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CMS 2021 Wage Index, OcMix, and Geographic Reclassifications – What's New and What to Do

March 18, 2021

Introduction

- Dave Andrzejewski, CHFP - Crowe
  - Manages Crowe's national wage index services
  - Providing AWI assessments across the country for past 20 years
  - Co-creator of Crowe's Wage Index Navigator software

- Joe Krause, Esq., CPA - Hall Render
  - Manages wage index reclassification services through Nova Consulting subsidiary; assess reclass opportunities for over 350 hospitals each year; file 80 – 100 MGCRB apps/year
  - Work with hospitals to obtain rural reclassification (412.103) and special rural status (SCH, RRC), which can lead to more MGCRB options

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Agenda and Goals

- Summary of Medicare Wage Index
- Occupational Mix Survey – Impact and Moving Forward
- Preparing for FFY 2023 Data Assessment & Reporting
- Impact and Benefits of Geographic Reclassification
- Wage Index Updates & Changes
- Crowe and Hall Render service offerings

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Current Landscape of Wage Index – FFY 2021

- 460 CBSAs
- 3,435 IPPS hospitals

- $390 Billion of Wage Costs
- 8.6 Billion Hours
- Nat'l OcMix AHW $45.23*

[1]CCN	[2]Case-Mix Indexes for Discharges Occurring in Federal Fiscal Year 2019	FY 2020 Wage Index	[6]FY 2021 Wage Index Prior to Quartile and Transition	[6]FY 2021 Wage Index With Quartile	[3,6]FY 2021 Wage Index With Quartile and Cap	[4]Average Hourly Wage FY 2019	[4]Average Hourly Wage FY 2020	[4]Average Hourly Wage FY 2021	[4]3-Year Average Hourly Wage (2019, 2020, 2021)	Geographic CBSA	[7]Wage Index Payment CBSA	Lugar/ NECMA	MGCRB Reclass	Rural CBSA if Hospital is Reclassified Under Section 1886(d)(8)(E)of the Act (412.103)
360180	2.7692	0.8819	0.8814	0.8814	0.8814	39.4997	40.6930	40.3485	40.2011	17460	17460		17460	36
360211	1.7242	0.8367	0.8221	0.8343	0.8343	34.4870	36.3085	37.8552	36.1478	48260	38300		38300	36
370001	2.1152	0.8814	0.8689	0.8689	0.8689	37.7738	37.4153	37.6287	37.6038	46140	36420		36420	37
370013	1.9274	0.8814	0.8828	0.8828	0.8828	39.8415	37.8344	39.5590	39.0637	36420	36420		36420	37
370054	1.3863	0.8464	0.7718	0.8092	0.8092	29.2672	28.7905	28.5945	28.9222	36420	37			37
370078	1.7945	0.8814	0.8689	0.8689	0.8689	32.6023	32.4053	34.9043	33.2141	46140	36420		36420	37
370097	1.5461	0.8814	0.8689	0.8689	0.8689	37.5546	37.2759	36.2601	37.0119	30020	36420		36420	37
370114	2.0651	0.8814	0.8689	0.8689	0.8689	42.1543	40.5404	40.6560	41.0730	46140	36420		36420	37

* All data from CMS FFY 2021 Final PUF and Table 2

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Current Landscape of Wage Index – FFY 2021

- The composite AHW of the CBSAs drive the final AWI factors for each CBSA
- Reclassified Wage Index values vary in calculation based on effect of reclassifying hospitals to core CBSA AHW

CBSA	Area Name	State	State Code	[2]FY 2021 Average Hourly Wage	[2]3-Year Average Hourly Wage (2019, 2020, 2021)	Wage Index	Reclassified Wage Index	State Rural Floor	[4]Eligible for Rural Floor Wage Index	[3]Pre-Frontier and/or Pre-Rural Floor Wage Index
52	WISCONSIN	WI	52	42.2199	40.2148	0.9475		0.9475		
11540	Appleton, WI	WI	52	40.8898	40.3236	0.9475	0.9475		Y	0.9310
16984	Chicago-Naperville-Evanston, IL	WI	52	47.1234	45.9742		1.0192			
20260	Duluth, MN-WI	WI	52	45.1490	43.9812	0.9916				
20740	Eau Claire, WI	WI	52	42.9580	42.7473	0.9475	0.9475		Y	0.9436
22540	Fond du Lac, WI	WI	52	40.2720	39.1111	0.9475			Y	0.8845
24580	Green Bay, WI	WI	52	41.8905	40.9977	0.9475	0.9475		Y	0.9201

All data from FFY 2021 Final Table 3

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Current Landscape of Wage Index – FFY 2021

- CMS Public Use Files (PUFs) summarize data for all hospitals
  - Cost report basic demographics - FYE, CBSA, MAC, others
  - Worksheet S3 part II, III entries
  - Occupational Mix Survey data

- Each year releases 4 wage index PUFs, FFY 2022 dates below–
  - Initial PUF – May 18, 2020
  - Audited PUF – January 29, 2021
  - Audited PUF #2 – April 30, 2021
  - Final PUF – August 1, 2021

https://www.cms.gov/medicaremedicare-fee-service-paymentacuteinpatientppswage-index-files/fy-2022-wage-index-home-page

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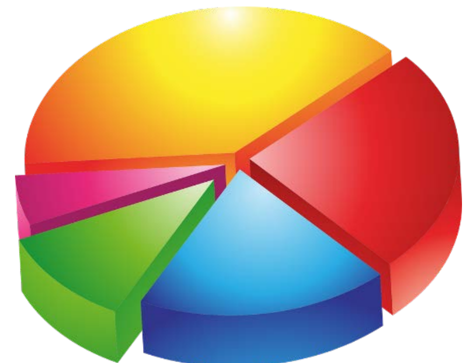
Current Landscape of Wage Index

- Zero sum game
  - All CBSAs compete against each other for AWI values
- Generally, the higher the CBSA AHW the higher your CBSA AWI

CBSA	Area Name	State	Wage Index
42100	Santa Cruz-Watsonville, CA	CA	1.8501
41940	San Jose-Sunnyvale-Santa Clara, CA	CA	1.8432
41884	San Francisco-San Mateo-Redwood City, CA	CA	1.8250
42034	San Rafael, CA	CA	1.7857
41500	Salinas, CA	CA	1.7730
			……..
19460	Decatur, AL	AL	0.6880
20020	Dothan, AL	AL	0.6842
23460	Gadsden, AL	AL	0.6688
1	ALABAMA	AL	0.6671
22520	Florence-Muscle Shoals, AL	AL	0.6671



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Current Landscape of Wage Index

- Other calculations and Statutory exemptions impacting the final AHW calculation:
  - Overhead allocation
  - Wage Midpoint mark-up factor
  - Rural Floor Budget Neutrality Factor (RFBNF)
  - Out-migration adjustment
  - Frontier states

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Current Landscape of Wage Index

- Suppliers and Providers using AWI values for payment calculation:
  - Ambulatory Surgical Centers
  - Home Health Agencies
  - Hospice
  - Hospital OPPS (APCs)
  - Inpatient Psychiatric Facilities
  - Inpatient Rehabilitation Facilities
  - Long Term Care Hospitals
  - Skilled Nursing Facilities

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Current Landscape of Wage Index – Understanding Dates

- CMS calculates wage index values based on prior year cost reports

- FFY 2022 data currently being finalized
  - Comprised of hospital data from Medicare cost reports with beginning dates 10/1/2017 through 9/30/2018.
  - Updated AWI factors applied to PPS payments beginning October 1, 2021

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Current Landscape of Wage Index – Understanding Dates

- CMS has strict timetable to develop wage index values
  - Provided with publication of initial PUF in May each year
  - Specific dates for filing deadlines and audited PUF releases

- FFY 2023 assessment period:
  - Comprised of hospital data from Medicare cost report's with **beginning dates 10/1/2018 through 9/30/2019.**
  - Initial PUF to be released in mid-May, 2021
  - Adjustments to filed data and updated geographic reclassification applications are likely due on Wednesday September 1, 2021
  - Updated factors applied to payments beginning October 1, 2022

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Current Landscape of Wage Index – Hospital Responsibilities

- Medicare cost report filings, due 5 months after FYE
- Annual review period – proposed adjustment submission
- Geographic Reclassification Applications
  - Updated applications usually available in mid-July
- Occupational Mix Survey
  - Can be adjusted every year, if necessary
  - Updated data due every 3 years
  - Next update will use CY 12/31/2022 data

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Current Landscape of Wage Index – CMS Guidance

- Provider Reimbursement Manual (PRM) 15-2 contains instructions for completing cost report worksheets
  - § 4005.2 – 4005.4
- Periodic updates to instructions
  - Most significantly October 2018
  - Minor updates in 2020
- Appeal court cases
- OcMix instructions are within the 9-page PDF CMS provided late last year

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Occupational Mix Survey - Overview

- Factor that is used in adjusting the nursing costs within a hospital’s average hourly wage (AHW) calculation.

- Factor calculation is based on the nursing staffing ratios at a hospital
  - RNs
  - LPNs and Surgical Technicians
  - Nursing Assistant (formerly Nursing Aides)
  - Medical Assistant

- The OcMix Survey is required by all acute IPPS hospitals to be filed every three years

- Submitted July 1, 2020

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Occupational Mix Survey – Sample Calculation

Provider Occ Mix Categories	Adjusted Wages	Adjusted Hours	Provider % by Subcategory	National AHWs by Subcategory	Provider Adjusted AHW	Nurse Occ Mix Adjustment Factor
RN	$35,356,122	1,007,679	60.43%	$44.29	$26.76	
LPNs and Surgical Technologists	$1,060,047	45,380	2.72%	$26.80	$0.73	
Nursing Aides, Orderlies, & Attendants	$7,324,400	463,676	27.81%	$18.49	$5.14	
Medical Assistants	2,547,222	150,698	9.04%	$19.52	$1.76	
Total Nurse Salaries and Hours	**$46,287,791**	**1,667,433**	**100.00%**		**$34.40**	**1.0855**
				Natl Rate -->	**$37.34**	

All Other Salaries and Hours	63,887,474	2,039,800
Total	**$110,175,265**	**3,707,233**

Nurse Salaries as a % of Total	42.01%
All Other Salaries as a % of Total	57.99%

- Hospital determines costs and hours per job categories – RN, LPN, Aides, Assistants and All Other
- Nursing OcMix Factor is calculated using hospital survey data and national AHW rates.
- Nursing and All Other percentages are determined from OcMix data

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Occupational Mix Survey – Sample Calculation

Wages (pre-OcMix Adj)	172,891,703					
Hours	4,056,513					
Unadjusted AHW	$ 42.62					
			Sal %		**OcMix**	**Adj Wages**
Nurse OcMix Wages	172,891,703	x	42.01%	x	1.0855	78,841,824
All Other OcMix Wages	172,891,703	x	57.99%	x	1	100,259,899
						179,101,722
OcMix Adjusted Wages	179,101,722					
Hours	4,056,513					
OcMix Adjusted AHW	$ 44.15					
AHW Variance	**$ 1.53**					

- Each year a hospital's nursing salaries will be adjusted by the OcMix factor
- Hospital's with an OcMix value exceeding 1.0000 will receive an increase to its AHW

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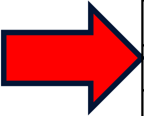
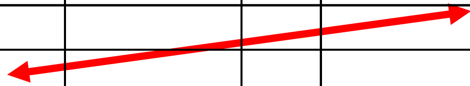
Occupational Mix Survey – Sample Calculation



Wages (pre-OcMix Adj)	172,891,703					
Hours	4,056,513					
Unadjusted AHW	$ 42.62					
			Sal %		**OcMix**	**Adj Wages**
Nurse OcMix Wages	172,891,703	x	42.01%	x	0.9855	71,578,643
All Other OcMix Wages	172,891,703	x	57.99%	x	1	100,259,899
						171,838,542
OcMix Adjusted Wages	171,838,542					
Hours	4,056,513					
OcMix Adjusted AHW	$ 42.36					
AHW Variance	**$ (0.26)**					



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Occupational Mix Survey – Impact

	$1.53 Δ at 1 hospital		$0.40 Δ at 1 hospital	
CBSA	**Total $$**	**$$/Hosp**	**Total $$**	**$$/Hosp**
Atlanta	$2,047,200	$64,000	$532,300	$16,600
Austin	$633,600	$35,200	$164,700	$9,200
Denver	$1,134,000	$56,700	$294,800	$14,700
Nashville	$1,328,400	$66,400	$345,400	$17,300
Phoenix	$2,503,200	$78,200	$650,800	$20,300
Syracuse	$601,200	$120,200	$156,300	$31,300

- 1 hospital represents approximately 6-8% of the CBSA
- Impact of geographic reclassifications not considered in table

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Occupational Mix Survey – Updating your CY 2019 Data

From FFY 2022 Timetable:

September 3, 2020

Deadline for hospitals to request revisions to their Worksheet S-3 wage data and **CY 2019 occupational mix data** as included in the wage and occupational mix preliminary PUFs, and to provide documentation to support the request.

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Recommendations and Strategy

- Fully understand job descriptions
  - Meet with HR and Nursing representatives as necessary
  - Assign to job categories per CMS instructions
  - Part B assignments need to be removed
  - Consider splitting job codes to OcMix categories
- RN nursing percentage < 70% will **usually** provide a favorable occupational mix factor – but not always
- Do not discount All Other costs and hours
  - Percentage of Nursing vs. All Other costs is significant to application of OcMix factor

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Recommendations and Strategy

- A6 Reclassifications need to be considered
  - Pay special attention to those reclassifying salary to/from General Service and Excluded Area cost centers

- All Other totals will impact your AHW adjustment
  - OcMix factor < 1.0000, favorable to have maximum All Other
  - OcMix factor > 1.0000, favorable to have lesser All Other
  - My advice – just report what you have, and let the chips fall where they may

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Preparation for FFY 2023 Reviews and Audit

- Initial PUF should be available in the “middle of May”
- No need to wait for it, you can get started now
- Projected deadline for recommended changes is September 1, 2021
- If not done already, develop a plan to file your data as correct as possible
- Utilize hospital managers – Payroll, Human Resources, Finance, Accounts Payable

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What's New – April 20, 2020 CMS Transmittal

- Line 4.01 – Part A Teaching Physicians emphasized
- Line 16 – no longer applicable. Home office teaching physicians – salary and wage related costs
- Line 16.01, 16.02 – currently applicable. Home office salaried and contract Part A teaching physicians, respectively

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What's New – April 20, 2020 CMS Transmittal

- Line 18 – no longer applicable, for CRs beginning on or after 10/1/15
- Line 25.53 – Home office salaried teaching Part A wage related costs
- Line 5, S3 part III – exclude line 18 from total

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What’s New – COVID impact

- Contract Labor
  - Direct patient care
  - Increased AHWs

- Wage Related Costs – Line 17 instructions PRM 15-2 §4005.2

Health-Related Services: Inpatient and outpatient health services that are not covered under the hospital’s health insurance plan, but are provided to employees at no cost or at a discount, for example, employee physicals, flu shots, smoking cessation, and weight control programs, are to be included as a core wage-related cost. (Domestic claim charges must be reduced to cost. Costs must also exclude any copayments and deductibles paid by employees.)

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What's New – MAC Audit Focus Items

- Contract Labor
  - Direct patient care, Administrative, Dietary, Housekeeping
  - Contracts & Invoices
  - Every 3-4 years, MAC should provide detailed audit on every hospital

- Physicians
  - Part A & B salary splits
  - Part A contract labor
  - Time studies
  - Contracts

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What’s New – MAC Audit Questionnaires, Requests

- Request for Information Document
  - Primarily received from FCSO, Novitas
- Pension Plans
  - Differentiate between defined benefit and defined contribution
  - CMS preferred pension form
  - Note carry forward adjustment is no longer applicable
- Capitalized Salary
- Dietary Contract Labor
  - Portion to Cafeteria

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Geographic Reclassification – Overview

- CMS allows an avenue for hospitals to adjust their AWI values via geographic reclassification
- Per FFY 2021 final rule, more than 900 hospitals take advantage of these regulations
- Specific criteria must be met

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Geographic Reclassification – Overview

Several scenarios exists for hospitals to obtain geographic reclassification for wage index purposes:

- Individual hospital to another rural to urban area (42 CFR §412.230)
- All hospitals in rural county to urban area (42 CFR §412.232)
- All hospitals in urban county to another urban area (42 CFR §412.234)
- All hospitals in State reclassified to another State (42 CFR §412.235)

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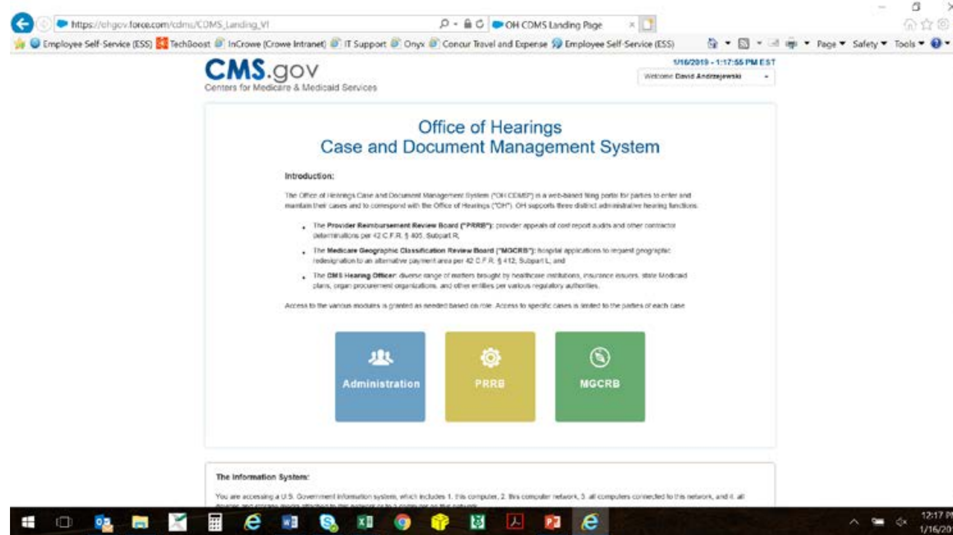
Geographic Reclassification – Application

- CMS.gov Enterprise Portal is new method to submit applications
- Allows for all attachments, forms, letters, etc. to be included
- Correspond with CMS through portal



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Geographic Reclassification – Overview

Hospital Type	Proximity	Home CBSA AHW	Requested CBSA AHW
Indiv. Urban	15 miles (to county line)	108%	84%
Indiv. Rural	35 miles (to county line)	106%	82%
Entire Urban County	adjacent county	n/a	85%
Entire Rural County	adjacent county	n/a	85%

- 3-year data average used, CMS data files provided
- Exceptions available for RRCs, SCH, dominating, and single CBSA hospitals

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Geographic Reclassification – Example, AHW Criteria

Hospital Desiring Reclassification Information		
Hospital provider number	123456	
Hospital Name	ABC Hospital	
Hospital home CBSA	Hospital Home CBSA #	
Home CBSA Name	Hospital Home CBSA Name	
Rural/Urban Status	Urban	
Single hospital in the CBSA	No	
	Hospital 3 Yr AHW	$ 42.61
	Home CBSA 3 Yr Avg	$ 38.75
	AHW Ratio - Hospital:CBSA	**109.95%**
	Home AHW Test Threshold	108.00%
	Meet This Criteria to Reclassify?	**Yes**

As an urban hospital, this hospital's AHW must be at least 108% of the composite AHW of all other hospital's in its home CBSA

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Geographic Reclassification – Example, AHW Criteria

Destination CBSA Reclassification		
Destination CBSA	Corpus Christi, TX	
CBSA Number	18580	
	Hospital 3 Yr AHW	$ 38.02
	Requested CBSA 3 Yr Avg	$ 41.86
	AHW Ratio - Hospital:CBSA	**101.47%**
	Requested AHW Test Threshold	82.00%
	Meet This Criteria to Reclassify?	**YES**

As a reclassified hospital, this hospital's AHW must be at least 82% of the CBSA AHW it desires to be reclassified

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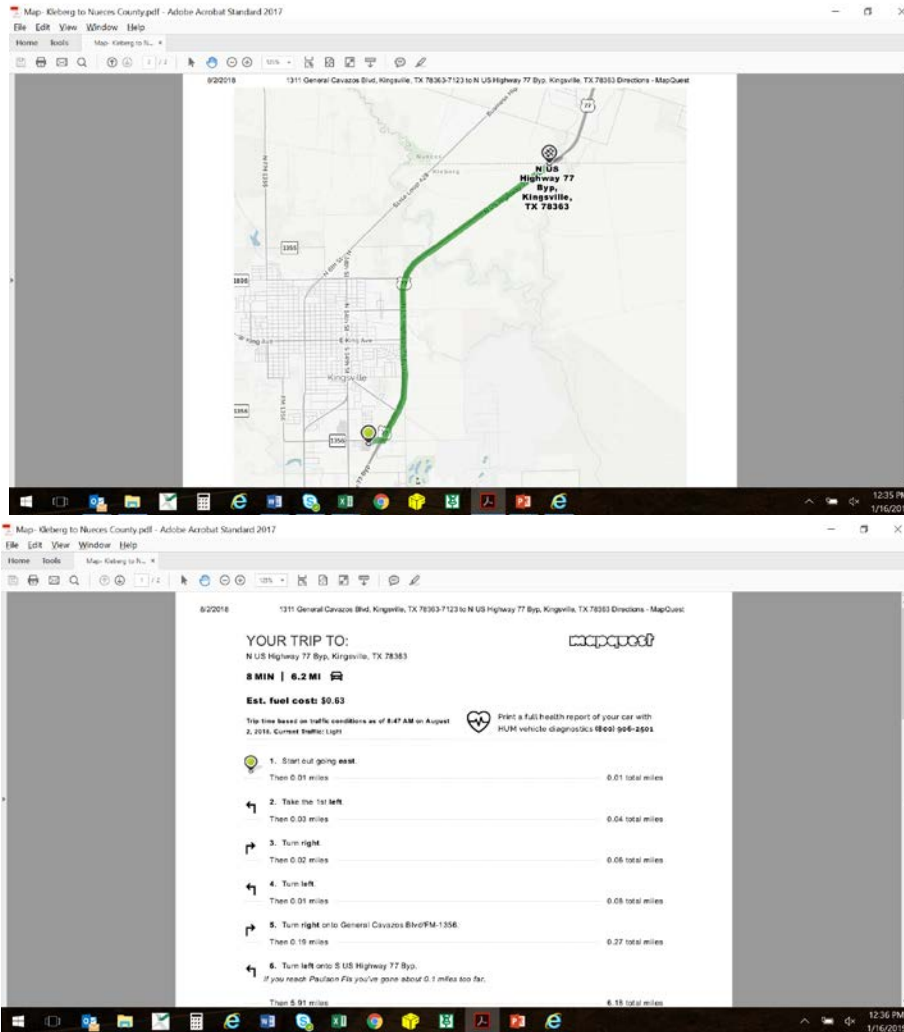
Geographic Reclassification – Example, Map Requirements



- Proximity criteria varies depending on reclassification type.
- Usually at a minimum, map and driving directions are required

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Geographic Reclassification – Impact

The “Combined AHW” = the AHW computed using the Home CBSA and those hospitals Reclassifying into the CBSA

If the Combined AHW of the Reclassified and Home CBSA Hospitals:	Then:
Less than 99% of the home CBSA AHW	Home CBSA hospitals are not affected. Reclassified hospitals receive “blended” AHW and resulting AWI factor
Between 99-100% of the home CBSA AHW	All hospitals received home CBSA AWI
Greater than home CBSA AHW	All hospitals received increased AHW and AWI factor

Home CBSA hospital’s AWI can never be decreased by reclassified hospitals

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Geographic Reclassification – Indianapolis, < 99%

CBSA 26900	Indy Hospitals	Reclassified into Indy	Combined
Number of Hospitals	27	5	32
Total Wage Costs	$3.4B	$461M	$3.9B
Total Hours	75.7M	11.1M	86.9M
AHW	$45.15	$41.46	$44.67
	Percent of home CBSA AHW		98.9%
FFY 21 Final AWI	**0.9917**	**0.9811**	

Combined AHW is $.02 less than target amount. Final AWI value for reclassified hospitals utilizes $44.67 in its AWI calculation to determine the "blended" AWI amount. The core Indy hospitals use $45.15.

FFY 21 lesser AWI value for 5 reclassified hospitals result in approximate **$2 million** IPPS/OPPS **reduced** reimbursement

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Geographic Reclassification – Kansas City >99%, <100%

CBSA 28140	Kansas City Hospitals	Reclassified into Kansas City	Combined
Number of Hospitals	29	4	33
Total Wage Costs	$2.7B	$165M	$2.9B
Total Hours	$66.8M	4.5M	$71.4M
AHW	$40.99	$36.27	$40.69
	Percent of home CBSA AHW		99.26%
FFY 21 Final AWI	**0.9006**	**0.9006**	

Combined AHW exceeds 99% of core by $0.11, allowing reclassified hospitals to achieve the core AWI value.

If the combined AHW fell by more than $.11, estimated IPPS/OPPS annual reimbursement loss is $0.5 million

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Geographic Reclassification – Nassau County, NY > Home

CBSA 35004	Nassau County Hospitals	Reclassified into Nassau County	Combined
Number of Hospitals	23	42	65
Total Wage Costs	$4.9B	$16.9B	$21.8B
Total Hours	82.2M	271M	353M
AHW	$60.36	$62.04	$61.65
	Percent of home CBSA AHW		102.13%
FFY 21 Final AWI	**1.3541**	**1.3541**	

Combined AHW of $61.65 is used to calculate AWI for both groups of hospitals.

Without reclass, Nassau County hospitals AWI is approximately 1.3259, resulting in reduction of $36,000,000 IPPS/OPPS reimbursement.

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Geographic Reclassification – Combined vs CBSA AHW

135 CBSAs
635 Hospitals

91 CBSAs
199 Hospitals

59 CBSAs
213 Hospitals

<99%

> 99%
and
< 100%

>100%

Anaheim, Atlanta, Birmingham, Cleveland, Los Angeles, Madison, Nashville, Salt Lake City, others

Des Moines, Gary, Kansas City, Miami Milwaukee, Olympia WA, Philadelphia, others

Columbus, IN Nassau County, Oxnard, others

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Geographic Reclassification Houston, TX Example

CBSA 26420	Houston Hospitals	Reclassified into Houston	Combined
Number of Hospitals	50	7	57
Total Wage Costs	$7.5B	$572M	$8.0B
Total Hours	163.9M	14.4M	178.4M
AHW	$45.58	$39.75	$45.11
99% AHW target			**$45.12**
FFY 20 Final AWI	**1.0011**	**0.9908**	

Combined AHW is $0.01 less than target amount

Reclassified hospitals use $45.12 to calculate its AWI. Core hospitals use $45.58. FFY 21 lesser AWI value for 7 reclassified hospitals result in approximate **$2.0 million** IPPS/OPPS reduced reimbursement

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Geographic Reclassification – Tampa, FL Example

CBSA 45300	Tampa Hospitals	Reclassified into Tampa	Combined
Number of Hospitals	27	8	35
Total Wage Costs	$3.4B	$335M	$3.7B
Total Hours	83.8M	9.1M	$92.9M
AHW	$40.3358	$36.91	$39.9998
99% AHW target			**$39.9324**
FFY 21 Final AWI	**0.8861**	**0.8861**	

Combined AHW exceeds 99% core rate by less than $0.07

For example, reclassified hospitals including an additional 160,000 hours would result in receiving blended rate of 0.8760, and at minimum **$2.4 M lost IPPS/OPPS reimbursement**

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Geographic Reclassification – 99% threshold

Anaheim, CA
Amarillo, TX
Atlanta-Sandy Springs-Roswell, GA
Bangor, ME
Baton Rouge, LA
Boise City, ID
Cambridge-Newton-Framingham, MA
Charleston, WV
Chicago
Columbia, MO
Dallas-Plano-Irving, TX
Fort Wayne, IN
Green Bay, WI
Houston
Indianapolis…..

…….. Oakland-Hayward-Berkeley, CA
Olympia-Tumwater, WA
Philadelphia, PA
Phoenix-Mesa-Scottsdale, AZ
Portland-Vancouver-Hillsboro, OR-WA
St. Cloud, MN
St. Joseph, MO-KS
St. Louis, MO-IL
Salisbury, MD-DE
Santa Maria-Santa Barbara, CA
Seattle-Bellevue-Everett, WA
Shreveport-Bossier City, LA
Springfield, MO
Tampa-St. Petersburg-Clearwater, FL
Tulsa, OK
Washington-Arlington-Alexandria, DC-VA-MD-WV
Wichita, KS

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Geographic Reclassification – Reclassification “Groups”

- Reclassification Groups definition:

“The common group of hospitals that geographically reclassify to the same CBSA for area wage index purposes”

- Understand your reimbursement group and work together to optimize your PPS reimbursement

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Geographic Reclassification – Recommendations

A common misconception is reclassifying hospitals have completed their work once it is reclassified and can rest for 3 years.

AHW must be optimized each year with ambition to:

- Continue to meet reclassification criteria – HAWT, TAWT
- Reach core rate of requested CBSA
  - **Optimal goal – combined AHW be at least within 1% difference of the home CBSA AHW will achieve core CBSA rate for all hospitals**
- Increase the blended rate

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OIG Report – Wage Index Adjustment for Low Wage Hospitals

- In December 2020, OIG released a report on hospital areas with lowest wage indices
- Evaluated new “bottom quartile” wage index adjustment
- Starting in FFY 2020 for at least 4 years, CMS raised wage index for hospitals in the bottom quartile (the lowest 25 percent) to bring them closer to the 25th percentile wage index.
- Reason for adjustment - CMS thought that the wage index system had previously been perpetuating and exacerbating low wage indexes because of circularity and 4-year time lag for data to make it into wage index calculation

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OIG Report (con.)

- Findings
  - 55% of rural hospitals had wage indexes in the bottom quartile for FFY 2020.
  - Of bottom quartile hospitals, 53 percent were rural.
  - Bottom quartile hospitals tended to be smaller and lower-volume hospitals.
  - The profit margins of hospitals in the bottom quartile varied significantly.
  - The average hourly wages of hospitals in the same area sometimes varied significantly
- Recommendations
  - Post pandemic, CMS could consider focusing the bottom quartile wage index adjustment more precisely toward the hospitals that are the least able to raise wages without that adjustment.
  - Also consider studying the question of why some hospitals in a particular area were able to pay higher wages than other hospitals in the same area prior to the implementation of the bottom quartile wage index adjustment.
  - More information might enable CMS to focus the adjustment even more precisely.

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Census Bureau Updates

- On January 19, 2021, Office of Management & Budget issued a notice and request for comment
- Among the items were whether the minimum urban area population to qualify a metropolitan statistical area (MSA) should be increased from 50,000 to 100,000.
  - Would make it harder for areas to qualify for urban status under the Medicare Program because of the higher population threshold
  - Approximately 150 areas that are currently classified as MSAs (urban for Medicare) would no longer qualify. Either:
    - included with rural portion of state (could get OMA or Lugar as well); or
    - become part of adjacent urban area (if it qualifies as an outlying county)
- Also comments are being solicited on whether OMB should make publicly available a schedule for updates to the core based statistical areas.
- Changes incorporated with 2020 census
- Comments due March 19th

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Census Bureau Updates (con.)

- Census Bureau has finished collecting responses for 2020 census
- Data is processed over the next few months with delivery due to Congress and States in later 2021
- Additional public data (including new rural and urban area maps) by 2023
- 2020 census data (and any increase to MSA threshold) would likely be part of the FYF 2025 IPPS Rule (i.e., starting 10/1/2024)

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Other Wage Index Updates

- FFY 2022 will be the 3rd year of the low wage hospital wage index adjustment (bottom quartile).
- CMS has stated that it will be in place for at least 4 years
- The special 5% decrease limitation is scheduled to sunset at the end of FFY 2021. So no cap on decreases in wage index in FFY 2022.
- There were minor Census Bureau updates in 2020, but shouldn't impact any urban or rural areas for FFY 2022

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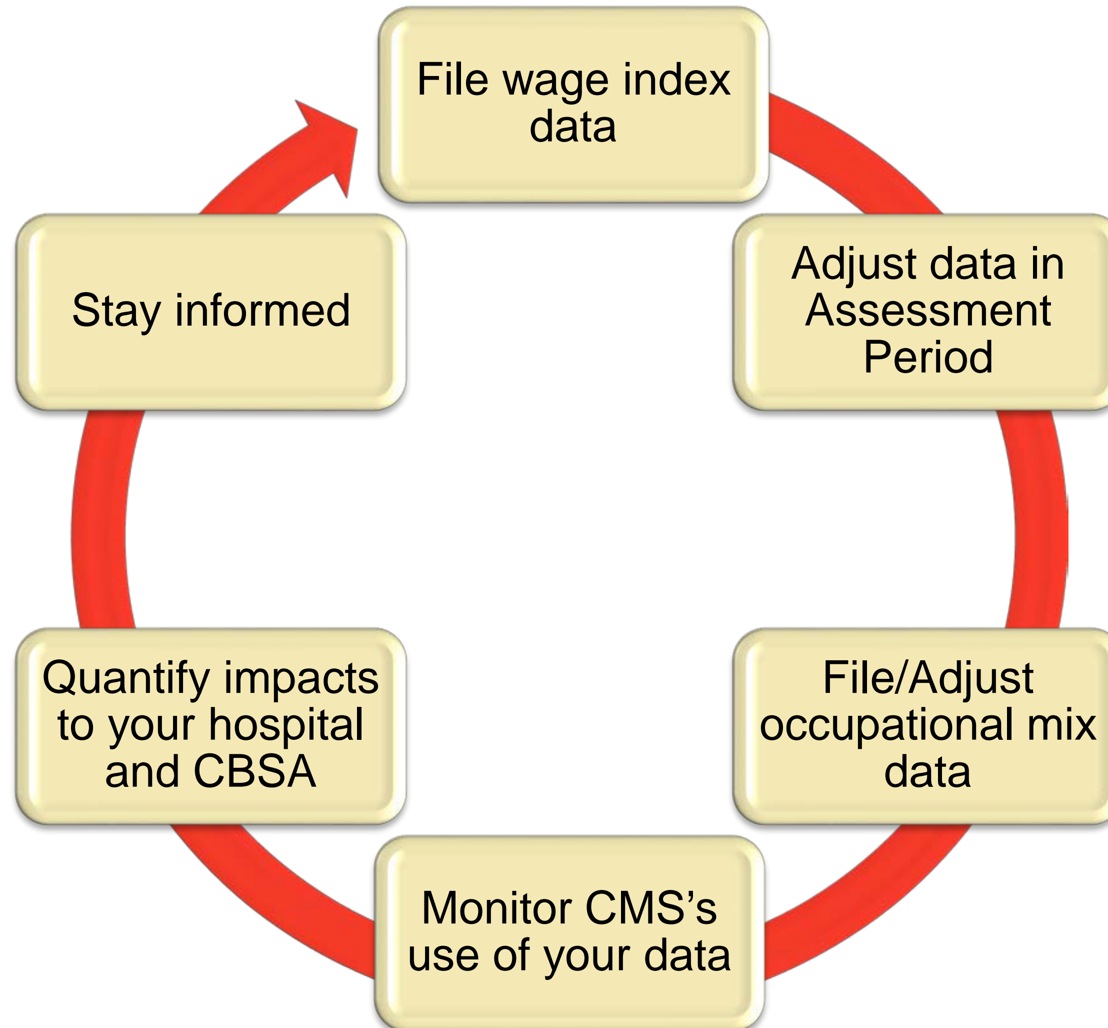
Crowe’s Wage Index Approach for Hospitals & Health Systems



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Crowe Wage Index Consulting Services

1. **Filing** wage index data
   - Include with as-filed cost report

2. **Assessment** of filed S3 and/or occupational mix survey data
   - Preparation of Proposed Adjustments
   - Correspondence with MAC to validate acceptance
   - Verification of data in audited PUFs
   - Appeal assistance, as necessary

3. **Special Projects**
   - Contract Labor Deep Dive
   - Focused Reviews

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Hall Render Wage Index Services

- Through our subsidiary, Nova Consulting, we provide full-service Medicare geographic reclassification for hospitals and groups on a fixed fee basis
- Each year we:
  - review eligibility for reclassification and analyze payment impact of reclassification to various target areas
  - prepare any necessary reclassification applications, including alternative reclassifications
  - submit reclass applications on behalf of hospitals and work closely with MGCRB staff, including filing supplemental information
  - when proposed rule is released, analyze whether hospital continues to benefit from reclass and file withdrawals, terminations or reinstatements as necessary

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Hall Render Wage Index Services

- Additional related geographic reclassification services :
  - urban to rural reclassifications under 42 CFR 412.103, which may open up new MGCRB reclassification options for hospitals (i.e., dual or “Rurban” reclass)
  - special hospital statuses (e.g., SCH, MDH, RRC)

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APPENDIX

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Worksheet S3 Series – Outline of Discussion

- Focusing on Big Ticket Items
  - Payroll
  - Contract Labor
  - Wage Related Costs

- Home Office

- General Recommendations

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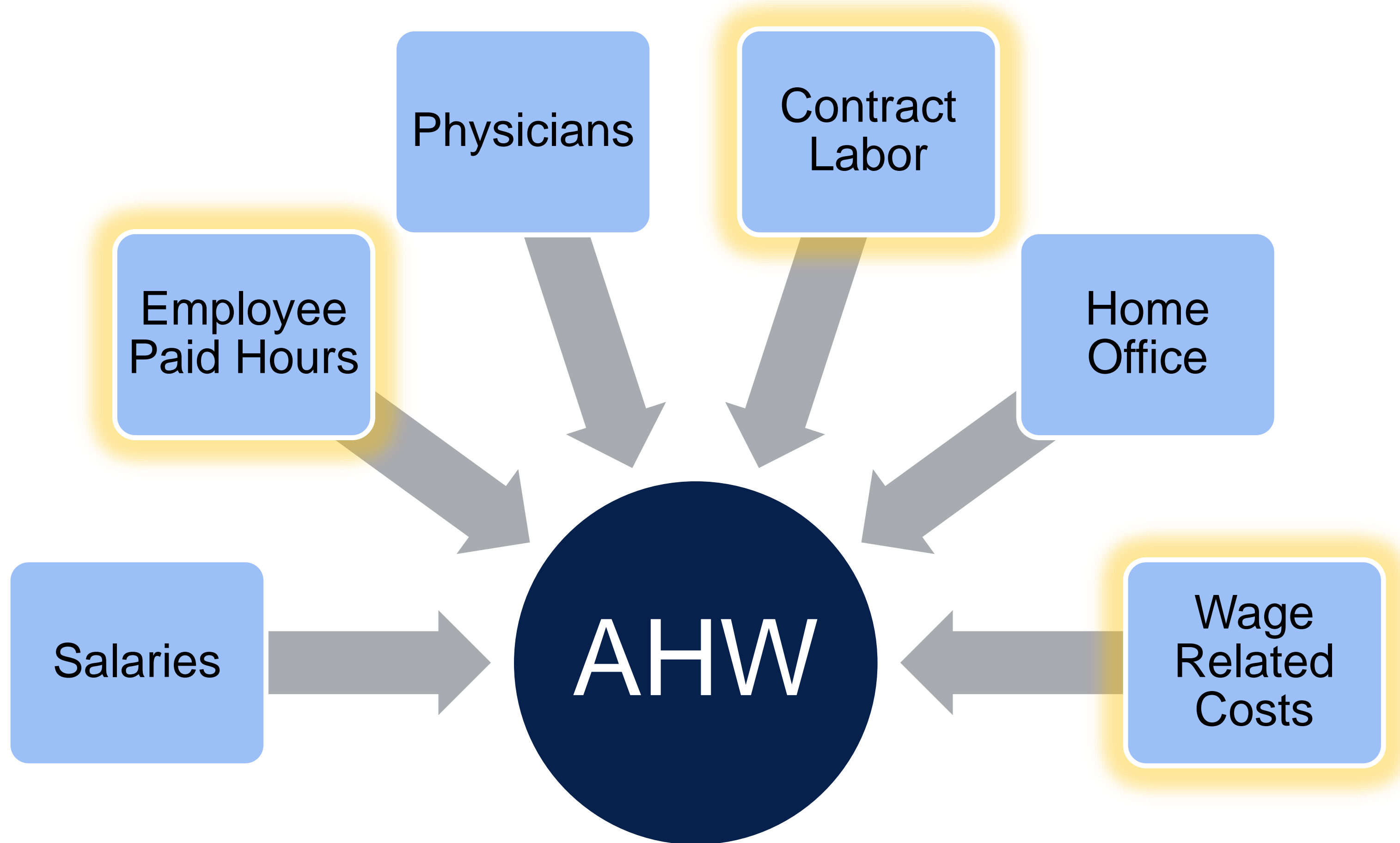
Optimizing S3 Worksheets – The Big 3



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Optimizing S3 Worksheets – Employee Paid Hours

- Need to be input in column 5 of S3 part II – no direct flow from other worksheets

- Many sources a hospital records paid hours:
  - General ledger
  - Labor Distribution Report (LDR)
  - FTE report
  - **Payroll register**

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Optimizing S3 Worksheets – Employee Paid Hours

- Per CMS instructions – "The source for paid hours on Worksheet S3, Part II, is the provider's **payroll report**"

- Cost report instructions are somewhat vague, leading to inconsistent reporting. Instructions include:
  - "Enter on each line the number of **paid** hours corresponding to the amounts in column 4";
  - "Hours associated with costs expensed in the current year but not paid until the subsequent year are not included in the current year....... of worksheet S3 part II and III.
  - "Hospitals must be able to provide a payroll report that is summarized by individual employee and type of pay"

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Optimizing S3 Worksheets – Employee Paid Hours

- Reconciliation of payroll register to GL salaries is crucial.
- Annually meet with your Payroll Manager to understand nature of **pay codes** that are utilized.
- Critical to understand salaries are reported as **expensed** and paid hours are reported as **paid**.

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Optimizing S3 Worksheets – Contract Labor

- Line 11 – Direct Patient Care
  - Nursing, Therapists, Radiologists, etc.
  - Routine, ancillary and outpatient cost centers
  - Excluded Area cost centers excluded
  - Exclude data for contractors paid under Part B

- Line 12, Management and Admin
  - Executive level (CEO, CFO, COO, Nursing Administrator, other similar)
  - Management level positions in routine, ancillary and outpatient cost centers
  - Exclude all contract data in general service cost centers

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Optimizing S3 Worksheets – Contract Labor

- Line 28 – Administrative & General
  - Consider all contract data reported on w/s A, line 5
  - Consulting, Legal, Auditing are the big ones
  - Home office A&G CL reported here
- Line 33, Housekeeping
  - Consider all contract data reported on w/s A, line 9
- Line 35, Dietary
  - Consider all contract data reported on w/s A, line 10

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Optimizing S3 Worksheets – Contract Labor

General Instruction for all Types:

- Costs must be recorded on worksheet A, column 2
- The minimum requirement for supporting documentation is the contract
  - Wage costs, hours and non-labor costs must be identified
  - Otherwise sample of invoices will be audited to confirm
- Attestations from vendor or hospital are not acceptable

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Optimizing S3 Worksheets – Contract Labor

General Guidance for Contract Labor reporting:

- Invoice support is critical
  - Require your vendors to have terms clearly stated
  - Demand hours

- Omit Part B and NRCC positions

- I&R and Teaching physician data required, but not used

- Home office contract labor is to be reported on specific lines
  - i.e. A&G must be on line 28

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Optimizing S3 Worksheets – Wage Related Costs

General Guidance for WRC reporting:

- Reconciliation of worksheet S3 part IV to GL
- On an annual basis, discuss with your HR manager any changes in policies or new benefits offered to hospital employees
- Validate all employees are eligible for all benefits

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Optimizing S3 Worksheets – Wage Related Costs

General Guidance for WRC reporting:

- FFY 2022 was the last year for the defined benefit pension carry-forward adjustment
- Statistical allocation method can be salary, direct, or mix of salary/FTE/direct
- Total wage related costs typically range between 20-30% of total salary

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Optimizing S3 Worksheets – Home Office

As our health systems consolidate, HO and Related Organization data is growing. Don't forget about:

- Paid Hours
- Contract Labor
- Wage Related Costs
- HO allocation must include all components

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Optimizing S3 Worksheets – Overall Recommendations

- File data correctly
  - All information should be available during filing period
  - Any adjustments for later are usually just contract labor
- Interview your department managers – Payroll, HR, AP, Finance
- Stay organized – lots of little pieces

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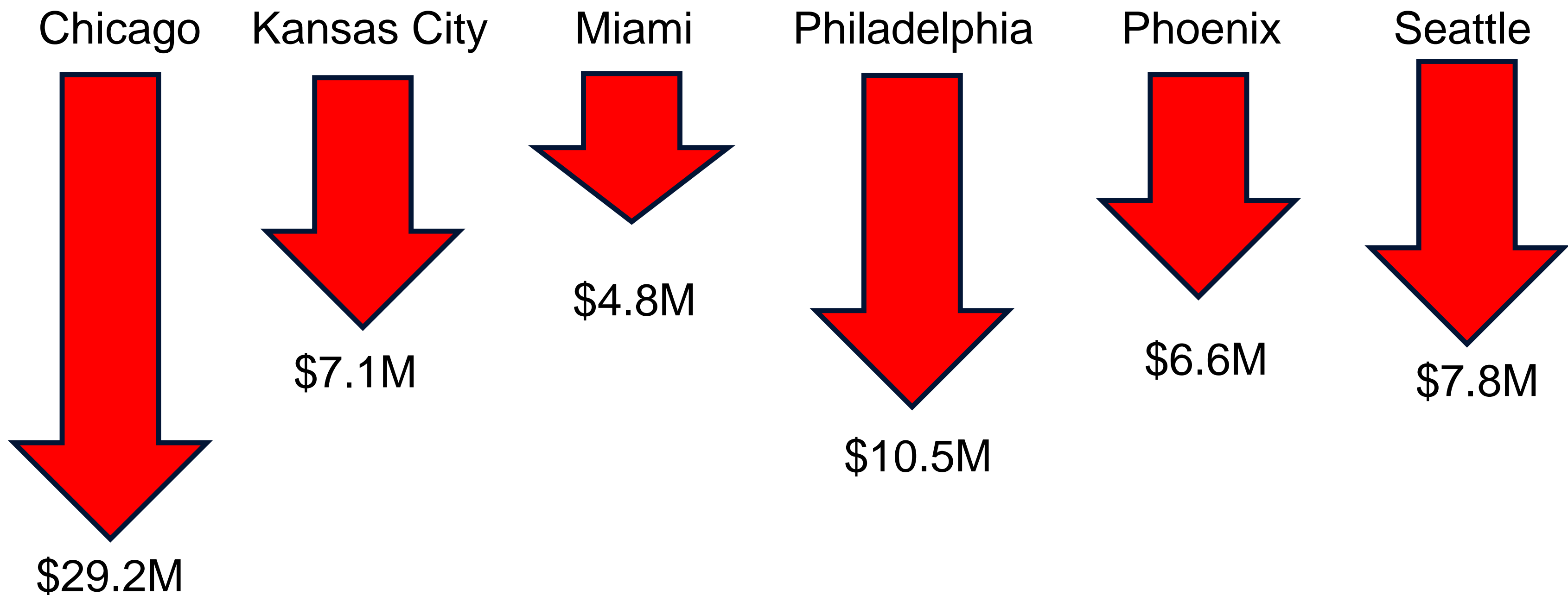
Optimizing S3 Worksheets – Impact of 1%

- 99% of anything is usually pretty good
- 1% variance of a CBSA AHW is very expensive to PPS reimb.



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