

Analysis of Acumen Revision of Medicare Wage Index Final Report: Part II, March 16, 2010

Acumen has released Part II of their study on the Medicare Wage Index.

Acumen's analysis focuses on MedPAC's attempt to solve the problems of hospitals with different labor costs receiving the same wage index, as well as hospitals with the similar labor costs receiving different wage indexes. Currently, in order to solve these problems, one-third of hospitals receive some kind of an adjustment (geographic reclassification, Lugar, outmigration or section 508).

Acumen studied MedPAC's proposed methods of "blending" and "smoothing" to improve the wage index methodology, whether applied to the existing system or the proposed BLS approach. Blending is accomplished by merging the current MSA data with the county census data. Smoothing is performed in order to eliminate "cliffs" so that no hospital has a wage index lower than 90% of the wage index of any of its neighboring hospitals. However, smoothing can create a problem when an area not originally affected by smoothing becomes affected as a result of a neighboring hospital receiving an adjusted wage index. In addition, every hospital not directly affected by smoothing becomes indirectly affected by it due to the budget neutrality adjustment.

Acumen concluded that "The MedPAC blending and smoothing method is unlikely to be an adequate replacement for the reclassifications and exceptions in the current wage index system."

Further, to quote from the conclusion of the Acumen study:

"However, it would be naïve on our part to believe that all hospitals would eagerly embrace a wage index that significantly improves the accuracy of the wage index. Our analysis suggests that some hospitals would experience declines in their wage index values as a result of more accurately defining labor markets. Certain hospitals, especially rural hospitals, benefit more from the existing reclassifications and exceptions than they would if their wage index values were more accurate. "

If you would like to read the entire study, you can access it by clicking on the following link: <http://www.acumenllc.com/reports/cms/>