



## Medicare Area Wage Index

HFS User Meeting Conference - October 25, 2013

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Audit | Tax | Advisory | Risk | Performance

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### Agenda

- General Understanding of Medicare Area Wage Index
- Cost Report Entries – worksheets S-3 parts II, III, IV and V
- Occupational Mix Survey and Data
- Tracking your hospital's AHW from cost report to Federal Register
- How is Area Wage Index (AWI) Calculated

## Agenda

- Geographic Reclassifications
- How the AWI is used in the IPPS calculations
- Looking Ahead – Future of AWI
- Sources of Information

## General Understanding of Medicare AWI

- Worksheet S-3 series contains data related to salary and contract labor workforce – costs, hours, fringe benefits
- Updated each year by hospitals in their Medicare cost report
- Only IPPS hospitals contribute to the calculation
  - Exclude critical access hospitals, Psych/Rehab freestanding hospitals, LTCH
- One of several factors used in computing Medicare PPS payments to hospitals
- Generally the higher your hospital's AHW, the higher your AWI factor – but not always....

## General Understanding of Medicare AWI

- All hospital's in a Core Based Statistical Area (CBSA) will share the same AWI factor.
- Exceptions are made for geographic reclassifications, and other exemptions
- Hospital's within a CBSA should work together to optimize its CBSAs AWI
- IPPS AWI data used by other providers:

SNF	HHA	Hospice	IRF
IPF	LTCH	Hosp OPPS	

## Wage Index Cost Report Worksheets - S-3 Series

- Part II – Wage Data
  - Costs and hours are reported
  - Specific employee categories and cost centers
- Part III – Hospital Wage Index Summary
  - Computes allowable costs and hours to include for wage index
- Part IV – Wage Related Costs
  - Reports “core” wage related costs (allowed for wage index)
  - Formerly Exhibit 6 from the CMS Form 339
- Part V – Contract Labor and Benefit Costs

## Worksheet S-3 Part II – Wage Data – Salary Expense

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
	Description	4	5	6
→	1 Total Salary (w/s A, col. 1 In 200)	347,525,247	12,772,343	27.21
	2 Non-physician anesthetist Part A	0	0	0.00
	3 Non-physician anesthetist Part B	0	0	0.00
	4 Physician salaries - Part A (Administration)	0	0	0.00
	4.01 Physician salaries - Part A (Teaching & Supervision of Interns)	0	0	0.00
	5 Physician salaries - Part B	12,390,066	123,882	100.01
	6 Nonphysician Part B	0	0	0.00
→	7 Interns & Residents	40,520,244	1,602,938	25.28
	7.01 Contract Services, I&R	0	0	0.00
→	8 Home office personnel	0	0	0.00
→	9 SNF	2,800,591	131,543	21.29
→	10 Excluded Area Salaries	22,822,500	764,145	29.87

- Line 1, 7, 9 and 10 salary totals flow from Worksheet A and A-6
- All other lines are input
- Enter on remaining lines only if these expenses are included on Line 1.

## Worksheet S-3 Part II – Wage Data – Salary Expense

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
	Description	4	5	6
	1 Total Salary (w/s A, col. 1 In 200)	347,525,247	12,772,343	27.21
	2 Non-physician anesthetist Part A	0	0	0.00
	3 Non-physician anesthetist Part B	0	0	0.00
→	4 Physician salaries - Part A (Administration)	0	0	0.00
	4.01 Physician salaries - Part A (Teaching & Supervision of Interns)	0	0	0.00
	5 Physician salaries - Part B	12,390,066	123,882	100.01
	6 Nonphysician Part B	0	0	0.00
	7 Interns & Residents	40,520,244	1,602,938	25.28
→	7.01 Contract Services, I&R	0	0	0.00
	8 Home office personnel	0	0	0.00
	9 SNF	2,800,591	131,543	21.29
	10 Excluded Area Salaries	22,822,500	764,145	29.87

- All data in lines 2 through 10 (**except line 4**) are ultimately removed from the AHW and AWI calculation
- Although contract I&R on line 7.01 is not a salary, these amounts are added back on line 11 – so this data provides virtually no impact to AWI

## Worksheet S-3 Part II – Wage Data – Salary Expense

### General Guidance for Reporting Salary Expense

- Total Salary Expense reconciles to Internal/Audited Financial Statements, and most will flow directly from worksheet A
- All Salaried Physician Expense is reported on w/s A82
- Remember to include salary on lines 2 through 10 (excluding 7.01) **if the salary is already included on line 1.**
- Common Items to Include
  - PTO Accruals
  - Bonus payments
  - Severance
  - Only salary of I&R's – not physicians and administrators
  - Nurse Practitioners & Physician Assistants

## Wage Index – S3 part II - Other Wages & Related Costs

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
	Description	4	5	6
	<b>Other Wages &amp; Related Costs</b>			
11	Contract Labor	4,332,195	70,211	61.70
12	Management Contracts	113,608	2,462	46.14
13	Contract Labor - Physician Part A	43,976,151	330,673	132.99
14	Home Office Salaries and Wage	56,246,847	1,434,370	39.21
15	Home Office Phys Part A	0	0	0.00
16	Teaching Physician Salaries	0	0	0.00



- All items in this section are to be input.
- **No data included is from excluded area cost centers.**
- All data is included for AHW and AWI calculation **except line 16.**

## Wage Index – S3 part II – Other Wages & Related Costs

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
	Description	4	5	6
	<b>Other Wages &amp; Related Costs</b>			
11	Contract Labor	4,332,195	70,211	61.70
12	Management Contracts	113,608	2,462	46.14
13	Contract Labor - Physician Part A	43,976,151	330,673	132.99
14	Home Office Salaries and Wage	56,246,847	1,434,370	39.21
15	Home Office Phys Part A	0	0	0.00
16	Teaching Physician Salaries	0	0	0.00

- Contract labor should be supported by listing of invoices
- Must only include labor costs and corresponding hours
- Usually these items will help the overall AHW for the hospital

## Wage Index – S3 part II - Other Wages & Related Costs

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
	Description	4	5	6
	<b>Other Wages &amp; Related Costs</b>			
11	Contract Labor	4,332,195	70,211	61.70
12	Management Contracts	113,608	2,462	46.14
13	Contract Labor - Physician Part A	43,976,151	330,673	132.99
14	Home Office Salaries and Wage	56,246,847	1,434,370	39.21
15	Home Office Phys Part A	0	0	0.00
16	Teaching Physician Salaries	0	0	0.00

- Line 11 is for **direct patient care contract labor**.
- Nursing, therapists, radiologists are the more common job duties
- Contracted executive positions (CEO, CFO, CIO, COO, Nursing Administrator) are also included on line 11.

## Wage Index – S3 part II - Other Wages & Related Costs

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
	Description	4	5	6
	<b>Other Wages &amp; Related Costs</b>			
11	Contract Labor	4,332,195	70,211	61.70
12	Management Contracts	113,608	2,462	46.14
13	Contract Labor - Physician Part A	43,976,151	330,673	132.99
14	Home Office Salaries and Wage	56,246,847	1,434,370	39.21
15	Home Office Phys Part A	0	0	0.00
16	Teaching Physician Salaries	0	0	0.00

- Line 12 is for **contracted management**
- Typical job duties are department directors, administrators, managers, ward clerks, and medical secretaries.
- Do Not include management positions in general service cost centers (lines 4 through 18 on worksheet A), or excluded area cost centers.

## Wage Index – S3 part II - Other Wages & Related Costs

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
	Description	4	5	6
	<b>Other Wages &amp; Related Costs</b>			
11	Contract Labor	4,332,195	70,211	61.70
12	Management Contracts	113,608	2,462	46.14
13	Contract Labor - Physician Part A	43,976,151	330,673	132.99
14	Home Office Salaries and Wage	56,246,847	1,434,370	39.21
15	Home Office Phys Part A	0	0	0.00
16	Teaching Physician Salaries	0	0	0.00

- Line 13 is for **contracted physicians providing Part A (administrative) services**
- Costs and time is supported by physician contracts and/or time studies.
- Amounts are also reported on worksheet A82.

## Wage Index – S3 part II - Other Wages & Related Costs

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
	Description	4	5	6
	<b>Other Wages &amp; Related Costs</b>			
11	Contract Labor	4,332,195	70,211	61.70
12	Management Contracts	113,608	2,462	46.14
13	Contract Labor - Physician Part A	43,976,151	330,673	132.99
14	Home Office Salaries and Wage	56,246,847	1,434,370	39.21
15	Home Office Phys Part A	0	0	0.00
16	Teaching Physician Salaries	0	0	0.00

- Line 14, 15, 16 are allocated costs and hours from the hospital's home office cost report allocation schedules.
- Costs will include core fringe benefits, and any HO contract labor allocated to the hospital
- Physician time should be supported by contracts and/or time studies.
- HO physician costs and hours will not be reported on worksheet A82.

## Wage Index – S3 part II - Other Wages & Related Costs

### General Guidance for reporting Other Wages and Related Costs

- Invoice support is critical for contract labor
- Hound your vendors for paid hours
  - Require contracts to include labor rates
  - Hours worked required before payment
- Do not include excluded area cost center data (i.e. physician costs in NRCC)
- On Call Services
- Home office opportunities likely exists with contract labor, fringe benefits and paid hours
- Ensure of home office allocations to components

## Wage Index – Physician Reconciliation

- For Worksheet A82 reporting, the following is required:

Salary	Contract
Part A (admin, teaching)	Part A (administrative)
Part B (professional)	<b>Part B (professional)</b>

- For wage index reporting, S3 part II only requires the following:

Salary	Contract
Part A (admin, teaching)	Part A (administrative)
Part B (professional)	

## Wage Index – S3 part II - Wage Related Costs

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
	Description	4	5	6
	<b>Wage Related Costs</b>			
17	Wage Related Costs (Core)	85,003,405		
18	Wage Related Costs (Other)	1,400,000		
19	Excluded Areas	5,903,595		
20	Non Physician Anesthetist Part A	0		
21	Non Physician Anesthetist Part B	0		
22	Physician Part A (Administration)	0		
22.01	Physician Part A (Teaching & Supervision of Interns)	0		
23	Physician Part B	399,393		
24	WRC - RHC/FQHC	0		
25	Interns & Residents (approved)	8,908,438		

- All items in this section are to be input.
- Only data reported in lines 17, 18 and 22 are included in the AHW and AWI calculations.**
- Costs are identified, then allocated to the appropriate employee categories, represented on lines 17 through 25.

## Wage Index – Wage Related Costs – What’s Included??

Accident Insurance	Day Care & Allowances	Deferred Compensation	Dental, Hearing, Vision
Disability Insurance	<b>Consulting Fees for Core Benefits</b>	FICA	Health Insurance
Life Insurance	Long-Term Care Insurance	Medicare Taxes	<b>Other Benefits Exceeding 1%</b>
<b>Pension</b>	Prescription Drug Plans	Retirement Health Care Insurance	State/Fed Unemployment Tax
Tuition Reimbursement	Unemployment Insurance	Worker’s Comp Insurance	

**\*\* All core wage related costs are to be reported on Worksheet S3 part IV \*\***

## Wage Related Costs – Worksheet S3 Part IV

<b>Retirement Costs</b>	<b>Taxes</b>
1 401K Employer Contributions	17 FICA-Employers Portion Only
2 Tax Sheltered Annuity (TSA) Employer Contribution	18 Medicare Taxes - Employers Portion Only
3 Qualified and Non-Qualified Pension Plan Cost	19 Unemployment Insurance
4 Prior Year Pension Service Cost	20 State or Federal Unemployment Taxes
<b>Plan Administrative Costs</b>	<b>Other</b>
5 401K/TSA Plan Administration fees	21 Executive Deferred Compensation
6 Legal/Accounting/Management Fees-Pension Plan	22 Day Care Cost and Allowances
7 Employee Managed Care Program Admin Fees	23 Tuition Reimbursement
<b>Health and Insurance Costs</b>	
8 Health Insurance (Purchased or Self Funded)	
9 Prescription Drug Plan	
10 Dental, Hearing, and Vision Plan	
11 Life Insurance	
12 Accident Insurance	
13 Disability Insurance	
14 Long-Term Care Insurance	
15 Workers Compensation Insurance	
16 Retirement Health Care Cost	

**Report total wage related costs on S3 part IV, not just core amounts**

## Wage Related Costs – Consulting Fees for Core Benefits

- Typically incurred for pension and health insurance plans
- Consulting costs can be included within the appropriate benefit category on worksheet S3 part IV
- Invoices with description of services are best support for MAC audit
- Hospital benefits by being able to claim the labor costs of the service only – hours do not need to be reported.
- Not subject to the 1% threshold

## Wage Related Costs – Other Costs Exceeding 1%

- Hospital's 1% threshold is 1% of the Adjusted Salaries amount reported on:
  - Worksheet S3.....Part 3.....Line 3.....**Column....4**
- Non-core benefits can be included if the individual costs of the benefit exceeds the hospital's 1% threshold amount
- All non-core benefits cannot be lumped together and compared to 1% threshold
- Individual categories is a fringe benefit as defined by IRS
- Costs are reported on line 18 of worksheet S3 part II
- Most common expense claimed is parking

## Wage Related Costs – Pension

- Costs associated with defined contribution plans (i.e. 401k) are recorded in year expensed
- Defined contribution amounts reported on lines 1 and 2 of S3 part IV
- Defined Benefit Plans
  - Reporting method adjusted in FFY 2013 wage index calculation
  - Contributions for 3-year period must be determined. Average amount to be reported.
  - 3-year period has current year as “center year”
  - Prefunding Installment
- Defined Benefit amounts are to be reported on lines 3 and 4 of S3 part IV
- For some CBSAs, transition from Cost to Contribution method has caused significant variances in their AWI value from year to year

## Wage Related Costs – Allocation to Employee Categories

- Most accurate method is to directly allocate costs.....If these are reported in GL as such
- Most hospitals will have the majority of the fringe benefit expenses in the Employee Benefits cost center
- Hospitals not limited to only salary allocation
- FTE allocation can be considered (i.e. Tuition, Health Insurance, Day Care, other insurance if applicable)
- Mixed basis is usually preferred as next best option after direct allocation

## Wage Related Costs - S3 part II

### General Guidance for reporting Wage Related Costs

- Understand the reporting of all fringe benefits in 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.
- Utilization of the mixed allocation method can bring significant impact to the AHW for some hospitals
- Usually total wage related costs is approximately 20-25% of total salary

## Wage Index – S3 part II - Overhead Costs – Direct Salaries

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
	Description	4	5	6
	<b>Overhead Costs - Direct Salaries</b>			
26	Employee Benefits	6,380,055	163,913	38.92
27	Administrative & General	33,576,851	1,504,177	22.32
28	A&G Contract	4,027,609	54,399	74.04
29	Maint & Repairs	0	0	0.00
30	Operation of Plant	8,167,693	325,151	25.12
31	Laundry & Linen	27,280	2,288	11.92
32	Housekeeping	10,748,356	891,874	12.05
33	Housekeeping Contract	0	0	0.00
34	Dietary	5,070,138	360,167	14.08
35	Dietary Contract	0	0	0.00
36	Cafeteria	4,027,748	328,487	12.26
37	Maintenance of Personnel	0	0	0.00
38	Nursing Administration	20,184,329	570,878	35.36
39	Central Services and Supply	3,140,218	192,981	16.27
40	Pharmacy	15,929,944	442,906	35.97
41	Medical Records & Medical Records Library	10,503,600	430,833	24.38
42	Social Service	2,801,423	101,169	27.69
43	Other General Service (specify)	4,338,037	140,496	30.88

- All salary amounts flow directly from worksheet A entries
- Contract labor items and paid hours must be entered

## Wage Index – S3 part II - Overhead Costs - Salary

- Do not discount the importance of this data
- These costs and hours do not contribute to the AHW calculation in Part III.
- However, this data is utilized as the AHW is calculated through the amount reported in the Federal Register
- CMS “back end” calculation determines the general service cost center portion applicable to excluded areas

## Wage Related Costs – S3 part II - Other – Contract Labor

- Administrative & General
  - Must be reported in A&G cost center (line 5 or subscripts) on worksheet A
  - Usually will provide a benefit to the overall hospital AHW
  - Significant AHW items will likely include costs for legal services, consultants, and audit fees
- Housekeeping and Dietary
  - Report all management and staff contract labor
  - Usually will not help the hospital's overall AHW, but is compliant to report

## Wage Index – S3 part II - Paid Hours

- Reported in Column 5 of S3 part II
- Many sources to provide hours:
  - General ledger
  - Labor Distribution Report
  - FTE report
  - **Payroll Register**
- Payroll register paid hours are the desired type to report
- Do not include accrued hours
- Cost report instructions are not extensive, leading to confusion

## Wage Index – S3 part II, Paid Hours

For Wage Index reporting, three big things to remember:

- Salary is reported as expensed
- Paid Hours are reported as Paid
- Understand all your hospital's payroll department **Pay Codes**

## Wage Index – S3 part II - Paid Hours

- Common adjustments to paid hours:
  - Accrued hours
  - PTO paid at termination, and sold back for cash
    - Set up separate pay codes for these occurrences
  - On Call Pay – call back minimum
  - Payroll report contains non-hospital employees
  - Hours corresponding to salaries offset by revenue on w/s A

## Wage Index – S3 part II - Paid Hours

- Common adjustments to paid hours:
  - Baylor Plan
    - Pharmacists, surgery personnel, technicians
  - Low Census and FMLA
  - Hours double counted
  - Hours related to capitalized salary

## Wage Index – Worksheet S3 part III

		Adjusted Salaries	Pd Hours Related to Sal in Col. 4	(Col 4 / Col 5) Average Hourly Wage
		4	5	6
	<b>Worksheet S-3 pt III - Hospital Wage Index Summary</b>			
1	Net Salaries	311,073,686	11,099,921	28.02
2	Excluded Area Salaries	26,699,127	895,688	29.81
3	Subtotal Salaries	284,374,559	10,204,234	27.87
4	Subtotal Other Wages & Related Costs	104,668,801	1,837,716	56.96
5	Subtotal Wage-Related Costs	86,403,405	0	0.30
6	Total	475,446,765	12,041,949	39.48
7	Total Overhead Costs	130,806,901	5,509,718	23.74

- No input items here – all are calculated
- All non-IPPS items are removed (excluded area, teaching, Part B)
- Amount computed on line 6, column 6 is the hospital's preliminary AHW

## Wage Index – Worksheet S3 Part V

	Part V - Contract Labor & Benefit Costs	Contract Labor Col 1	Benefit Col 2
1	Total facility's contract labor and benefit cost	588,743	10,571,024
2	Hospital	288,743	9,905,504
3	Subprovider - IPF		
4	Subprovider - IRF	300,000	356,000
5	Subprovider - (Other)		
6	Swing Bed - SNF		
7	Swing Bed - NF		
8	Hospital-Based SNF		
9	Hospital-Based NF		
10	Hospital-Based OLTC		
11	Hospital-Based HHA		
12	Separately Certified ASC		
13	Hospital - Based Hospice		
14	Hospital - Based Health Clinic RHC		
15	Hospital - Based Health Clinic FQHC		
16	Hospital - Based CMHC		
16.10	Hospital - Based CMHC 10		
17	Renal Dialysis		
18	Other		309,520

- Data entered does not flow to/from other cost report worksheets
- Does not cause Level 1 error if not completed

## Wage Index – Occupational Mix Survey

- Next survey is due July 1, 2014
- Will utilize the calendar year 2013 hospital data
- All IPPS hospitals must complete
- CMS has talked of penalties in the past, but not strictly enforced (at least not yet)
- Each hospital computes their own individual OcMix factor
- Applied to only the nursing salary portion of total salaries

## Occupational Mix Factor - Calculation

Provider Occ Mix Categories	Wages	Hours	Provider % by Subcategory	National AHWs by Subcategory	Provider Adjusted AHW	Nurse Occ Mix Adjustment Factor
RN	\$21,975,941	898,719	69.78%	\$37.44	\$26.12	
LPNs and Surgical Technologists	\$2,298,553	170,119	13.21%	\$21.78	\$2.88	
Nursing Aides, Orderlies, & Attendants	\$2,183,087	219,143	17.01%	\$15.33	\$2.61	
Medical Assistants	\$0	-	0.00%	\$17.23	\$0.00	
<b>Total Nurse Salaries and Hours</b>	<b>\$26,457,581</b>	<b>1,287,981</b>	<b>100.00%</b>		<b>\$31.61</b>	<b>1.0078</b>
Natl Rate -->						
<b>All Other Salaries and Hours</b>	<b>\$37,445,371</b>	<b>1,935,510</b>			<b>\$31.85</b>	
<b>Total</b>	<b>\$63,902,952</b>	<b>3,223,491</b>				

- Hospital determines costs and hours per job categories – RN, LPN, Aides, Assistants and All Other
- Hospital adjusted AHW is calculated. National rates calculated using all hospital's OcMix data
- OcMix factor = Hospital AHW / National AHW

## OcMix Factor – Impact on AHW

<b>Nurse Salaries as a % of Total</b>	<b>41.40%</b>	← Determined by OcMix Data
<b>All Other Salaries as a % of Total</b>	<b>58.60%</b>	
Wages (Updated by MidPoint Markup)	\$64,346,688	← Hospital wage index PUF data
Hours	2,177,845	
<b>Unadjusted AHW</b>	<b>\$29.55</b>	
Nurse Occ Mix Wages	\$26,847,882	Nurse OcMix Wages = \$64,346,688 x 41.40% x <b>1.0078</b>
All Other unadjusted Occ Mix Wages	\$37,705,388	← All Other Wages = \$64,346,688 x 58.60%
<b>Salaries Adjusted for Occ Mix</b>	<b>\$64,553,270</b>	
<b>Hours</b>	<b>\$2,177,845</b>	
<b>Oc Mix Adjusted AHW</b>	<b>\$29.64</b>	← OcMix value over 1 has increased this hospital's AHW by \$0.09

## Occupational Mix Survey – Your Data & Reports

- Must obtain file from payroll department detailing the paid costs and hours:
  - Per GL department
  - Per Job Description
  - Per Payroll Code
- Data must be analyzed:
  - Remove data in non-IPPS cost centers
    - Excluded Units
    - Nonreimbursable Cost Centers
  - Analyze pay codes in same manner as wage index analysis
  - Understand job descriptions to properly report in OcMix categories
  - Part B physician data, if applicable
- Contract Labor
- Home Office

## Occupational Mix Survey

### General Guidance for completing Occupational Mix Survey

- CMS will provide preferred format to submit. Previous years has been in Excel spreadsheet format
- Critical to fully understand hospital job descriptions
- Generally, a lower volume of nurses will produce a favorable OcMix factor – but not always. There are a lot of moving parts.
- Don't forget overhead allocation to excluded areas

## Calculation of Hospital AHW to Federal Register

260032 - Barnes-Jewish Hospital

Hospital Fiscal Year End 12/31/2010

Federal Fiscal Year 2014

Worksheet S3 Parts II and III

		Adjusted Salaries	Paid Hours Related to Salary	Average Hourly Wage
Line	Description	3	4	5
Part III - Hospital Wage Index Summary				
1	Net Salaries	\$405,625,274	15,474,667	26.21
2	Excluded Area Salaries	\$25,052,386	1,003,822	24.96
3	Subtotal Salaries	\$380,572,888	14,470,845	26.30
4	Subtotal Other Wages & Related Costs	\$127,002,266	1,890,788	67.17
5	Subtotal wage-Related Costs	\$94,844,492	0	0.25
6	Total	\$602,419,646	16,361,633	36.82

**TABLE 2.-- ACUTE CARE HOSPITALS CASE-MIX INDEXES FOR DISCHARGES OCCURRING IN FEDERAL FISCAL YEAR 2012; HOSPITAL WAGE INDEXES FOR FEDERAL FISCAL YEAR 2014; HOSPITAL AVERAGE HOURLY WAGES FOR FEDERAL FISCAL YEARS 2012 (2008 WAGE DATA), 2013 (2009 WAGE DATA), AND 2014 (2010 WAGE DATA); AND 3-YEAR AVERAGE OF HOSPITAL AVERAGE HOURLY WAGES**

CMS Certification Number (CCN)	Case-Mix Index <sup>2</sup>	FY 2014 Wage Index	Average Hourly Wage FY 2012	Average Hourly Wage FY 2013	Average Hourly Wage FY 2014 <sup>1</sup>	Average Hourly Wage ** (3 Years)
260032	2.0979	0.9144	32.2863	34.6316	<b>34.6524</b>	33.8728

???

How did we lose \$2.17?

## Calculation of Hospital AHW to Federal Register

Several adjustments occur to a hospital's AHW from cost report to Federal Register:

1. CMS "back-end" calculation – allocating overhead CCs to Excluded Areas
2. Annualize salaries and hours
3. Mid-point mark up factor
4. Occupational Mix Adjustment
5. Other adjustments

## 1. Allocation of Overhead cost centers to Excluded Area

Part III - Hospital Wage Index Summary				
1	Net Salaries	\$405,625,274	15,474,667	26.21
2	Excluded Area Salaries	\$25,052,386	1,003,822	24.96
3	Subtotal Salaries	\$380,572,888	14,470,845	26.30
4	Subtotal Other Wages & Related Costs	\$127,002,266	1,890,788	67.17
5	Subtotal wage-Related Costs	\$94,844,492	0	0.25
6	Total	\$602,419,646	16,361,633	36.82
NEW	Revised Line 1	\$450,088,530	17,250,468	26.09
AHW Calculation				
	Subtotal A	69,515,642	2,779,622	25.01
	Subtotal B	165,385,374	1,420,619	116.42
	Adjusted Salaries	545,958,262	15,891,465	34.36
	Subtotal C (Overhead)	130,568,310	5,607,903	23.28
NEW	OH Contract Labor	5,802,311	67,905	85.45
	Revised Hours		9,866,764	
	Excluded Ratio		10.17%	
	Excluded Salary		13,278,797	
	Excluded Hours		570,324	
	Overhead Ratio		38.65%	
	Overhead Salaries, Wage Related Costs		36,657,396	
	Excluded Overhead Wage Related Costs		3,728,057.19	
	Revised Wages		528,951,408	
	Revised Hours		15,321,141	
	AHW Before Occ Mix & Midpoint Markup Factor			34.52

## 2. Annualizing of Wage Costs

If cost report dates are greater or less than 365 days, the wage related costs must be annualized. Do not annualize hours.

Using provider # 26-0032, FYE 2010:

Cost Report Beginning Date	1/1/2010
Cost Report Ending Date	12/31/2010
Total CR Days / 365	365/365 = <b>1.000</b>
Revised Wages (from prior page)	\$528,951,408
Revised Hours (from prior page)	15,321,141
<b>Annualized Wages</b>	<b>\$528,951,408</b>
<b>Annualized Hours</b>	<b>15,321,141</b>
Updated AHW	\$34.52

## 3. Mid-point Mark Up Factor

- Total costs (salaries and wage related) are adjusted to a “common period”
- Mid-point mark-up table is provided in IPPS proposed and final rules
- Find the midpoint of your cost report, then apply factor to your costs:

Midpoint of FYE 12/31/10	July 2, 2010
Midpoint factor from table	<b>1.01235</b>
Annualized wages (p.page)	\$528,951,408
Updated wages	<b>\$535,477,917</b>
Annualized hours	<b>15,321,141</b>
Updated AHW	\$34.95

#### 4. Occupational Mix factor application

For 26-0032, the following occupational mix data applies:

- Nursing percentage = 35.87%
- Occupational Mix survey adjustment factor = 0.97620

Calculation of Nursing Portion of Wage Costs	
Total Wage Costs	\$535,477,917
Nursing percentage	35.87%
Occupational Mix Factor	0.97620
Product of 3 above values = <b>Nursing portion</b> of OcMix Adjusted Wage Costs	\$187,504,522

#### 4. Occupational Mix factor application

Calculation of All Other portion of Wage Costs	
Total Wage Costs	\$535,477,917
All Other percentage	64.13%
Product of 3 above values = <b>All Other portion</b> of OcMix Adjusted Wage Costs	\$343,401,988

- Application of OcMix value is not necessary

#### 4. Occupational Mix factor application

Calculation of All Other portion of Wage Related Costs	
Sum of Nursing & All Other	\$530,906,510
Annualized Hours	15,321,141
Updated AHW	<b>\$34.6518</b>
Federal Register AHW	<b>\$34.6524</b>

#### 5. Other Adjustments

Other factors may further adjusted a hospital's AHW:

- Multiple CBSA hospital
- Out Migration (Table 4J)

## CBSA AWI Calculation

CBSA Composite Average Hourly Wage

Divided by:

National Average Hourly Wage

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**Preliminary CBSA Area Wage Index Factor**

Multiplied by

Rural Floor Budget Neutrality Factor

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**Final CBSA Area Wage Index Factor**

**However, several exceptions are possible....**

## CBSA AWI Calculation – Exceptions, Adjustments

- Rural Floor Budget Neutrality Factor
  - Necessary to balance rural floor adjustments
  - FFY 2014 amount is 0.990150
  - Applied directly to preliminary CBSA AWI factors
- Rural Floor Adjustment
  - No urban area can be less than state rural factor
  - Imputed floors for RI and NJ
  - Massachusetts impact on AWI
- Frontier States
  - Montana, North Dakota, South Dakota, Wyoming
- Geographic Reclassification
  - Rural Referral hospitals

## Geographic Reclassifications

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

- Individual hospital to urban area (42 CFR §412.230)
- Individual hospital to rural 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)

## Geographic Reclassifications – General Criteria

- AHW Comparison
  - Hospital's AHW % to home CBSA
  - Hospital's AHW % to reclassified CBSA
- Proximity
  - 15 miles for urban hospitals
  - 35 miles for rural hospitals
- Adjacent Counties
  - Group reclassifications

## Geographic Reclassifications – Impact to Hospitals

To determine the AHW for reclassified hospitals, it depends on how the AHW of the reclassified hospitals impact the “home” CBSA AHW these are reclassified to:

If Combined AHW of Reclassified and Home CBSA hospitals:	Then:
Greater than home CBSA AHW	All hospitals receive increased AHW and AWI factor
Within 1% of the home CBSA AHW	All hospitals receive home CBSA AWI
Less than 1% of the home CBSA AHW	Home CBSA hospitals are not affected. Reclassified hospitals received “blended” AHW and resulting AWI factor

**Home CBSA hospital’s AHW cannot be decreased by reclassified hospitals**

## Geographic Reclassification – Example, Denver, CO

	Denver – CBSA Hospitals	Reclassified Hospitals	Combined
Number of hospitals	17	9	26
OcMix Adj. Wage Costs	\$1,945,578,000	\$772,439,000	\$2,718,017,000
Total Hours	49,156,000	20,962,000	70,118,000
AWH	\$39.58	\$36.85	\$38.76
Within 1%	\$39.18		

- Denver hospitals will use the \$39.58 AHW to develop their AWI
- Hospitals reclassifying into Denver will use the \$38.76 AHW to develop their AWI

## AWI Factor in the IPPS Calculation

- Table 1A through 1C publish standardized amounts for labor and non-labor
- Compliance with Quality Data Reporting is recommended
- Rates differ depending on AWI factor - compare to 1.0000.
- AWI factor applied to **labor rate only**

### FFY 2014 rates:

AWI	PPS Update	Labor	Non-Labor
> 1.0000	Full (1.7%)	\$3,737.71	\$1,632.57
> 1.0000	Reduced (-0.3%)	\$3,664.21	\$1,600.46
< 1.0000	Full (1.7%)	\$3,329.57	\$2,040.71
< 1.0000	Reduced (-0.3%)	\$3,264.10	\$2,000.57

## IPPS Calculation – Example 1

	San Francisco	Minneapolis	St. Louis
FFY '14 AWI Factor	<b>1.6269</b>	<b>1.0979</b>	<b>0.9144</b>
Standard Labor (with full update)	\$3,737.71	\$3,737.71	\$3,329.57
Total Labor payment	\$6,080.88	\$4,103.63	\$3,044.56
Non-Labor payment	\$1,632.57	\$1,632.57	\$2,040.71
<b>Base Rate</b>	<b>\$7,713.45</b>	<b>\$5,736.20</b>	<b>\$5,085.27</b>
Avg. Case Mix	1.7000	1.7000	1.7000
Discharges	3,000	3,000	3,000
<b>IPPS Payment</b>	<b>\$39,338,595</b>	<b>\$29,254,620</b>	<b>\$25,934,877</b>

## IPPS Calculation – Example 2

	San Francisco	San Francisco
	Full Update	Reduced Update
FFY '14 AWI Factor	1.6269	1.6269
Standard Labor (with full update)	\$3,737.71	\$3,664.21
Total Labor payment	\$6,080.88	\$5,961.30
Non-Labor payment	\$1,632.57	\$1,600.46
<b>Base Rate</b>	<b>\$7,713.45</b>	<b>\$7,561.76</b>
Avg. Case Mix	1.7000	1.7000
Discharges	3,000	3,000
IPPS Payment	<b>\$39,338,595</b>	<b>\$38,564,976</b>

## Looking Ahead – FFY 2015 CMS Timeline

- **November 21** - CMS due date for proposed adjustments
- January 21, 2014 – Deadline for MACs to complete desk reviews
- February 20 – CMS release of 2015 AWI and OcMix PUFs
- March 3 – Deadline for hospitals to submit corrections to PUFs
- April 16 – Deadline for hospitals to appeal adjustments to MAC & CMS
- May 2 – CMS release of updated 2015 AWI and OcMix PUFs
- June 2 – Deadline for hospitals to submit correction requests to MAC & CMS
- August 1 – CMS release of final 2015 AWI and OcMix PUFs

## Looking Ahead – The Future of Wage Index

- Several plans being considered
- Commuter-Based Wage Index method the apparent front-runner
  - Hospitals would “stand on their own”
- AHA projections reveal general shift of reimbursement from urban to rural
- Geographic Reclassifications and Exceptions will likely not exist
- Stay Tuned

## Wage Index – Sources of Information

- CMS AWI Public Use Files (PUF)
  - Published every quarter (approximately Sept, Feb, May, Aug)
  - Lists S3 part II, III data for every IPPS hospital
  - Also includes OcMix survey data per job category
- Federal Register
  - Proposed rule in early May
  - Final rule published around August 1
- Federal Register Tables
  - Published with proposed and final rule
  - Tables 2, 3, 4, and 9
- CMS FY Impact File

## Wage Index – Source of Information

- Acute IP PPS Files – FFY 2014

<http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/FY-2014-IPPS-Final-Rule-Home-Page-Items/FY-2014-IPPS-Final-Rule-CMS-1599-F-Data-Files.html>

- FY 2015 Wage Index Home Page

<http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Wage-Index-Files-Items/FY-2015-Wage-Index-Home-Page.html>

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