



How the Patient Protection and Affordable Care Act Will Affect Your Wage Index

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Geographic Reclassification Requirements Reset

Prior to the passage of the Patient Protection and Affordable Care Act (PPACA), CMS implemented a two-year phase, which systematically increased geographic reclassification requirements for hospitals. The PPACA resets those requirements back to their former levels. Under these new requirements, an urban hospital's three-year average hourly wage (AHW) must be at least 84% of the AHW of the area into which it wishes to reclassify (with levels of 82% for rural hospitals and 85% for groups of hospitals) in order for the hospital to be eligible. If a hospital had previously submitted an application to reclassify and that application was denied because the hospital did not meet the higher threshold requirements, that hospital will now be allowed to reclassify under the PPACA's lower threshold requirements. However, a different standard pertains to those hospitals that did not apply for a reclassification prior to the PPACA taking effect. Even though these hospitals may now qualify to reclassify under the new, reduced threshold requirements, CMS is not allowing them to apply for reclassification. In effect, these hospitals are being punished for following the rules and not requesting a reclassification for which they did not qualify at the time, while other hospitals are being rewarded because they did request a reclassification.

Rural Floor Budget Neutrality Adjustment

It is a CMS requirement that no hospital within a state can receive a wage index less than that of its rural hospitals. Because the wage index is budget-neutral, in the past if a CBSA received an increase in its wage index due to the rural floor adjustment, the money to pay for that increase was taken from the national pool. Over the past two years, CMS has been progressively shifting the responsibility for paying for these increases from the national level to an individual state level. The PPACA restored this responsibility back to the national level, which caused the wage index of every CBSA in the country to decrease by .34 percentage points or approximately \$17 per Medicare PPS discharge.

Frontier States Wage Index Floor

The PPACA established a Frontier States wage index floor beginning in FFY 2011. No hospital located within a state designated as a Frontier State can have a wage index less than 1.00. Five states qualify to be Frontier States, namely Montana, Nevada, North Dakota, South Dakota and Wyoming. The largest increase in the wage index for any individual Frontier State hospital is more than 20 percentage points, which equates to additional reimbursement in excess of \$1,000 per Medicare PPS discharge. This provision, which affects 50 hospitals at a cost of \$90 million dollars, is not budget-neutral.

Wage Index History

CMS has released the FFY 2011 Area Wage Indices (AWIs), in the August 16, 2010 Federal Register which will take effect on October 1, 2010. Go to www.wageindex.com to see a three year history of your Core Based Statistical Area's wage index.