MEDPAC Medicare Payment Advisory Commission

MEETING BRIEF

April 12–13, 2007

An alternative method to compute the wage index

ISSUE: The current wage index is based on self-reported data in hospital cost reports. The resulting wage index can be volatile from year to year, can produce wage index values that differ substantially between neighboring areas, and requires a separate occupational mix survey and adjustment. In addition, the index is used for many types of providers but is computed from hospital-only data. Through provisions such as geographic reclassification, hospitals can request a higher wage index than that initially computed. About one third of hospitals benefit from such provisions.

In the Tax Relief and Health Care Act of 2006 (TRA), the Congress mandated that MedPAC submit a report on our wage index study by June 30, 2007 and include any alternatives the Commission recommends to the method to compute the wage index. The Secretary then has to consider MedPAC's recommendations and include in the FY 2009 proposed IPPS rule one or more proposals to revise the wage index adjustment. The TRA requires CMS to consider many of the points we have raised in past meetings such as: use of BLS data, minimizing volatility, occupational mix, eliminating reclassification, minimizing variation in the wage index, and use of the hospital wage index in other settings.

We anticipate including our report on the wage index as a chapter in our June 2007 report.

KEY POINTS: We have explored constructing a wage index from available Bureau of Labor Statistics (BLS) and Census Bureau wage data. The resulting index has some properties that may alleviate some of the issues in the current wage index such as adjusting for the mix of occupations hospitals employ. The data and methods could also be used for other sectors such as skilled nursing facilities and home health.

ACTION: We are asking the Commission to comment on results to date and to vote on two draft recommendations arising from our work.

STAFF CONTACT: David Glass (202-220-3743), Jeff Stensland (202-220-3726)