Travels With Wage Index – Are We There Yet?

HFS Hospital Provider User Meeting

AUGUST 18,2017



Copyright, Disclaimer and Terms of Use

- The material contained within this presentation is proprietary. Reproduction without permission is strictly prohibited.
- This document may not be copied, reproduced in any manner or format or furnished to others, and derivative works that comment on or otherwise explain it or assist in its implementation may not be prepared, copied, published and distributed, in whole or in part, without written permission of BESLER Consulting. This document may not be modified in any way, (such as, for example, removing the copyright notice or references to the BESLER Consulting or other organizations).
- This presentation does not represent legal advice.
- The information herein is valid for the date of the presentation only (8/18/17).



BESLER Consulting

- Wage Index Services
 - Industry leader in wage index opportunities;
 - We model all releases of the Public Use File (PUF) data
 - Recently we modeled the release of the July 12, 2017 MOMA
- Audit of individual Hospital data and specific CBSAs

- Individual and Group (County) Reclassifications
 - Over \$700M in various reclassifications (years 2005-2017)
- 508 reclassifications
 - Out-of-the-box opportunity for our 4 client hospitals to receive over \$150M during the duration of special provision



Benefits of BESLER Wage Index Service

- Our team of professionals continue to monitor developments in wage index regulations;
- Innovative approach to our wage index modeling is unmatched in the industry;
- Members of our team have been speakers to the industry and tutors to the MAC on various wage index topics;
- Model each release of Pubic Use File information and keep our clients informed of each potential opportunity;
- Relationships with CMS and various Medicare Administrative Contactors (MACs) allow for smooth audit process;
- Responsiveness to our clients we keep you informed throughout the entire process and also present opportunities to increase your overall average hourly wage



Table of Contents

- I. Wage Index Overview
- II. Recent Changes to Wage Index
- III. Recent and Upcoming Deadlines
- IV. CMS Methodology
- V. Wage Index Audit Process S-3 and Wage Related Costs
- VI. Medicare Occupational Mix Adjustment
- VII. Wage Index Exemptions
- VIII. What should Hospitals Do?



Wage Index Overview

The Wage Index is used for the following types of payments:

- Hospital Inpatient Prospective Payment System (IPPS) DRG payments
- Rehab PPS payments
- Psychiatric PPS payments
- Skilled Nursing PPS payments
- Home Health Agency PPS payments
- Hospital Outpatient Prospective Payment System (OPPS) APC Payments
- Hospice Payment Caps



Recent Changes to Wage Index

Time Table

- MACs are strict with these deadlines!
- Deadline to submit adjustments for FFY 2019 is September 1st.

Cost Report Changes – Not new but still finding errors when reviewing the data

- 5 plus years into FORM CMS-2552-10
- Home Office/Overhead Salaries Potential for Upcoming Changes
- Pension
- Attestations
- Capitalized Salaries
- Wage Related Costs



Recent and Upcoming Deadlines

FFY 2018

- August 1, 2017 Approximate date for publication of the FY 2018 final rule; wage index includes final wage index data corrections.
- October 1, 2017 Effective date of FY 2018 wage index.
- https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Downloads/FY2018-WI-Time-Table.pdf

FFY 2019

- September 1, 2017 Deadline for hospitals to request revisions to their Worksheet S-3 wage data and CY 2016 occupational mix data as included in the May 1 8, 2017 and July 12, 2017 preliminary PUFs, respectively, and to provide documentation to support the request. MACs must receive the revision requests and supporting documentation by this date. MACs will have approximately 10 weeks to complete their reviews, make determinations, and transmit revised data to CMS's Division of Acute Care (DAC).
- https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Downloads/FY-2019-Hospital-Wage-Index-Development-Time-Table.pdf



CMS Methodology

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

"Adjust standardized amounts for area differences in <u>hospital wage</u> <u>levels</u> by a factor reflecting the relative hospital wage level in the <u>geographic area</u> 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, III, IV and V:

- Salaries and Wage Related Costs (Trial Balance)
 - Hospital Employees
 - Home Office and Related Party Employees
- Hours Related to Paid Salaries (Payroll)



CMS Methodology

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
- <u>Cost Report Mid-Point Mark Up Factor</u> –Inflates hospital salaries from the cost report year to the current federal year
- <u>Occupational Mix Factor</u> 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



Top 11 CBSA Wage Index Values

CBSA #	CBSA Description	FFY 2018	FFY 2017 CN
42100	Santa Cruz-Watsonville, CA	1.7922	1.8017
42034	San Rafael, CA	1.7732	1.7555
41940	San Jose-Sunnyvale-Santa Clara, CA	1.7302	1.7374
41884	San Francisco-Redwood City-So San Francisco, CA	1.7113	1.7143
41500	Salinas, CA	1.6893	1.6962
46700	Vallejo-Fairfield, CA	1.6685	1.6972
36084	Oakland-Hayward-Berkeley, CA	1.6611	1.7206
42220	Santa Rosa, CA	1.5987	1.5937
40900	Sacramento-Roseville-Arden-Arcade, CA	1.5793	1.5957
34900	Napa, CA	1.4707	1.5355
39820	Redding, CA	1.4283	1.4485



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.



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

- Hours Related to Paid Salaries
 - Hours associated with earn codes that represent "time" paid are to be reported (for instance, report PTO hours as they represent time, and do not report PTO cash-out hours, as they do not represent time).
- Review hours that should be removed from the payroll file for wage index reporting.



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

Contracted Labor

- The minimum requirement for supporting documentation is the contract itself;
- Many MACs require that the contract has an "access clause" as defined at 42 CFR 420.302;
- 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).



Wage Index Audit Process Review of Worksheet S-3, Wage Related Costs

Core Related Costs

- 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

Other Wage Related Costs

- 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 18.



Wage Index Audit Process Line 18 – Wage Related Costs (Other)

Other Wage Related Costs

- 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 18.
- Only 124 Hospitals (of 3,336) had an amount on this line (under 4% (3.72%));
- Other wage related costs must also be allocated between allowable and excluded areas (e.g., based on salaries, FTEs, etc.).



Wage Index Audit Process What is next for Hospitals?

The Other WRC Test

Line 18--Enter the wage-related costs that are considered an "other" wage-related cost. (See note below for costs that are not to be included on line 18.) In order for a wage-related cost to be considered an "other" wage-related cost, it must meet all of the following tests:

- a) The cost is not listed on Worksheet S-3, Part IV,
- b) The wage-related cost has not been furnished for the convenience of the provider,
- c) The wage-related cost is a fringe benefit as defined by the Internal Revenue Service (IRS), and the cost has been reported to the IRS (e.g., the unrecovered cost of employee meals, education costs, auto allowances), and
- d) The total cost of the particular wage-related cost for employees whose services are paid under IPPS exceeds 1 percent of total salaries after the direct excluded salaries are removed (Worksheet S-3, Part III, column 4, line 3). "Other" wage-related costs do not include wage-related costs reported on line 1 of this worksheet.

NOTE: Do not include wage-related costs applicable to the excluded areas reported on lines 9 and 10. Instead, these costs are reported on line 19. Also, do not include the wage-related costs for physician Parts A and B, non-physician anesthetists Parts A and B, interns and residents in approved programs, and home office personnel.



Wage Index Task Force

Wage Index Principles

- · Wage index reform is absolutely necessary
- · Must be a transition period and budget neutral
- Should reflect relative differences in labor markets
- Must be transparent and easy to understand and administer
- · Must minimize large swings from year-to-year
- Eliminate large differences across areas
- Minimize or if possible, eliminate need for any exceptions
- No hard boundaries
- Broadly define wage areas but not so much to dilute overall value



Medicare Occupational Mix Adjustment

- Section 304(c) of Public Law 106-544 which amended section 1886(d)(3)(E) of the Social Security Act requires Centers of Medicare and Medicaid (CMS) to collect data every 3 years on the occupational mix of employees for each short-term, acute care hospital participating in the Medicare program.
- Purpose is to adjust the Average Hourly Wage (AHW) by accounting for differences in management "choices" of staffing.
- MOMA is used to "level" the playing field & exclude mgt. decisions on staffing



Medicare Occupational Mix Adjustment

- Providers with a higher mix of lower paid personnel (i.e. medical assistants and nursing aides) receive higher occupational mix factor.
- Markets with an expensive mix of employees and contract labor have a reduced AHW - ?
- The most important factor is RN hours to total nursing hours. The national percent for FFY 2017 is 71.43%.
- So, if the Hospital RN % > 71.43% = negative MOMA; if the Hospital RN % <= positive MOMA



Completion of the Survey

480 hours? (Hopefully you have started)

- There are 8 steps to calculating your MOMA factor
 - Calculate Hospital Specific AHW by Nursing Subcategory (using hours);
 - Obtain each National AHW for each Nursing Subcategory;
 - Multiply Hospital Specific AHW by National AHW;
 - Add all Nursing AHWs to determine overall Hospital Specific Nursing AHW;
 - Compare Hospital Specific Nursing AHW to published National Nursing AHW;
 - Divide National AHW to Hospital Specific AHW to determine MOMA factor;
 - Multiply Nursing % MOMA Factor to Salary
 - Multiply All Other % to Total Salary



Medicare Occupational Mix Adjustment

- The MOMA is an important part of a hospital's and subsequently, CBSA's AHW.
- FFY 2018 Wage Index utilizes survey data that was submitted in 2014 (July 2014) and has been in effect for FFY 2016, FFY 2017, and FFY 2018.
- New Survey due this past July 3, 2017. (FFY 2019-FFY 2021)
- It is similar to previous years as the form is in Excel format and must be submitted to your MAC by that deadline.



Medicare Occupational Mix Adjustment

- FFY 2018 survey utilizes data from CY 2013 (same as FFY 2017 and FFY 2016);
- CMS requests data for 26 pay periods with no accruals or adjustments;
- FFY 2019-FFY 2021 survey data from CY 2016
- MOMA Survey very important its impact will last 3 years
- Focus on RN and other nursing categories DO NOT OVERLOOK "All Other" category



Medicare Occupational Mix Adjustment

Know your Nursing Staff and Categories

- RNs direct patient health needs patient contact, and supervise others that do patient care
- LPNs Care for patients that are ill, injured, or disabled
- Surgical Technologists assist in patient care operations under supervision of physicians (surgeons), RNs and other surgical positions.
- Aides nursing staff providing basic nursing care
- Medical Assistants perform more general or administrative functions usually under the direct supervision of a physician
- All Other not involved with any type of patient care, mostly administrative

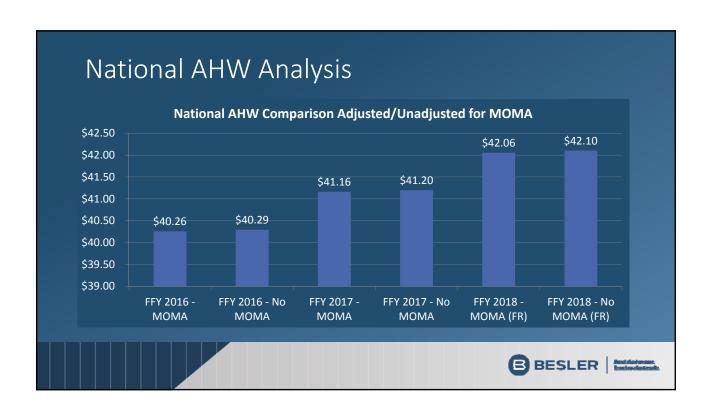
Tip: All categories that are excluded from the wage index are not to be reported on the MOMA Survey and do not forget your overhead and home office allocations

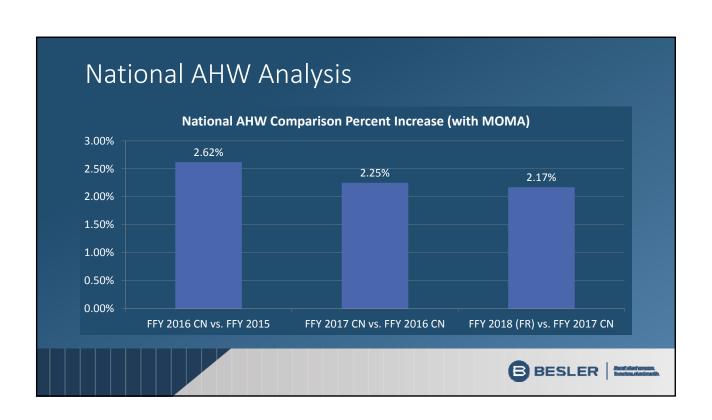


Medicare Cost Report MOMA Cost Centers

MCR Line	Cost Center Description
13	Nursing Administration
30	Adults and Pediatrics (General Routine Care)
31	Intensive Care Unit
32	Coronary Care Unit
33	Burn Intensive Care Unit
34	Surgical Intensive Care Unit
35	Other Special Care (specify)
43	Nursery
50	Operating Room
51	Recovery Room
52	Delivery Room and Labor Room
66	Electrocardiology
71	Renal Dialysis
72	Ambulatory Surgical Center (Non-Distinct Part)
73	Other Ancillary
90	Clinics
91	Emergency
92	Observation Beds







Top 11 CBSA Wage Index Values							
CBSA#	CBSA Description	FY 2018 MOMA % Difference	FY 2018 FR Wage Index				
				42100	Santa Cruz-Watsonville, CA	-3.4%	1.7922
				42034	San Rafael, CA	-1.6%	1.7732
41940	San Jose-Sunnyvale-Santa Clara, CA	-2.9%	1.7302				
41884	San Francisco-Redwood City-So San Francisco, CA	-2.3%	1.7113				
41500	Salinas, CA	-0.9%	1.6893				
46700	Vallejo-Fairfield, CA	-2.1%	1.6685				
36084	Oakland-Hayward-Berkeley, CA	-3.1%	1.6611				
42220	Santa Rosa, CA	-3.8%	1.5987				
40900	Sacramento-Roseville-Arden-Arcade, CA	-3.3%	1.5793				

-2.3%

-2.6%

1.4707 1.4283

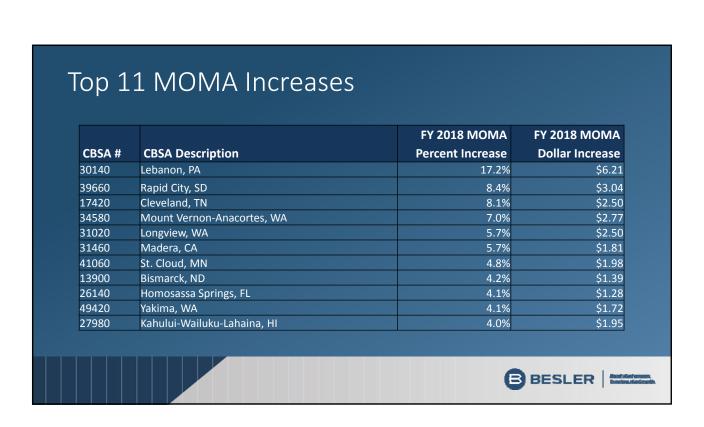
BESLER | Best deleterate

34900

39820

Napa, CA

Redding, CA



All You Need to Know, Well...

- Medicare Occupational Mix Adjustment (MOMA) Survey deadline "was" July 3rd, 2017;
- https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Wage-Index-Files-Items/FY2019-Wage-Index-Occupational-Mix.html
- All IPPS hospitals must complete the survey (excluding Critical Access Hospitals, those with a waiver, providers with low or no Medicare volume, or those that were closed as of January, 2016)



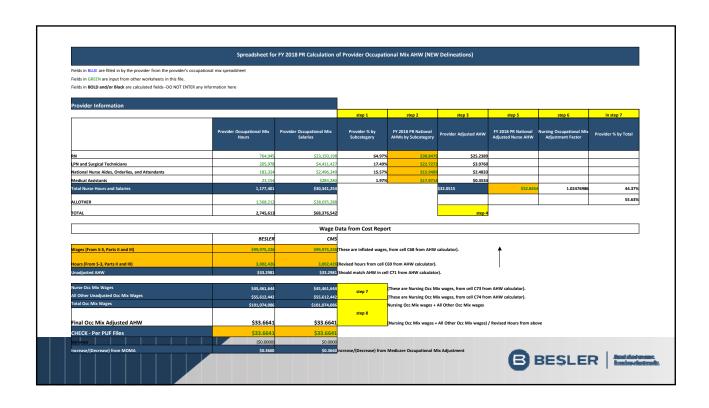
Medicare Occupational Mix Adjustment

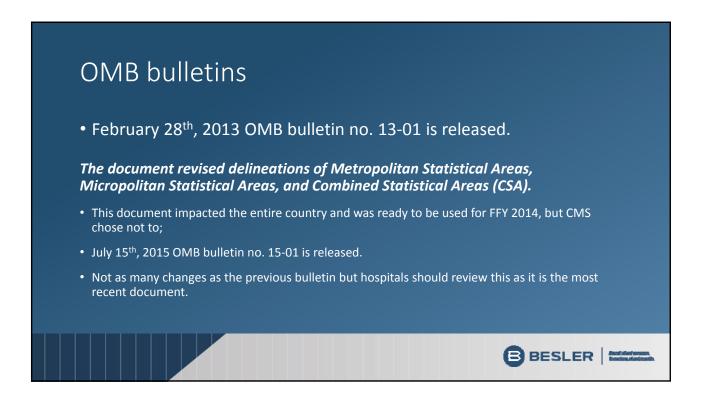
Know your Nursing Staff and Categories

- RNs direct patient health needs patient contact, and supervise others that do patient care
- LPNs Care for patients that are ill, injured, or disabled
- Surgical Technologists assist in patient care operations under supervision of physicians (surgeons), RNs and other surgical positions.
- Aides nursing staff providing basic nursing care
- Medical Assistants perform more general or administrative functions usually under the direct supervision of a physician
- All Other not involved with any type of patient care, mostly administrative

Tip: All categories that are excluded from the wage index are not to be reported on the MOMA Survey







Out Migration Adjustment

Section 1886(d) (13) of the Act established a process to make adjustments to the hospital wage index based on commuting patterns of hospital employees

- Adjustment for hospitals in counties where hospital employees commute to adjacent counties with a higher wage index;
- For FFY 2016 FFY 2018 Out Migration adjustments were updated from the new delineations.



Wage Index Exemptions

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 392 hospitals receive their state's rural floor (3,292) 29 States (Includes Imputed Rural Floor states).
- 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); 49 hospitals in Montana, Nevada, North Dakota, South Dakota, and Wyoming are impacted by this rule.
- 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;. 677 hospitals are eligible
 for this adjustment but 324 waive it due to their reclassifications
- 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. 865 hospitals reclassify per the FFY 2018 Final IPPS rule (46 states)



Out Migration Adjustment

Section 1886(d) (13) of the Act established a process to make adjustments to the hospital wage index based on commuting patterns of hospital employees

- Adjustment for hospitals in counties where hospital employees commute to adjacent counties with a higher wage index;
- For FFY 2016 FFY 2018 Out Migration adjustments were updated from the new delineations.



Wage Index Exemptions – Individual Provider

Geographic Reclassification Criteria for an Individual Hospital per CFR §412.230 -

- The pre-classified average hourly wage (AHW) of the desired CBSA is greater than the hospital's AHW and the Standardized amount in the desired CBSA is greater than the hospital's standardized CBSA;
- The hospital may not be re-designated to more than one area;
- The distance from the hospital to the desired CBSA is no more than a) 15 miles for urban hospitals or
 b) 35 miles for rural hospitals OR at least 50% of the hospital's employee's reside in the target CBSA.
- The hospital's 3 year AHW is a) for Rural hospitals, at least 106% of its current location's 3 year AHW b) for Urban hospitals at lease 108% of its current location's 3 year AHW (CBSA);
- The hospital's 3 year AHW is a) for Rural hospitals, at least 82% of the desired location's 3 year AHW b) for Urban hospitals, at least 84% of the desired location's 3 year AHW (CBSA).



Wage Index Exemptions – Group (County)

Geographic Reclassification Criteria for a Group/County per CFR §412.234 –

- The county 3 year AHW (Wages/Hours) is at least 85% of the target CBSA 3 year AHW (Rounding is not permitted);
- All hospitals in the county must apply for the reclass;
- The county must be adjacent to the target CBSA;
- Urban counties must be in the same Combined Statistical Area (CSA) as the target CBSA;
- Rural counties (reclassifying to urban CBSAs) must demonstrate that the county in which the hospitals are located meets the Metropolitan Test standards for redesignation using Census Data.
- The pre-classified AHW of the target CBSA is greater than the county's AHW.



Reclassification Implications

- Reclassified hospital cannot negatively impact geographically located hospitals
- Reclassified hospitals can create a positive or negative dilutive effect (also called "blend")
- If the addition of the reclassified wages and hours result in a decrease of 1.00% or greater, reclassified hospitals receive that amount
- All hospitals (geographic and reclassed) benefit from positive blend
- Only reclassed hospitals are impacted by negative blend



Special Reclasses

- Geisinger Community Medical Center v. Secretary, United States Department of Health and Human Services, 794 F.3d 383 (3d Cir. 2015);
- Lawrence + Memorial Hospital v. Burwell, No. 15–164, 2016 WL 423702 (2d Cir. February 4, 2015)
- Urban to Rural Status and Reclassifications
- "the Secretary shall treat the hospital as being located in the rural area," inclusive
 of MGCRB reclassification purposes, thus invalidating the regulation at §
 412.230(a)(5)(iii)



Medicare Geographic Classification Review Board (MGCRB)

- Hospitals that meet the qualifications to reclassify must submit their application(s) to the MGCRB
- The Medicare Geographic Classification Review Board ("MGCRB" or "Board") makes determinations on geographic reclassification requests. See 42 U.S.C. § 1395ww(d)(10) and 42 C.F.R. § 412.230.
- https://www.cms.gov/Regulations-and-Guidance/Review-Boards/MGCRB/
- Board Rules and Application Forms
- MGCRB Decisions
- Instructions updated on July 10, 2017



MGCRB Reclassification Application Submission

- · Change of Address
- Effective June 19, 2017, the CMS Office of Hearings, which handles appeals for the CMS Hearing Officer, appeals for the Provider Reimbursement Review Board ("PRRB"), and reclassification requests for the Medicare Geographic Reclassification Review Board ("MGCRB"), has moved its offices from its former address of 2520 Lord Baltimore Drive, Suite L to:

CMS Office of Hearings 1508 Woodlawn Drive Suite 100 Baltimore, MD 21207

• Any correspondence sent to the CMS Hearing Officer, PRRB, or MGCRB should be sent to the new address. If you have any questions, please call the MGCRB information line at 410-786-1174.



MGCRB Instruction Changes/Revisions/Highlights

- Previously 10 rules, now there are 12;
- 2 "New" rules not really;
- Individual Application Question #3: s the provider an urban hospital currently classified as rural by the CMS Regional Office under 42 C.F.R. § 412.103? Now only Yes or No (Previously included Status Pending);
- Rule #8 added language re: Rural Designation;
- Rule #8.3 Letter of representation (very important)
- Statewide application still requires signed affidavit;
- Rule #12 has duplicate 12.5 citations last one should be 12.6 as it was previously 10.6 Reapplications;
- Withdrawals and Terminations 45 Day deadline



MGCRB Instruction Changes/ Revisions

- Rule #1 MGCRB Overview Previously listed as An Overview
- Rule #2 Correspondence Requirements previously Rule #1
- Rule #3 Provider Case Representative previously Rule #2
- Rule #4 Filing an Application General previously Rule #3
- Rule #5 Acknowledgement of and Application previously Rule #7
- Rule #6 Terms and Concepts previously Appendix A
- Rule #7 Filing an Individual Application previously #4
- Rule #8 Filing a Group Application previously #5
- Rule #9 Filing a Statewide Application previously #6
- Rule #10 Board Hearings and Decisions previously #8
- Rule #11 Administrator's Review previously #9
- Rule #12 Withdrawals and Terminations previously #10
- Appendix Summary of Application Forms previously Appendix B



What Should Hospitals Do?

- Submit accurate Wage Index data on Medicare Cost Reports
- Hopefully you submitted the survey by July 3rd, 2017 (480 hours 12 weeks)?
 There is another chance!??
- Monitor the Wage Index Timetable deadlines
- Identify potential opportunities to obtain a higher WI value:
- Where does the greatest benefit lie?
- Re-evaluate the benefit of current/potential reclassifications (if reclassifying is an option)
- · Review the data in the PUF files
- Understand the driving factors of your Wage Index;
- Have a second set of eyes at least review your MOMA survey



