

**4005.2 Part II - Hospital Wage Index Information.**--This worksheet provides for the collection of hospital wage data which is needed to update the hospital wage index applied to the labor-related portion of the national average standardized amounts of the PPS. It is important for hospitals to ensure that the data reported on Worksheet S-3, Parts II, III and IV, are accurate. Beginning October 1, 1993, the wage index must be updated annually. (See §1886(d)(3)(E) of the Act.) Congress also indicated that any revised wage index must exclude data for wages incurred in furnishing SNF services. Complete Worksheet S-3, Parts II, III, and IV, for IPPS hospitals (see §1886(d)), any hospital with an IPPS subprovider, or any hospital that would be subject to the IPPS if not granted a waiver.

**NOTE:** Any line reference for Worksheets A and A-6 includes all subscripts of that line. For Worksheet A-6 reclassifications, see instructions for column 3 of this worksheet.

**NOTE:** Lines 4 and 22 apply to physician's Part A administrative costs.

**NOTE:** Capitalized labor costs (salaries, hours, and wage-related costs) including, but not limited to, capital projects associated with lines 1 and 2 of Worksheet A must not be included on Worksheet S-3, Parts II and III.

### Column 2

#### General instructions for completing column 2:

1. For each line item (except for wage-related costs on lines 17 through 25 or as otherwise indicated), report in column 2, the direct salaries and wages, including amounts for related paid vacation, holiday, sick leave, other paid-time-off (PTO), severance pay, and bonus pay for personnel associated with the line item.
2. Paid vacation, holiday, sick leave, other PTO, severance pay, and bonus pay must be reported in column 2, with related direct salaries and wages to be considered an allowable cost for the wage index.
3. Paid vacation, holiday, sick leave, other PTO, severance pay, and bonus pay must be reported in the same cost center as the related direct salaries and wages. For example, do NOT report the direct salaries and wages of an employee in one cost center and report the employee's paid vacation in a different cost center.
4. To be considered an allowable salary cost (i.e., direct salaries and wages plus paid vacation, holiday, sick leave, other PTO, and severance pay), the associated hours must also be reported in column 5. (See exceptions in column 5 instructions for bonus pay and overtime pay. Also, for wage-related costs, there are no associated hours.)
5. Bonus pay includes award pay and vacation, holiday, and sick pay conversion (pay in lieu of time off).

**NOTE:** Methodology for including and accruing direct salaries, paid vacation, paid holiday, paid sick, and other PTO in the wage index:

**Salary cost**--The required source for costs on Worksheet A is the general ledger (see §4013 and 42 CFR 413.24(e)). Worksheet S-3, Part II, (wage index) data are derived from Worksheet A; therefore, the proper source for costs for the wage index is also the general ledger. A hospital's current year general ledger includes both costs that are paid during the current year and costs that are expensed in the current year but paid in the subsequent year (current year accruals). Include on Worksheet S-3, Part II, the current year costs incurred from the general ledger; that is, both the current year costs paid and the current year accruals. (Costs that are expensed in the prior year but paid in the current year (prior year accruals) are not included on a hospital's current year general ledger and should not be included on the hospital's current year Worksheet S-3, Part II.)

Hours--The source for paid hours on Worksheet S-3, Part II, is the provider's payroll report. Hours are included on the payroll report in the period the associated expense is paid. Include on Worksheet S-3, Part II, the hours from the current year payroll report, including hours associated with costs expensed in the prior year but paid in the current year. The payroll report time period must cover the weeks that best match the provider's cost reporting period. (Hours associated with costs expensed in the current year but not paid until the subsequent year (current year accrual) are not included on the current year payroll report and should not be included on the hospital's current year Worksheet S-3, Part II.) Although this methodology does not provide a perfect match between paid costs and paid hours for a given year, it approximates a match between costs and hours.

**NOTE:** The above methodology is recommended by CMS but does not preclude using a different approach that would produce a more accurate finding for purposes of the wage index. A hospital must obtain approval from its contractor to use a different methodology. For example, when the hospital is unable to match the general ledger and payroll report direct salaries and hours within the exact dates of its cost reporting period, they may request approval to accrue salaries and hours on Worksheet S-3, Part II (up to 15 days before the cost reporting period beginning date or 15 days after the cost reporting period ending date in order to include 365 or 366 days, depending on the year). Accrued costs must have associated hours and must be excluded from the subsequent Worksheet S-3, Part II.

Regardless of the methodology used, costs and hours reported must be consistent. That is, accrued costs must have associated hours reported in the same cost center and in the same cost reporting period. The hospital must ensure that supporting documentation for both salaries and hours are based on actual data maintained in a form that permits validation by the contractor. The use of estimates for these amounts is unacceptable for the wage index.

Line 1--Enter from Worksheet A, column 1, line 200, the direct salaries and wages, including the amounts for related paid vacation, holiday, sick leave, other PTO, severance pay, and bonus pay, paid to hospital employees. See Worksheet A instructions (§4013).

Lines 2 through 10--The amounts reported must be adjusted for vacation, holiday, sick, other paid time off, severance, and bonus pay if not already included. Do not include in lines 2 through 8 the salaries for employees associated with excluded areas lines 9 and 10.

Line 2--Enter the salaries for directly-employed Part A non-physician anesthetist (for rural hospitals that have been granted CRNA pass-through) to the extent these salaries are included in line 1. Add to this amount the costs for CRNA Part A services furnished under contract to the extent hours can be accurately determined. Report only the personnel costs associated with these contracts. DO NOT include costs for equipment, supplies, travel expenses, and other miscellaneous or overhead items. DO NOT include costs applicable to excluded areas reported on lines 9 and 10. Additionally, contract CRNA cost must be included on line 11. Report in column 5, the hours that are associated with the costs in column 4 for directly employed and contract Part A CRNAs.

Line 3--Enter the non-physician anesthetist salaries included in line 1, subject to the fee schedule and paid under Part B by the contractor. Do not include salary costs for physician assistants, clinical nurse specialists, nurse practitioners, and nurse midwives.

Line 4--Enter the physician Part A administrative salaries, (excluding teaching physician salaries), which are included in line 1. Also do not include intern and resident (I & R) salary on this line. Report I & R salary on line 7. Subscript this line and report salaries for Part A teaching physicians on line 4.01.

Line 5--Enter the total physician, physician assistant, nurse practitioner and clinical nurse specialist on-call salaries and salaries billed under Part B that are included in line 1. Under Medicare, these services are related to patient care and billed separately under Part B. Also include

physician salaries for patient care services reported for rural health clinics (RHC) and FQHCs included on Worksheet A, column 1, lines 88 and/or 89 as applicable. Do not include on this line amounts that are included on lines 9 and 10 for the SNF or excluded area salaries.

Line 6--Report on line 6 the non-physician on-call salaries and salaries reported for hospital-based RHC and FQHC services included on Worksheet A, column 1, lines 88 and/or 89, as applicable. Do not include on this line amounts that are included on lines 9 and 10 for the SNF or excluded area salaries.

Line 7--Enter from Worksheet A the salaries reported in column 1 of line 21 for interns and residents. Subscript this line and report salaries for contracted interns and residents in an approved program on line 7.01. Report only the personnel costs associated with these contracts. DO NOT include cost for equipment, supplies, travel expenses, and other miscellaneous or overhead items. DO NOT include costs applicable to excluded areas reported on lines 9 and 10. Additionally, contract intern and resident costs must be included on line 11. DO NOT include contract intern and residents costs on line 13. Report in column 5, the hours that are associated with the costs in column 4 for directly employed and contract interns and residents.

Line 8--If you are a member of a home office or related organization as defined in CMS Pub. 15-1, chapter 21, §2150, enter from your records, the wages and salaries for home office and/or related organization personnel that are included in line 1. Wage related costs are not included on this line.

Lines 9 and 10--Enter on line 9 the amount reported on Worksheet A, column 1 for line 44 for the SNF. On line 10, enter from Worksheet A, column 1, the sum of lines 20, 23, 40 through 42, 45, 45.01, 46, 94, 95, 98 through 101, 105 through 112, 114, 115 through 117, and 190 through 194. DO NOT include on lines 9 and 10 any salaries for general service personnel (e.g., housekeeping) which, on Worksheet A, column 1, may have been included directly in the SNF and the other cost centers detailed in the instructions for line 10.

#### General Instructions for Contract Labor:

Only contract labor costs reported on the provider's trial balance and, therefore, on Worksheet A, column 2, are included on Worksheet S-3, Part II. Contract labor costs not reported in the proper cost center are disallowed from the wage index calculation. In general, for contract labor, the minimum requirement for supporting documentation is the contract itself. If the wage costs, hours, and non-labor costs are not clearly specified in the contract, other supporting documentation is required, such as a representative sample of invoices which specify the wage costs, hours, and non-labor costs. Attestations or declarations from the vendor or hospital are not acceptable in lieu of supporting documentation for wages, hours, wage-related costs, and non-labor costs. Hospitals must be able to provide such documentation when requested by the contractor. Report only personnel costs associated with the contract. DO NOT include cost for equipment, supplies, travel expenses, and other miscellaneous or overhead items (non-labor costs).

Workers who are contracted solely for the purpose of providing services on-call can only be included on Worksheet S-3 when they actually work the on-call schedule. That is, they are actually delivering patient care at the hospital, or are at the hospital so as to be available to deliver patient care. If either of these latter two scenarios occur, then both the wages and associated hours actually worked must be included in the appropriate contract labor line on Worksheet S-3. For contractors that work a regular schedule in addition to being on-call, report the on-call wages, but not the hours associated with the time the contractors are on-call. Do not include wages or hours associated with Part B services.

Line 11--Enter the amount paid for services furnished under contract, rather than by employees, for direct patient care, as defined below. Do not include costs applicable to excluded areas reported on line 9 and 10. Include costs for contract CRNA and intern and resident services (these costs are also to be reported on lines 2 and 7.01, respectively). Include on this line contract pharmacy and laboratory wage costs as defined below.

**Direct patient care services** include nursing, diagnostic, therapeutic, and rehabilitative services. Report only personnel costs associated with these contracts. DO NOT apply the guidelines for contracted therapy services under §1861(v)(5) of the Act and 42 CFR 413.106. Direct patient care contracted labor, for purposes of this worksheet, DOES NOT include the following: services paid under Part B: (e.g., physician clinical services, physician assistant services), management and consultant contracts, billing services, legal and accounting services, clinical psychologist and clinical social worker services, housekeeping services, security personnel, planning contracts, independent financial audits, or any other service not directly related to patient care.

**Contract pharmacy services** are furnished under contract, rather than by employees. DO NOT include the following services paid under Part B (e.g., physician clinical services, physician assistant services), management and consultant contracts, clerical and billing services, legal and accounting services, housekeeping services, security personnel, planning contracts, independent financial audits, or any other service not directly related to patient care. Report only personnel costs associated with the contracts.

**Contract laboratory services** are furnished under contract, rather than by employees. DO NOT include the following services paid under Part B (e.g., physician clinical services, physician assistant services), management and consultant contracts, clerical and billing services, legal and accounting services, housekeeping services, security personnel, planning contracts, independent financial audits, or any other service not directly related to patient care. Report only personnel costs associated with the contracts.

If you have no contracts for direct patient care as defined above, enter a zero in column 2. If you are unable to accurately determine the number of hours associated with contracted labor, enter a zero in column 2.

Line 12--Enter the amount paid for **contracted top level management services, and other contract management and administrative services** furnished under contract, rather than by employees. Include on this line contract management and administrative services associated with cost centers other than those listed on lines 26 through 43 (and their subscripts) of this worksheet that are included in the wage index.

**Contracted Top Level Management:** Include the amount paid for **top level management services**, as defined below, furnished under contract rather than by employees. Contract management is limited to the personnel costs for those individuals who are working at the hospital facility in the capacity of chief executive officer, chief operating officer, chief financial officer, or nursing administrator. The titles given to these individuals may vary from the titles indicated above. However, the individual should be performing those duties customarily given these positions.

For purposes of this worksheet, contract top level management services DO NOT include the following: physician Part A services, consultative services, clerical and billing services, legal and accounting services, unmet physician guarantees, physician services, planning contracts, independent financial audits, or any services other than the top level management contracts listed above. Per instructions on Worksheet S-2, Part II, for top level management contracts, submit to your Medicare contractor the aggregate wages and hours.

**Other Contract Management and Administrative Services:** Examples of other contract management and administrative services that would be reported on line 12 include department directors, administrators, managers, ward clerks, and medical secretaries. Report only those personnel costs associated with the contract. DO NOT include on line 12 any contract labor costs associated with lines 26 through 43 and subscripts for these lines.

Line 13--Enter from your records the amount paid under contract (in accordance with the general instructions for contract labor) for Part A physician services - administrative, excluding teaching physician services. DO NOT include contract I & R services (to be included on line 7). DO NOT include the costs for Part A physician services from the home office allocation and/or

from related organizations (to be reported on line 15). Do not include wages or hours associated with Part B services.

Line 14--For cost reporting periods beginning before October 1, 2015, enter the salaries and wage-related costs (as defined on lines 17 and 18) paid to personnel who are affiliated with a home office and/or related organization, who provide services to the hospital, and whose salaries are not included on Worksheet A, column 1. In addition, add the home office/related organization salaries included on line 8 and the associated wage-related costs. This figure must be based on recognized methods of allocating an individual's home office/related organization salary to the hospital. If no home office/related organization exists or if you cannot accurately determine the hours associated with the home office/related organization salaries that are allocated to the hospital, then enter a zero in column 2. All costs for any related organization (as defined in CMS Pub. 15-1, chapter 10; 42 CFR 413.17; and CMS Pub. 15-1, chapter 21, §2150ff through §2153ff), must be shown as the cost to the related organization. For cost reporting periods beginning on or after October 1, 2015, do not use this line but use lines 14.01 and/or 14.02.

Line 14.01--For cost reporting periods beginning on or after October 1, 2015, enter the salaries paid to personnel affiliated with a home office, who provide services to the hospital, and whose salaries are not included on Worksheet A, column 1, but are included in Worksheet A, column 2, column 4 (if reported on Worksheet A-6), and/or column 6 (if reported on Worksheet A-8-1). In addition, add the home office salaries included on line 8. The amounts reported on this line must be based on recognized methods of allocating an individual's home office salary to the hospital. If no home office exists or if you cannot accurately determine the hours associated with the home office salaries that are allocated to the hospital, then enter a zero in column 2. All costs for any home office (as defined in 42 CFR 413.17; and CMS Pub. 15-1, chapter 21, §2150ff through §2153ff), must be shown as the cost to the home office. Report only home office salary costs on this line; report home office wage-related costs on line 25.50.

Line 14.02--For cost reporting periods beginning on or after October 1, 2015, enter the salaries paid to personnel affiliated with a related organization (other than home office), who provide services to the hospital, and whose salaries are not included on Worksheet A, column 1, but are included in Worksheet A, column 2, column 4 (if reported on Worksheet A-6), and/or column 6 (if reported on Worksheet A-8-1). In addition, add the related organization salaries included on line 8. The amounts reported on this line must be based on recognized methods of allocating an individual's related organization salary to the hospital. If no related organization exists or if you cannot accurately determine the hours associated with the related organization salaries that are allocated to the hospital, then enter a zero in column 2. All costs for any related organization (as defined in CMS Pub. 15-1, chapter 10; and 42 CFR 413.17), must be shown as the cost to the related organization. Report only related organization salary costs on this line; report related organization wage-related costs on line 25.51.

**NOTE:** Do not include any costs for Part A physician services from the home office allocation and/or related organizations. These amounts are reported on line 15. Do not report any wages, wage-related costs, or hours associated with excluded areas (lines 9 and 10). Report the cost of home office services, whether employee or contract labor, in the most closely matched cost centers on Worksheet A (lines 4 through 17), column 2, and on the corresponding lines of Worksheet S-3, Part II (lines 26 through 43). Report allowable contract labor costs, if applicable, in accordance with instructions on lines 28, 33, or 35.

If a wage related cost associated with the home office is not “core” (as described in the Worksheet S-3, Part IV) and is not a category included in “other” wage related costs on line 18 (see Worksheet S-3, Part IV, and line 18 instructions below), the cost cannot be services related to teaching and supervision of interns and residents, included on line 14, or subscripts. For example, if a hospital’s employee parking cost does not meet the

criteria for inclusion as a wage-related cost on line 18, any parking cost associated with home office staff cannot be included on line 14, or subscripts.

Line 15--For cost reporting periods beginning before October 1, 2015, enter from your records the salaries and wage-related costs for Part A physician services - administrative, excluding teaching physician Part A services, from the home office allocation and/or related organizations. For cost reporting periods beginning on and after October 1, 2015, report only the salary costs on this line and report the wage-related costs (as defined on lines 17 and 18) on line 25.52.

Line 16--For cost reporting periods beginning before October 1, 2015, enter from your records the salaries and wage-related costs for teaching physician Part A services from the home office allocation and/or related organizations. Also report on this line Part A teaching physicians' salaries under contract. For cost reporting periods beginning on and after October 1, 2015, report only the salary costs on this line and report the wage-related costs (as defined on lines 17 and 18) on line 25.53.

Lines 17 through 25 and 25.50 through 25.53--In general, the amount reported for wage-related costs must meet the "reasonable cost" provisions of Medicare. For pension and executive deferred compensation costs see the instructions below in Part IV. NOTE: Wage-related costs on lines 25.50 through 25.53 are not tied to wage-related costs reported on Worksheet S-3, Part IV.

For those wage-related costs that are not covered by Medicare reasonable cost principles, a hospital shall use generally accepted accounting principles (GAAP). For example, for purposes of the wage index, disability insurance cost should be developed using GAAP. Hospitals are required to complete Worksheet S-3, Part IV, a reconciliation worksheet to aid hospitals and contractors in implementing GAAP when developing wage-related costs. Upon request by the contractor or CMS, hospitals must provide a copy of the GAAP pronouncement, or other documentation, showing that the reporting practice is widely accepted in the hospital industry and/or related field as support for the methodology used to develop the wage-related costs. If a hospital does not complete Worksheet S-3, Part IV, or, if the hospital is unable, when requested, to provide a copy of the standard used in developing the wage-related costs, the contractor may remove the cost from the hospital's Worksheet S-3 due to insufficient documentation to substantiate the wage-related cost relevant to GAAP.

**NOTE:** All costs for any related organization must be shown as the cost to the related organization. (For Medicare cost reporting principles, see CMS Pub. 15-1, chapter 10, §1000. For GAAP, see FASB 57.) If a hospital's consolidation methodology is not in accordance with GAAP or if there are any amounts in the methodology that cannot be verified by the contractor, the contractor may apply the hospital's cost-to-charge ratio to reduce the related party expenses to cost.

**NOTE:** All wage-related costs, including FICA, workers compensation, and unemployment compensation taxes, associated with physician services are to be allocated according to the services provided; that is, those taxes and other wage-related costs attributable to Part A administrative services must be placed on line 22, to Part A teaching services must be placed on line 22.01, and to Part B (patient care services) must be placed on line 23. Line 17 must not include wage-related costs that are associated with physician services.

Line 17--Enter the core wage-related costs from Worksheet S-3, Part IV, line 24. (See note below for costs that are not to be included on line 17). Only the wage-related costs reported on Worksheet S-3, Part IV, line 24, are reported on this line. (Wage-related costs are reported in column 2, not column 1, of Worksheet A.)

**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 physicians Parts A and B, non-physician anesthetists Parts A and B,

interns and residents in approved programs, and home office/related party personnel. (See lines 14, 15, and 20 through 25, and 25.50 through 25.53.)

Health Insurance and Health-Related Wage Related Costs:

The following are the allowable health insurance and health-related costs for the wage index.

1) Purchased Health Insurance:

- Premium costs.
- Costs paid to external organizations for plan administration.

2) Self (or Self-Funded) Health Insurance:

- Costs paid to external organizations for plan administration.
- Without a Third-Party Administrator (TPA).
  - Costs the hospital incurs in providing services under the plan to its employees. (Domestic claim charges must be reduced to cost. Costs must also exclude any copayments and deductibles paid by employees.) Employee withholdings and contributions are employee costs, not hospital costs. Hospitals are not permitted to treat as hospital wage-related costs the amounts that their employees incur for their health insurance benefits.
  - Hospital's payment to unrelated health care providers for services rendered, under the plan, to hospital's employees.
- With a TPA.
  - Amount the TPA pays to the hospital or other health care providers for services rendered under the plan. (For domestic claims, the hospital must provide documentation from its TPA to demonstrate that payments for services rendered to employees are based on a discount from full charges. Also, the payments must be reasonable; that is, the costs included for domestic claims must not exceed the amount that commercial insurers pay the hospital for the same services rendered to non-employees.) Employee withholdings and contributions are employee costs, not hospital costs. Hospitals are not permitted to treat as hospital wage-related costs the amounts that their employees incur for their health insurance benefits.

**NOTE:** Hospitals and contractors are not required to remove from domestic claims costs, the personnel costs that are associated with hospital staff who deliver the services to employees.

3) Health-Related Services: Inpatient and outpatient health services that are not covered under the hospital's health insurance plan, but are provided to employees at no cost or at a discount, for example, employee physicals, flu shots, smoking cessation, and weight control programs, are to be included as a core wage-related cost. (Domestic claim charges must be reduced to cost. Costs must also exclude any copayments and deductibles paid by employees.)

**NOTE:** Hospitals and contractors are not required to remove from domestic claims costs, the personnel costs that are associated with hospital staff who deliver the services to employees.

Line 18--Enter the total of "other" wage-related costs. Line 18, column 4, must equal the sum of Worksheet S-3, Part IV, line 25, and its subscripts. Complete instructions for Worksheet S-3, Part IV, line 25, are below in §4005.4.

**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.

Line 19--Enter the total (core and other) wage-related costs applicable to the excluded areas reported on lines 9 and 10.

Lines 20 through 25, and 25.50 through 25.53--Enter from your records the core wage-related costs for each category of employee listed. Do not include the other wage-related costs reported on Worksheet S-3, Part II, line 18, and Worksheet S-3, Part IV, line 25. Do not include wage-related costs for excluded areas reported on line 19. Subscript line 22, and report the wage-related costs for Part A teaching physicians reported on line 4.01, on line 22.01. On line 23, do not include wage-related costs related to non-physician salaries reported for hospital-based RHCs and FQHCs services included on Worksheet A, column 1, lines 88 and/or 89, as applicable. These wage-related costs are reported separately on line 24.

Line 25.50--For cost reporting periods beginning on or after October 1, 2015, enter the core wage-related costs (as defined on line 17) paid to personnel who are affiliated with a home office whose salaries are reported on line 14.01.

Line 25.51--For cost reporting periods beginning on or after October 1, 2015, enter the core wage-related costs (as defined on line 17) paid to personnel who are affiliated with a related organization (other than home office) whose salaries are reported on line 14.02.

Line 25.52--For cost reporting periods beginning on or after October 1, 2015, enter the core wage-related costs (as defined on line 17) for Part A physician services - administrative, excluding teaching physicians Part A services, from the home office allocation and/or related organizations, whose salaries are reported on line 15.

Line 25.53--For cost reporting periods beginning on or after October 1, 2015, enter the core wage-related costs (as defined on line 17) for teaching physicians Part A services from the home office allocation and/or related organizations, whose salaries are reported on line 16.

**NOTE:** Other wage related costs associated with the home office are reported on Worksheet S-3, Part II, line 18, and on Worksheet S-3, Part IV, line 25, and its subscripts. For lines 25.50 through 25.53 of Worksheet S-3, Part II, if a wage-related cost associated with the home office is not "core" (as described in the Worksheet S-3, Part IV), the cost must not be included on line 14 and its subscripts, or on line 25 and its subscripts.

Lines 26 through 43--These lines provide for the collection of hospital wage data for overhead costs to properly allocate the salary portion of the overhead costs to the appropriate service areas for excluded units. Enter the direct salary and wages with related salary amounts for paid vacation, holiday, sick, other PTO, severance, and bonus pay from Worksheet A, column 1, for lines 26, 27, 29 through 32, 34, and 36 through 43. Enter the contract labor costs from Worksheet A, column 2, for lines 28, 33, and 35.

Line 26--Salaries and hours reported on this line correlate to the salaries reported on line 4, column 1 of Worksheet A, for the personnel working in the Employee Benefit Department, or the Human Resources Department. Do not report costs or hours associated with other hospital employees on this line.



Lines 28, 33, and 35--Enter the amount paid for services performed **under contract** (in accordance with the general contract labor instructions above), rather than by employees, for A&G, housekeeping, and dietary services, respectively. Continue to report on the standard lines (line 27, 32, and 34), the amounts paid for services rendered by employees not under contract. Only contract labor costs reported on Worksheet A, column 2, column 4 (if reported on Worksheet A-6), and/or column 6 (if reported on Worksheet A-8-1), are included on these lines. Contract labor costs not reported in the proper cost center on Worksheet A, are excluded from the wage index.

Line 28--Administrative and General (A&G) costs are expenses a hospital incurs in carrying out its administrative and/or general management functions. Include on line 28, the contract services that are included on Worksheet A, line 5, and subscripts, columns 2, 4 and/or 6 ("Administrative and General"). Contract information and data processing services, legal, tax preparation, cost report preparation, and purchasing services are examples of contract labor costs that would be included on this line and must not be reported on lines 11 or 12. Do not include on line 28 the costs for top level management contracts (these costs are reported on line 12). Do not include on this line contract labor which is more closely matched to another overhead cost center, such as, but not limited to, contract housekeeping or dietary services, which must be reported on line 33 or line 35.

Lines 32 through 35--All hospitals must incur costs for housekeeping and dietary services, either direct, under contract, or both. It is not acceptable to report zeroes for housekeeping or dietary services. Report wages and hours for housekeeping services on either line 32 (direct) or line 33 (contract), and for dietary services, on either line 34 (direct) or line 35 (contract). See 79 FR 49965 (August 22, 2014). Hospitals are encouraged to ensure that their contracts clearly specify the salaries, wages, and hours related to all of their contract labor. If, in rare instances, hours for these services cannot be determined exactly from the contract, determine the hours based on a reasonable estimation. Examples of reasonable estimates are regional average hourly rates, including an average of the wages and hours for dietary and housekeeping services of other hospitals in the same CBSA. Hospitals also may conduct time studies to determine hours worked. If regional averages or time studies cannot be used, data from the Bureau of Labor Statistics may be used to obtain average wages and hours for housekeeping and dietary services.

Column 3--Enter on each line, as appropriate, the **salary and wages** portion (as defined in column 2 instructions) of any reclassifications made on Worksheet A-6.

Column 4--Enter on each line the result of column 2 plus or minus column 3.

Column 5--Enter on each line the number of **paid** hours corresponding to the amounts reported in column 4. Paid hours include regular hours (including paid lunch hours), overtime hours, paid holiday, vacation and sick leave hours, paid time-off hours, and hours associated with severance pay. For Part II, lines 1 through 15 (including subscripts), lines 26 through 43 (including subscripts), and Part III, line 7, if the hours cannot be determined, then the associated salaries must not be included in columns 2 through 4.

**NOTE:** The hours reported in column 5 must reflect any changes to salaries reported in column 3. Report the on-call wages for employees and contractors that work a regular schedule in addition to being on-call (not present at the hospital but off-site and ready to be called in if needed); however, do not report the on-call hours. Report both the wages and hours for on-call employees and contractors when they are called in to work. Overtime hours are calculated as one hour when an employee is paid time and a half. No hours are required for bonus pay. The intern and resident hours associated with the salaries reported on line 7 must be based on 2080 hours per year for each full time intern and resident employee. The hours reported for salaried employees who are

paid a fixed rate are recorded as 40 hours per week or the number of hours in your standard work week.

**NOTE:** Workers who are contracted solely for the purpose of providing services on-call can only be included on Worksheet S-3 when they actually work the on-call schedule; that is, they are actually delivering patient care at the hospital, or are at the hospital so as to be available to deliver patient care. If either of these latter two scenarios occur, then both the wages and associated hours actually worked must be included in the appropriate contract labor line on Worksheet S-3. Do not include wages or hours associated with Part B services.

Column 6--Enter on all lines (except lines 17 through 25) the average hourly wage resulting from dividing column 4 by column 5.

**4005.3 Part III - Hospital Wage Index Summary.**--This worksheet provides for the calculation of a hospital's average hourly wage (without overhead allocation, occupational mix adjustment, and inflation adjustment) as well as analysis of the wage data.

Columns 1 through 6--Follow the same instructions discussed in Part II, except for column 6, line 5.

Line 1--From Part II, enter the result of line 1 minus the sum of lines 2, 3, 4.01, 5, 6, 7, 7.01, and 8. Add to this amount lines: 28, 33, and 35.

Line 2--From Part II, enter the sum of lines 9 and 10.

Line 3--Enter the result of line 1 minus line 2.

Line 4--From Part II, enter the sum of lines 11, 12, 13, 14, 14.01, 14.02, and 15. (Line 16 is omitted from Part III, line 4, because physicians' teaching services are excluded from the wage index.)

Line 5--From Part II, enter the sum of lines 17, 18, 22, 25.50, 25.51, and 25.52. Enter on this line in column 6 the wage-related cost percentage computed by dividing Part III, column 4, line 5, by Part III, column 4, line 3. Round the result to 2 decimal places.

Line 6--Enter the sum of lines 3 through 5.

Line 7--Enter from Part II above, the sum of lines 26 through 43. If the hospital's ratio for excluded area salaries to net salaries is greater than 5 percent, the hospital must complete all columns for this line. (See instructions in Part II, lines 26 through 43 for calculating the percentage.)

**4005.4 Part IV - Wage Related Costs.**--The hospital must provide the contractor with a complete list of all core wage related costs included in Part II (§4005.2), lines 17 and 19 through 25. This worksheet provides for the identification of such costs.

For lines 1 through 23, for wage related costs not covered by Medicare reasonable cost principles (excluding the reporting of certain defined benefit pension costs; see instructions below), a hospital shall use GAAP in reporting wage related costs. In addition, some costs such as payroll taxes, which are reported as a wage related cost(s) on Worksheet S-3, Part IV, are not considered fringe benefits for Medicare cost finding.

See instructions for line 25 on including "other" wage related costs in the wage index that are not a core wage related cost reported on lines 1 through 23.

Enter on each line as applicable the corresponding amount from your accounting books and/or records.

Line 3--Report pension cost for defined benefit pension plans than do not meet the applicable requirements for a qualified pension plan under section 401(a) of the Internal Revenue Code.

The policy adopted in the federal fiscal year (FFY) 2012 IPPS final rule (CMS-1518-F; 76 FR 51586-51590, August 18, 2011) does not change the reporting basis for these costs.

**NOTE:** These plans generally are not funded by a funding vehicle that is for exclusive benefit of employees or their beneficiaries and do not qualify for special tax benefits, such as tax deferral of employer contributions. For such unfunded defined benefit plans, the costs of these plans are reported on a cash basis which recognizes benefit payments made during the current period. Typically these plans supplement the basic qualified defined benefit plan or provide benefits to a select class of employees, such as executives.

Line 4--Commencing with cost reporting periods used for the FFY 2013 wage index, report pension cost for defined benefit pension plans which meet the applicable requirements for a qualified pension plan under §401(a) of the Internal Revenue Code for the wage index. The allowable pension costs to be reported for these defined benefit pension plans shall be determined in accordance with the policy adopted in the FY 2012 IPPS final rule (CMS-1518-F; 76 FR 51586-51590, August 18, 2011), modified in the FY 2016 IPPS final rule (CMS 1632-F; 80 FR 49505-49508, August 17, 2015) and as discussed below. Enter the pension costs from your records or from the Wage Index Pension Cost Schedule available for download from the CMS website at [www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Wage-Index-Files.html](http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Wage-Index-Files.html). (See CMS Pub. 15-1, chapter 21, §2142.)

### **Policy**

Defined Benefit Pension Plan: A defined benefit pension plan is a type of deferred compensation plan, which is established and maintained by the employer primarily to provide systematically for the payment of definitely determinable benefits to its employees usually over a period of years, or for life, after retirement. Pension plan benefits are generally measured by, and based on, such factors as age of employees, years of service, and compensation received by employees. This section applies only to defined benefit pension plans which meet the applicable requirements for a qualified pension plan under §401(a) of the Internal Revenue Code. A qualified pension plan is for the exclusive benefit of employees or their beneficiaries and qualifies for special tax benefits, such as tax deferral of employer contributions.

Pension Contributions: Pension costs for a defined benefit pension plan are allowable only to the extent that costs are actually incurred by the provider. Such costs are found to have been incurred only if paid directly to participants or beneficiaries under the terms of the plan or paid to a pension fund which meets the applicable tax qualification requirements under §401(a) of the Internal Revenue Code. For purposes of the wage index, provider pension payments shall be measured on a cash-basis without regard to CMS Pub. 15-1, chapter 23, §2305. Payment must be made by check or other negotiable instrument, cash, or legal transfer of assets such as stocks, bonds, and real property. A contribution payment shall be deemed to occur on the date it is credited to the fund established for the pension plan, or for provider payments made directly to a plan participant or beneficiary, on the date the provider's account is debited. Contributions made under a pension plan that covers multiple providers or employers shall be allocated on a basis consistent with plan records. If the plan records do not show a separate accounting of the actuarially determined cost estimates, contribution deposits, and/or assets attributable to each participating provider or employer, the allocation basis must represent a reasonable approximation of the funding attributable to each employer.

Source of Documentation for Pension Contributions: Providers are required to obtain contribution data from the pension trustee, insurance carrier, Schedule B or SB of IRS Form 5500, and if applicable, from accounting records showing the allocation of total plan contributions to each participating provider. These records must be maintained as needed for subsequent periods.

Reasonable Compensation: In order for pension costs to be allowable, the benefits payable under the plan (attributable to employer contributions) together with all other compensation paid to the employee must be reasonable in amount.

Defined Benefit Pension Plan Costs for the Wage Index: The annual pension to be included in the wage index shall be the average annual employer contributions made by or on behalf of the provider (on a cash basis) to all defined benefit plans covered under this section during the averaging period. Contribution payments must satisfy the allowability requirements outlined above; see “Pension Contributions” and “Reasonable Compensation” above. A reversion of plan assets shall be treated as a negative contribution payment and a negative pension cost resulting from a reversion of plan assets shall offset a provider’s other wage related costs.

In the FY 2016 IPPS final rule and effective with the FY 2017 wage index, the averaging period used to compute the average defined benefit pension cost for the wage index was modified. Prior to this modification, the averaging period was generally the 36 consecutive calendar month period centered on the midpoint of the cost reporting period used for the wage index (the cost reporting period used for the wage index shall hereafter be referred to as the wage index cost reporting period). Beginning with the FY 2017 wage index, generally, the averaging period is based on the base cost reporting period, plus the prior two cost reporting years (36 months).

A provider who adopts a new defined benefit pension plan and has no other defined benefit plan in existence during the averaging period may elect to exclude from the averaging period all cost reporting periods ending prior to the date the new plan was adopted. No defined benefit pension cost is reportable for a wage index cost reporting period that is excluded from the averaging period in accordance with this paragraph. An election to claim costs for a newly adopted plan based on an averaging period of less than 36 months must be applied on a consistent basis for all wage index cost reporting periods for which the 36 month averaging period contains the plan effective date.

If the wage index cost reporting period does not represent a 12 month period, the annual pension cost otherwise determined in accordance with this section shall be prorated to reflect the number of months in the wage index cost reporting period.

For the FY 2013 through FY 2022 wage index only, a provider may include a prefunding installment as a component of pension cost regardless of whether or not the plan(s) which gave rise to the prefunding balance are still in existence. The annual prefunding installment shall equal 1/10<sup>th</sup> of the prefunding balance. A prefunding installment that is not reflected in the pension cost for a wage index cost reporting period may not be reassigned and added to the pension cost reported for wage index purposes in any subsequent period. The prefunding balance equals the excess, if any, of (i) provider contributions made (on a cash-basis) to its defined benefit pension plans during the look-back period over (ii) the pension costs included in the wage-index for the same look-back period. A provider’s share of the total contributions made under a pension plan that covers multiple providers or employers shall be determined on a basis consistent with the methodology used to determine the wage index pension costs for the cost reporting periods included in the prefunding balance. The look-back period shall consist of consecutive provider cost reporting periods commencing no earlier than October 1, 2002 and ending with the provider’s cost reporting period immediately prior to the FY 2013 wage index cost reporting period. The look-back period may not include any cost reporting period for which the provider is unable to provide documentation of the contributions made or the pension costs included in the wage index;

all prior cost reporting periods must also be excluded in order to satisfy the requirement that the look-back period consist of consecutive cost reporting periods. A provider who establishes a prefunding balance must submit documentation to the Medicare contractor to support the calculation of the prefunding balance and annual prefunding installment. A prefunding worksheet with complete instructions is available for download from the CMS website at [www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Wage-Index-Files.html](http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Wage-Index-Files.html).

**Pension Plan with Multiple Entities:** If a hospital participates in a pension plan or retirement system that also covers other entities, the hospital must report its respective 3-year average pension cost (or prefunding balance) reflecting only the hospital's allocated share of total plan contributions, and not including any share of pension costs of other entities. For each hospital, this is accomplished by first determining the hospital's allocated portion of pension contribution for each year of the 3-year average, and then computing the 3-year average for that hospital based only on that hospital's respective allocated pension contributions. This is consistent with the regulations at 42 CFR 413.24(a), which state, in pertinent part, that providers must provide adequate cost data based on their financial and statistical records. Therefore, a provider may not claim as an allowable cost the costs of services associated with another entity. It is not appropriate to compute the 3-year average (or prefunding balance) based on the total contributions made to the plan by all participating entities and then determine a hospital's allocated portion of the 3-year average cost (or prefunding balance) because there are instances in which the 3-year average could be skewed because a hospital may be including pension costs from another entity in its 3-year average. Specifically, if the allocated percentage of total plan contributions for one or more of the participating entities changes during the 3-year average, the average will be skewed. The allocated percentage to each entity can change due to mergers, changes in plan coverage, or other factors. We also note that the allocation of contributions between the various entities participating in a pension plan or pension system should agree with the methodology used for plan reporting purposes and/or financial statement purposes, and the methodology used should be applied consistently over time. Furthermore, if wage index reporting is required for two or more hospitals covered under the same pension plan or retirement system, those hospitals must ensure that the allocation of plan contributions for each reporting period is determined on a consistent basis to avoid duplicate reporting of costs.

### **Examples**

#### **Example 1 (prefunding balance and prefunding installment):**

- Provider's FY 2017 wage index cost reporting period is 01/01/2013-12/31/2013. The look-back period ends with the cost reporting period immediately prior to the cost reporting period used for the FY 2013 wage index. Since the FY 2013 wage index was based on the providers 1/1/2009-12/31/2009 cost reporting period, the look-back period ends on 12/31/2008. Assuming the provider has always reported costs on a calendar year basis, the earliest possible cost reporting period in the look-back period is the period commencing 01/01/2003 (first cost reporting period commencing on or after 10/01/2002).

- The provider is able to document its pension contributions (on a cash basis) and the pension costs included in the wage index for all cost reporting periods except for the 2004 year. Therefore, 2004 and all prior cost reporting periods must be excluded from the look-back period. The data for 2005 through 2008 is as follows:

<u>Cost Reporting Year</u>	<u>Cash Basis Contributions</u>	<u>Wage-Index Pension Costs</u>
2005	\$400,000	\$500,000
2006	\$800,000	\$0
2007	\$0	\$600,000
2008	\$650,000	\$700,000

- Because the pension cost reported in the wage index for 2005 was higher than the cash contributions made during that same period, the provider may elect to drop 2005 (and all prior periods) from the look-back period.
- Although the contributions made in 2007 were also less than the pension cost reported for that same period, the provider cannot exclude 2007 without also excluding 2006 (look-back period must consist of consecutive cost reporting periods).
- Although the contributions made in 2008 were less than the pension cost reported in that same period, the provider cannot exclude 2008 since the look-back period must end with 2008 because that is the cost reporting period immediately prior to the FY 2013 wage index cost reporting period.
- The prefunding balance based on a 2006-2008 look-back period is \$150,000 (\$1,450,000 [\$800,000+\$0+\$650,000] total contributions - \$1,300,000 [\$0 + \$600,000 + \$700,000] in wage index pension costs reported for the same period). The annual prefunding installment is \$15,000 (1/10th of \$150,000).

Example 2 (pension cost for a 12 month wage index cost reporting period):

- Provider's FY 2017 wage index cost reporting period is 12 months (01/01/2013 - 12/31/2013); the 36 month averaging period is 01/01/2011 to 12/31/2013, which includes the wage index cost reporting year and the prior two cost reporting periods.
- Contributions made during 01/01/2011 - 12/31/2011 = \$500,000.
- Contributions made during 01/01/2012 - 12/31/2012 = \$300,000.
- Contributions made in wage index cost reporting period 01/01/2013 - 12/31/2013 = \$600,000.
- Total contributions made during the 36 month averaging period = \$1,400,000.
- The provider has no prefunding balance or prefunding installment.
- The pension cost for the FY 2017 wage index cost reporting period is \$466,667 (\$1,400,000 total contributions divided by 36 months in the averaging period multiplied by 12 months in the wage index cost reporting period).

Example 3 (pension cost for a 7 month wage index cost reporting period):

- Provider's FY 2017 wage index cost reporting period is 7 months (01/01/2013 - 07/31/2013); the 36 month averaging period is 8/01/2010 to 07/31/2013 (begins 29 months prior to the Fiscal Year Begin Date of the wage index cost reporting period for a total of 36 months).
- Contributions made during 08/01/2010 - 12/31/2010 = \$300,000.
- Contributions made during 01/01/2011 - 12/31/2011 = \$500,000.
- Contributions made during 01/01/2012 - 12/31/2012 = \$400,000.
- Contributions made in wage index cost reporting period 01/01/2013 - 07/31/2013 = \$200,000.
- Total contributions made during the 36 month averaging period = \$1,400,000.
- The provider has documented a prefunding balance of \$1,000,000; the annual prefunding installment is therefore \$100,000 (1/10<sup>th</sup> of prefunding balance).
- The pension cost for the FY 2017 wage index cost reporting period is \$330,555 (\$272,222 average pension cost [\$1,400,000 total contributions divided by 36 months in the averaging period multiplied by 7 months in the in wage index cost reporting period] plus \$58,333 pro-rata prefunding installment [\$100,000 annual prefunding installment multiplied by 7/12ths to reflect a 7 month wage index cost reporting period]).

Example 4 (pension cost for a new plan):

- Provider's FY 2017 wage index cost reporting period is 12 months (01/01/2013 - 12/31/2013); the 36 month averaging period is 01/01/2011 to 12/31/2013, which includes the wage index cost reporting year and the prior two cost reporting periods.
- The provider adopted a new pension plan effective 07/01/2012 and had no other pension plan in effect prior to that date; therefore, there is no prefunding balance or prefunding installment.
- Contributions made during 01/01/2011 - 12/31/2011 = \$0 (no plan in existence)
- Contributions made during 01/01/2012 - 12/31/2012 = \$500,000.
- Contributions made in the wage index cost reporting period 01/01/2013 - 12/31/2013 = \$1,200,000.
- Total contributions during the 36 month averaging period = \$1,700,000.
- The provider did not report a pension cost attributable to the new plan based on a 36-month averaging period during any prior wage index cost reporting period; therefore it may elect to exclude cost reporting periods ending prior to the 07/01/2012 plan effective date from the averaging period; the 36 month averaging period is, therefore, shortened to 24 months and excludes the period 01/01/2011 to 12/31/2011. The pension cost for the FY 2017 wage index cost reporting period would then be \$850,000 (\$1,700,000 total contributions divided by 24 months in the averaging period multiplied by 12 months in the wage index reporting period).

Lines 8, 8.01, 8.02, and 8.03--Effective for cost reporting periods beginning prior to October 1, 2015, complete line 8 if the hospital has purchased or self-funded insurance. Effective for cost reporting periods beginning on or after October 1, 2015, complete line 8.01 if the hospital has self-funded insurance without a TPA. Complete line 8.02 if the hospital has self-funded insurance with a TPA. Complete line 8.03 if the hospital purchases health insurance. (See the instructions under Worksheet S-3, Part II, regarding health insurance as a wage-related cost for the wage index).

Line 21--Report costs of executive deferred compensation plans and awards for executives. The policy adopted in the FFY 2012 IPPS final rule; 76 FR 51586 - 51590 (August 18, 2011) does not change the reporting basis for these costs. Examples of executive deferred compensation include special stock option or bonus plans and sum certain postemployment awards that are not available to other employees.

**NOTE:** Costs reported on line 21 excludes costs of executive deferred compensation that are defined contribution pension plans, tax-sheltered annuity plans, nonqualified defined benefit plans and qualified defined benefit plans that are available to other employees that is reportable on lines 1 through 4, respectively.

Line 25--Enter each wage related cost that is considered an “other” wage related cost separately. Subscript this line for each “other” wage related cost in accordance with the following criteria. For line 25 and subscripts specify the type of each “other” wage related cost. The total of line 25 and its subscripts is reported on Worksheet S-3, Part II, line 18, column 4.

A hospital may report an “other” wage related cost (defined as the value of the benefit) if it meets all of the following criteria:

- The costs are not listed on lines 1 through 23 “Wage Related Costs Core” of this worksheet or included in salaries reported on Worksheet S-3, Part II, column 4, line 17.
- The “other” wage related cost is greater than one (1) percent of total salaries after the direct excluded salaries are removed. Line 25 and each subscript must independently meet this 1 percent test. See below for instructions to calculate the 1 percent test.
- The wage related cost is a fringe benefit as described by the IRS and is reported to the IRS on an employee’s or contractor’s W-2 or 1099 as taxable income.
- The wage related cost is not being furnished for the convenience of the provider or otherwise excludable from income as a fringe benefit (such as a working condition fringe).

**NOTE:** Direct salaries and wages, including amounts related to paid vacation, holiday, sick leave, etc., reported on line 1 of Worksheet S-3, Part II, must not be included as other wage related costs on this line, nor on line 18 of Worksheet S-3, Part II.

**NOTE:** Do not include wage related costs applicable to the excluded areas reported on Worksheet S-3, Part II, lines 9 and 10. Instead, these costs are reported on Worksheet S-3, Part II, line 19. Also, do not include on this line the wage related costs for physician Parts A and B, non-physician anesthesiologists Parts A and B, interns and residents in approved programs, and home office personnel.



Calculate the 1 percent test by dividing each individual category of the other wage related cost (that is, the numerator) by the sum of Worksheet S-3, Part III, lines 3 and 4, column 4, (that is, the denominator). The other wage related costs associated with contract labor and home office/related organization personnel are included in the numerator because these other wage related costs are allowed in the wage index (in addition to other wage related costs for direct employees), assuming the requirements for inclusion in the wage index are met. For example, if a hospital is including parking garage costs as an other wage related cost that is reported on the W-2 or 1099 form, when running the 1 percent test, include in the numerator all the parking garage other wage related cost for direct salary employees, contracted employees, and home office employees, and divide by the sum of Worksheet S-3, Part III, lines 3 and 4, column 4.

Calculate the 1 percent test only one time for a category of other wage related costs, inclusive of other wage related costs for employees, contracted employees, and home office employees.