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Health Headlines

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Secretary Recommends to Congress that Current Wage Index be Replaced with a "Commuting Based Wage Index"

On April 11, 2012, Kathleen Sebelius (Secretary) published a highly-anticipated Report to Congress entitled "Plan to Reform the Medicare Hospital Wage Index" (Plan). The Plan fulfills the Affordable Care Act's mandate that the Secretary submit a plan that comprehensively reforms the wage index that is currently used to determine hospitals' Medicare prospective payments. The Secretary hired Accumen, LLC to explore various options for reforming the wage index, and the Plan reflects Accumen's advice regarding the best way to reform the wage index. In the Plan, the Secretary proposes to replace the current wage index methodology, which reimburses hospitals based on the hospital's location in a particular geographic metropolitan statistical area (MSA), with the Commuting Based Wage Index (CBWI), which takes into account hospital hiring patterns and commuting data to establish a wage index value that is specific *to each individual hospital*. More specifically, the CBWI is derived from commuting flows, which are used to identify the areas from which a hospital hires its workers, and to determine the proportion of workers hired from each area.

The first step in computing the CBWI is the establishment of a benchmark *area* wage level that is calculated using commuting information and existing wage data (such as that included in the Medicare cost report). Next, a benchmark wage is calculated *for a particular hospital* using the weighted average of the benchmark area wage level and the hospital's actual hiring proportions. The hospital's benchmark wage level is the numerator of the CBWI, and the denominator is the national average wage level. The resulting hospital-specific CBWI reflects wage levels in the areas from which the hospital hires and accounts for variation in the proportion of workers hired from each area.

According to Accumen, the CBWI would: be more accurate than the current wage index methodology, reduce large wage index differences between neighboring hospitals in adjacent MSAs, permit hospital wage indices to vary within a given MSA, account for differences in the degree to which workers commute in and out of a hospital's wage area, and eliminate the need for many of the geographic reclassifications and adjustments that currently exist. The Plan cites a 2007 MedPAC report which states that over one-third of IPPS hospitals currently receive a wage index based on one of the exceptions or adjustment provisions, rather than their actual geographic locations.

A switch to the CBWI methodology is not without its challenges; the Secretary acknowledged that a move to the CBWI raises the following issues: (1) how to best obtain accurate and up-to-date commuting data (*e.g.*, it will be necessary to know the Census Tract or ZIP Code of each hospital worker); (2) the potential for labor market distortions based on an intentional alteration of hiring patterns by hospitals in an attempt to manipulate the hospital's individualized CBWI; (3) the need to evaluate the CBWI's applicability to other Medicare payment systems (*e.g.*, fee-for-service payments); (4) questions as to the continued need for geographic reclassifications and adjustments (*e.g.*, the rural and frontier state floor provisions); and (5) how to transition to the new system. Furthermore, the Secretary acknowledges that if the CBWI is implemented in a budget-neutral manner, payments for some hospitals will increase while payments to others will decrease. Specifically, the Plan predicts that hospitals that currently benefit from some type of reclassification would likely see a reduction in payments. In contrast, hospitals that currently do not benefit from reclassification and those that

employ more workers from high-cost areas would likely see an increase in payments as a result of the CBWI methodology.

Accumen conducted an empirical impact analysis comparing the current wage index system to various alternatives and found: (1) among the indices explored, the CBWI has the highest correlation with a hospital's own reported wages; (2) the CBWI is the only index that allows for both intra-MSA and intra-county variation in wage index values; (3) the CBWI reduces the differences in wage index values for nearby hospitals located in different MSAs; the average difference in CBWI values between hospitals within six miles of each other is only 2 percentage points, while the average difference in current Medicare post-reclassification wage index values between the same hospitals is 5 percentage points; (4) if Medicare implements the CBWI methodology, approximately one in four hospitals will experience a change in wage index values of more than 5 percentage points; and (5) under the CBWI framework, the typical reclassified hospital receives a wage index value that is 1.8 percentage points higher than its pre-classification value, but 2.5 percentage points lower than its post-reclassification value; the typical non-reclassified hospital receives a wage index value that is 0.6 percentage points lower than its pre-reclassification value, but 0.8 percentage points higher than its post-reclassification value.

At this point, the Plan is merely the Secretary's suggestion to Congress. If the CBWI methodology is implemented, substantial revisions to existing statutory and regulatory schemes will need to be made. The Secretary's Report, along with Accumen's more detail-oriented report entitled "Revising the Medicare Wage Index to Account for Commuting Patterns" (which contains mathematical equations and examples of how the CBWI will be calculated, as well as discussion regarding hospital concerns and comments with respect to the CBWI) are available **here**.

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