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*
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
RRC Considerations

• 340B
• 1115 Waiver- Uncompensated Care
• IME
• Geographic Reclassification
• Wage index
Average Hourly Wage w/o Occupational Mix

<table>
<thead>
<tr>
<th>Average Hourly Wage</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Waco</td>
<td>31.29</td>
<td>32.37</td>
<td>34.01</td>
<td>35.59</td>
</tr>
<tr>
<td>Temple</td>
<td>36.52</td>
<td>36.91</td>
<td>37.70</td>
<td>40.81</td>
</tr>
<tr>
<td>College Station</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td></td>
<td></td>
<td></td>
<td>35.00</td>
</tr>
</tbody>
</table>

$30.00 $31.29 $32.06 $32.37 $33.17 $34.01 $35.59 $38.51 $40.81

FY 2016 FY 2017 FY 2018 FY 2019
Wage Index
w/o Occupational Mix

FY 2016 FY 2017 FY 2018 FY 2019

Waco Temple College Station Rural
Average Hourly Wage
Occupational Mix Adjusted

<table>
<thead>
<tr>
<th>Year</th>
<th>FY 2016</th>
<th>FY 2017</th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>$37.63</td>
<td>$39.06</td>
<td>$39.26</td>
<td>$41.93</td>
</tr>
<tr>
<td>Waco</td>
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<td>$34.51</td>
<td>$36.10</td>
<td>$38.87</td>
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<tr>
<td>Temple</td>
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<td>$32.23</td>
<td>$33.30</td>
<td>$34.92</td>
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<tr>
<td>College Station</td>
<td>$40.26</td>
<td>$41.07</td>
<td>$42.03</td>
<td>$42.96</td>
</tr>
<tr>
<td>Rural</td>
<td>$27.00</td>
<td>$29.00</td>
<td>$31.00</td>
<td>$33.00</td>
</tr>
</tbody>
</table>

Average Hourly Wage for different locations over the years FY 2016 to FY 2019.
Wage Index - OM Adjusted

- FY 2016
- FY 2017
- FY 2018
- FY 2019

- Waco
- Temple
- College Station
- Rural
AWI Data Recap - 2019

• FY19 final national average hourly wage is $42.96. Increase of 2.1% over FY18, compared to 1.02% increase in FY18.

• Rural Floor Budget Neutrality Adjustment- .993142
  – FFY2018 Rural Floor Budget Neutrality Adjustment- .993348
  – 263 hospitals receiving rural floor adjustments (approx. 8%), decreased from nearly 400 in FY2018
  – Imputed floor expired, based on FY2019 IPPS Final 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

- Temple/Killeen
- Waco
- College Station
- Rural TX
A&G Contract Costs

A&G Contract Labor % Total Wages

2016 2017 2018 2019
• Temple/Killeen • Waco • Rural TX • National • College Station
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
Physician Costs

Physician Part A Costs

- Temple/Killeen
- Waco
- College Station
- Rural TX

2016 2017 2018 2019
Physician Costs

Phys Part A % Total Wages

- Temple/Killeen
- Waco
- Rural TX
- National
- College Station

2016 2017 2018 2019

0.00% 2.00% 4.00% 6.00% 8.00%
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

- Temple/Killeen
- Waco
- College Station
- Rural TX

2016 2017 2018 2019
Contract Labor Costs

Contract Labor % Total Wages

- 2016
- 2017
- 2018
- 2019

- Temple/Killeen
- Waco
- Rural TX
- National
- College Station
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
• 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
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
CMS-Approved continued…

- 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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