
<td>Atlantic City</td>
<td>$49.97</td>
</tr>
<tr>
<td>Camden</td>
<td>$30.13</td>
</tr>
<tr>
<td>Edison</td>
<td>$45.15</td>
</tr>
<tr>
<td>Newark</td>
<td>$51.91</td>
</tr>
<tr>
<td>New York City</td>
<td>$60.19</td>
</tr>
<tr>
<td>Ocean City</td>
<td>$68.22</td>
</tr>
<tr>
<td>Trenton</td>
<td>$47.09</td>
</tr>
<tr>
<td>Vineland</td>
<td>$0.00</td>
</tr>
<tr>
<td>Wilmington</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

FFY 2012

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CBSA Analysis
Areas Of Impact to New Jersey

Preliminary FFY 2012
Wage Related Costs
Percentage of Total Salaries

Wage Index Increase Impact
Areas Of Impact to New Jersey

<table>
<thead>
<tr>
<th>CBSA</th>
<th>$0.10 AHW Increase*</th>
<th>$0.50 AHW Increase*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allentown-Bethlehem</td>
<td>$864,000</td>
<td>$4,300,000</td>
</tr>
<tr>
<td>Atlantic City</td>
<td>$262,000</td>
<td>$1,309,000</td>
</tr>
<tr>
<td>Camden</td>
<td>$921,000</td>
<td>$4,600,000</td>
</tr>
<tr>
<td>Edison</td>
<td>$1,700,000</td>
<td>$8,700,000</td>
</tr>
<tr>
<td>Newark</td>
<td>$1,866,000</td>
<td>$9,323,000</td>
</tr>
</tbody>
</table>

*Based on inpatient PPS rates and not considering the impact to providers that are reimbursed at a hospital specific rate.
Wage Index Increase Impact
Areas Of Impact to New Jersey

<table>
<thead>
<tr>
<th>CBSA</th>
<th>$0.10 AHW Increase*</th>
<th>$0.50 AHW Increase*</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York City</td>
<td>$13,500,000</td>
<td>$66,000,000</td>
</tr>
<tr>
<td>Ocean City</td>
<td>$160,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>Trenton</td>
<td>$280,000</td>
<td>$1,490,000</td>
</tr>
<tr>
<td>Vineland</td>
<td>$107,000</td>
<td>$530,000</td>
</tr>
<tr>
<td>Wilmington</td>
<td>$712,000</td>
<td>$3,500,000</td>
</tr>
</tbody>
</table>

*Based on inpatient PPS rates and not considering the impact to providers that are reimbursed at a hospital specific rate.

Wage Index Audit Process
Review of Worksheet S-3, Part II

Trial Balance Review of Accounts
- Identify all possible accounts that may be eligible for wage index reporting; for example:
  - Patient Care Contract Labor (Line 9)
  - Executive Contract Labor (Line 9)
  - Management Contract Labor (Line 9.03)
  - Physician Administrative Contract Labor (Line 10)
  - A&G Contract Labor (Line 22.01)
  - Housekeeping Contract Labor (Line 26.01)
  - Dietary Contract Labor (Line 27.01)
  - Wage Related Costs (Lines 13 – 20)
**Wage Index Audit Process**  
**Review of Worksheet S-3, Part II**

**Trial Balance Review of Accounts**
- Review accounts payable “drill down” information for identified wage index accounts.
- Determine if the expense is allowable for wage index reporting.
- For contract labor, ensure that professional fees and hours are supported on the contract and/or invoice.

<table>
<thead>
<tr>
<th>Account</th>
<th>Dept</th>
<th>WS A</th>
<th>Amount</th>
<th>Contract Labor</th>
<th>Wage Related Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>530000-100000 Temporary Labor</td>
<td>ICU</td>
<td>26</td>
<td>$500,000</td>
<td>X</td>
<td>N/A</td>
</tr>
<tr>
<td>530000-100000 Temporary Labor</td>
<td>Rehab</td>
<td>31</td>
<td>$100,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>530000-100000 Temporary Labor</td>
<td>Accounting</td>
<td>6</td>
<td>$800,000</td>
<td>X</td>
<td>N/A</td>
</tr>
<tr>
<td>550000-200000 Med Director</td>
<td>Anesthesia</td>
<td>40</td>
<td>$150,000</td>
<td>X</td>
<td>N/A</td>
</tr>
<tr>
<td>220000-500000 Other Benefits</td>
<td>Employee Benefits</td>
<td>5</td>
<td>$200,000</td>
<td>N/A</td>
<td>X</td>
</tr>
<tr>
<td>890000-80000 Supplies</td>
<td>Med-Surgical</td>
<td>25</td>
<td>$250,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Wage Index Audit Process
Review of Worksheet S-3, Part II

Hours Related to Paid Salaries
The following hours should be removed from the payroll file for wage index reporting:

• Differential OT hours that are recorded (i.e., if an employee works 1 hour, but the time is recorded at 1.5, then .5 hours can be removed)
• Bonus Hours
• On-Call Hours (report hours for contractors that are hired solely for the purpose of being on call)
• Shift Differential Hours
• PTO Paid Out At Employee Termination
• Buy/Sell back PTO
• Buy/Sell back vacation
• Missed meals and breaks
• Unpaid Family Medical Leave
• Unpaid Disability

Hours Related to Paid Salaries (cont’d):

• Unpaid Leave of Absence
• Hours related to capitalized salaries
• Baylor Plan: employees work 36 hours, but get paid for 40 hours – remove 4 hour difference
• Seasonal Plan; employees work certain months of the year, but get paid for 52 weeks – remove the time not actually employed
• Severance Hours; General rule: if severance is booked as a "salary" expense then include hours. If severance is booked as a non-salary expense than do not include hours
• Disability Hours; If disability hours are reduced on the payroll report they need gross up to 100%
• Holiday Pay for Nurses who work a paid holiday. The Nurses may get paid regular pay + holiday pay + overtime; ensure that hours are not being double-counted
### Wage Index Audit Process

#### Review of Worksheet S-3, Part II

**Core Wage Related Costs** *(CMS 339, Exhibit 6)*

- 401(k) Employer Contributions
- Tax Sheltered Annuity (TSA) Employer Contributions
- Qualified and Non-Qualified Pension Plan Cost
- Prior Year Pension Service Cost
- 401(k)/TSA Plan Administration Fees
- Legal/Accounting/Management Fees – Pension Plan
- Employee Managed Care Program Administration Fees
- Health Insurance (Purchased or Self-Funded)
- Prescription Drug Plan
- Dental, Hearing, & Vision Plans
- Life Insurance (If employee is owner or beneficiary)
- Accident Insurance (if employee is owner or beneficiary)
- Disability Insurance (if employee is owner or beneficiary)
- Long-term Care Insurance (if employee is owner or beneficiary)
- Worker’s Compensation Insurance Retiree Health Care Cost (only current year)
- FICA – Employer’s Portion Only
- Medicare Taxes – Employer’s Portion Only
- Unemployment Insurance
- State or Federal Unemployment Taxes
- Executive Deferred Compensation
- Day Care Cost and Allowances
- Tuition Reimbursement (can include Licensing Fees for Nurses, Techs, etc.)

*Must be allocated between allowable and excluded areas (based on salaries, FTEs, etc.)*

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**Other Wage Related Costs**

- Parking Subsidy / Cafeteria Subsidy / Transportation Subsidy
- Employee Wellness Program / Employee Assistance Program
- Salaried Physician Malpractice
- Employee Relocation Reimbursement
- Employee Service Awards / Employee Banquets
  - Any other employee benefit that is reported on the G/L and to the IRS as a fringe benefit, and which has not been furnished for the convenience of the hospital.
  - Must meet the “1% Test”
  - Each individual “other” wage related cost must exceed 1% of Worksheet S-3, Part III, Line 3, Column 3 in order to be reported on Worksheet S-3, Part II, Line 14.
- Other wage related costs must also be allocated between allowable and excluded areas (e.g., based on salaries, FTEs, etc.).
Questions

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