HFMA Lone Star Spring Institute

Area Wage Index: Overview and Insights

May 15, 2018

Presented by:
CampbellWilson, LLP.
Wage Index Overview

• Purpose:

  “To adjust standardized amounts for area differences in hospital wage levels by a factor reflecting the relative hospital wage level in the geographic area of the hospital to the national average hospital wage level.”

  *Section 1886(d)(3)(E) of the Social Security Act
Wage Index Overview

All Medicare Prospective Payments Systems are adjusted for wage index in some manner:

• Hospital Inpatient Prospective Payment (IPPS) Standard Dollar Amount (SDA) - DRG Payment
  – For hospitals with a wage index less than 1.0, 62% of the Operating Payment for DRG’s is considered the Labor-related and adjusted for wage index.
  – The Capital Portion of the SDA is also adjusted by the Geographic Adjustment Factor, which is a factor of the wage index.
Wage Index Overview

• Hospital Outpatient Prospective Payments (OPPS) - APC payments
  – 60% of OPPS payment rate is considered Labor-related and adjusted for wage index
• Skilled Nursing, Rehab, Psych, Home Health, etc…
• Texas Medicaid Inpatient DRG Payments - The SDA for Texas MCD is adjusted for wage index
DFW Average Hourly Wage
w/o Occupational Mix

<table>
<thead>
<tr>
<th>FY 2015</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
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<tbody>
<tr>
<td>$36.79</td>
<td>$38.18</td>
<td>$39.08</td>
<td>$40.35</td>
<td>$41.72</td>
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<td>$38.12</td>
<td>$40.29</td>
<td>$41.10</td>
<td>$42.08</td>
<td>$42.99</td>
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</table>

- National
- Dallas
- Fort Worth
DFW Average Hourly Wage
Occupational Mix Adjusted

Average Hourly Wage vs. FY Year

- National
- Dallas
- Fort Worth

FY 2017: National - 41.07, Dallas - 40.64, Fort Worth - 38.66
FY 2018: National - 42.03, Dallas - 41.28, Fort Worth - 39.93
FY 2019: National - 42.95, Dallas - 42.04, Fort Worth - 41.46
Dallas/ Ft Worth AWI - With and Without OM

<table>
<thead>
<tr>
<th>Year</th>
<th>Dallas- w/o OM</th>
<th>Dallas- OM adjusted</th>
<th>Fort Worth- w/o OM</th>
<th>Ft Worth- OM adjusted</th>
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<tbody>
<tr>
<td>FY 2016</td>
<td>0.9847</td>
<td>0.9526</td>
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<tr>
<td>FY 2017</td>
<td>0.9831</td>
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<td>0.9485</td>
<td>0.9434</td>
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<td>0.9848</td>
<td>0.9590</td>
<td>0.9500</td>
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<td>FY 2019</td>
<td>0.9851</td>
<td>0.9788</td>
<td>0.9704</td>
<td>0.9653</td>
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</table>
AWI Data Recap - 2019

• FY19 proposed national average hourly wage is $42.95. Increase of 2.1% over FY18, compared to 1.02% increase in FY18.

• Rural Floor Budget Neutrality Adjustment- .994733
  – FFY2018 Rural Floor Budget Neutrality Adjustment- .993348
  – 255 hospitals receiving rural floor adjustments (approx. 8%), decreased from nearly 400 in FY2018
  – Imputed floor expired, based on FY2019 IPPS Proposed Rule, states with no rural hospitals will no longer receive the benefit of an imputed floor. (ex: New Jersey, Rhode Island, Delaware)
FFY2020 Major Considerations

- Updates to 2552-10 Wage Index Forms
- Administrative Contract Labor
- Physician Costs and Reporting
- Purchased Support Services
Wage Index Reporting Changes FFY2020

• Transmittal 10 revises Wage Index reporting on Worksheet S-3, parts II and IV for cost reports beginning 10/01/2015 and after.
  – Home Office and Related Party costs will now be separately reported between Salaries, Wage related Costs, and Contract Costs
  – S-3, IV separates Health Insurance Costs into 3 categories: Third party, Self-insured with TPA, Self-insured without TPA
Examples of contract costs that could be included:

- Legal Fees
- Accounting/Audit Fees
- Consulting Fees
- Information Technology
- Data Processing
- Contracted Executives
- Contracted Departmental Directors and Managers

** Costs must be grouped to A&G cost center on Worksheet A (whether direct, A-6, or A-8-1)
A&G Contract Costs

A&G Contract Labor

- 2016
- 2017
- 2018
- 2019

- 2016
- 2017
- 2018
- 2019

Dallas
Fort Worth
Austin
Houston

10,000,000
20,000,000
30,000,000
40,000,000
50,000,000
60,000,000
70,000,000
80,000,000
90,000,000
100,000,000

88,627,085
11,084,108
10,479,439
1,966,025

A&G Contract Costs

A&G Contract Labor % Total Wages

2016 2017 2018 2019

Dallas Fort Worth Austin Houston National

0.24% 0.50% 0.14% 1.29% 1.26%

0.24% 0.50% 1.00% 1.50% 2.00%
**FFY2020 Major Considerations**  
**Physician Costs**

- Costs and hours related to Physicians Part A Costs may be included in the Wage Index
  - Proper identification of all salaried and contracted physicians costs is key
  - Proper record keeping of hours is essential, should report all physician hours between the appropriate categories of time, Part A, Part B, and Teaching
    - Timestudies
    - Invoices, Contracts
  - Part A time is often understated
FFY2020 Major Considerations

**Patient Care Contract Labor**

- Patient care contracted labor includes, but is not limited to, the following:
  - Nursing
  - Rehab, Therapy services
  - Lab
  - Pharmacy
  - Patient care techs and other support positions
  - Contracted Interns & Residents

- Costs include labor only (no overhead, travel, supplies, etc.)

- Hours should be calculated using same rules as salaries manhours; shift differential, holiday pay, overtime.
Contract Labor Costs

Patient Contract Labor Costs

- 2016: 113,672,725
- 2017: 132,424,875
- 2018: 165,480,303
- 2019: 247,253,261

- 2016: 100,000,000
- 2017: 150,000,000
- 2018: 200,000,000
- 2019: 250,000,000

- 2016: 300,000,000
- 2017: 300,000,000
- 2018: 300,000,000
- 2019: 300,000,000

- Dallas: 113,672,725
- Fort Worth: 43,420,875
- Austin: 38,480,000
- Houston: 247,253,261
Contract Labor Costs

Contract Labor % Total Wages

- 2016: 0.00%
- 2017: 0.50%
- 2018: 1.00%
- 2019: 1.50%

- Dallas: 2.69%
- Fort Worth: 2.55%
- Austin: 1.96%
- Houston: 3.58%
- National: 2.69%
Audit Considerations

– Increased level of questions by MAC’s and CMS in recent years

– Some revision of data at direction of CMS

– Some omission of data for certain hospitals
Occupational Mix Background

- Purpose: To adjust for the effect of employment choices made by providers
  - Providers with a higher skill mix will have their AHW negatively adjusted, those with lower skill mixes will receive a positive AHW adjustment
  - RN percentage of total Nursing vs. lower skill categories percentage
Occupational Mix Background

- Occupational Mix Survey to be filed every three years
  - Can be time consuming process
  - All IPPS subjected hospitals required to file surveys
  - While penalties have not been assessed historically, CMS reserves the right to impose a penalty
Occupational Mix 2019

• FFY2019 Occupational Mix Adjustments are based on the surveys submitted to MACS in June 2017, based on CY 2016 data. This data will be used for FFY2019-2021.

• Additional scope included for review of FY2019 OM data

• CW performed targeted reviews OM data for DFW area hospitals for FY2019, and revisions were incorporated prior to filing CY2016 OM Surveys.
Examples of OM Findings

- Adjust payroll hours to report manhours and salaries in agreement with wage index reporting

- Identification of positions which should be reported in a nursing category rather than “All Other” based on job duties

- Remove certain nursing management positions from RN category

- Identify certain positions that should be included in a different category

- Excluded areas overhead adjustment

- Home Office and Physician Part B Adjustments
Geographic Reclassification

• Application for reclassification of Tarrant and Johnson counties to Dallas (CBSA 19124) was filed in 2016 with the MGCRB and approved
  – Reclassification effective for FFY2018-2020

• Groups due to reapply in 2019
  – 100% of providers in eligible group must participate
# Geographic Reclassification

<table>
<thead>
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<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ft Worth- reclassed</td>
<td>0.9576</td>
<td>0.9630</td>
<td>0.9636</td>
<td>0.9736</td>
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<td>Ft Worth- actual</td>
<td>0.9342</td>
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</tr>
<tr>
<td>Increase</td>
<td>0.0234</td>
<td>0.0301</td>
<td>0.0199</td>
<td>0.0133</td>
</tr>
</tbody>
</table>

Est. Impact on IPPS and OPPS (w/o add-ons) $7M*  
*based on FY2019 IPPS Proposed Rule and FY2018 OPPS Final Rule
Time Studies

Presented by:
CampbellWilson, LLP.
Common Excuses

• Our physicians do not have any administrative duties.
  – Between 10% ~ 20% of time spent in allowable administrative tasks.

• We already capture our Medical Directors, that should be the majority of our administrative time.
  – Medical Directorship duties account for < 1% of Admin time reported.

• We know our physicians, no way we can get them to do this.
  – >90% certification compliance rate in our studies.
What is a CMS-Approved Time Study?

• Participation Requirements
  – Who can complete a study?
  – Does everyone need to do one?
    • APPs – Do you bill?

• Basic Study Design
  – Required categories
  – Examples of activities and how can they be categorized
• Compliance concerns
  – Intent vs. requirements
  – Examples of programs with questionable compliance
• Timing
  – Federal Register requirements vs PRRB decisions
  – Physicians 2 weeks per quarter exception
• MAC has immediate approval, but can be reversed by the higher authority at CMS
  – Recoupment threat
Why Do a Time Study?

• Inclusion of administrative cost spent by physicians and allowable professions in AHW calculation

• Physicians (generally) receive higher hourly compensation than others that are included in the Wage Index review

• More accurately document the administrative burden to the institution
What Kind of Impact are We Talking About?

• Case Study: Single Dallas-area Hospital
  – Final adjusted AHW (2019): $47.28
  – AHW after removing time-study allowable information: $46.14 (2.4% drop) resulting in an estimated $200,000 loss in reimbursement on Medicare
  – Affects not only individual hospital, but entire CBSA would be impacted $2.4 Million (Medicare)
Follow-up Items

- Do you have a time study in place?
- Is it CMS compliant?
- Is it being utilized when you review your wage index?
Additional Benefits

- Texas uncompensated care filings
- Critical access overhead allocations
- GME faculty reporting
- Resource monitoring and analysis
QUESTIONS?

Thank you for your time.
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