

PUBLICATION

Changes to the Medicare Wage Index Proposed

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On August 2, 2019, the Centers for Medicare and Medicaid Services (CMS) released the final rule for the Inpatient Prospective Payment System (IPPS) for fiscal year (FY) 2020. To address wage index disparities in rural areas, CMS finalized a new methodology for the hospital wage index calculation.

The final rule increases the wage index for hospitals below the 25th percentile of the wage index value. However, in response to public comments, CMS modified the budget neutrality adjustment for this policy. CMS will apply a budget neutrality adjustment to the standardized amount that is applied across all IPPS hospitals, rather than decrease the wage index values of hospitals above the 75th percentile, as proposed. CMS will cap the negative adjustment at five percent for FY2020 on any decrease in a hospital's wage index from its final wage index for FY2019. This policy will be effective for *at least* four years, beginning in October 2019, in order to allow employee compensation increases implemented by these hospitals sufficient time to be reflected in the wage index calculation.

Additionally, CMS has modified the "rural floor" calculation to try to preempt some "gaming" of payments by urban hospitals. Under current law, the IPPS wage index value for an urban hospital cannot be less than the wage index value applicable to hospitals located in rural areas in the state. This has led to some urban hospitals reclassifying themselves as rural under 42 C.F.R. §412.103. CMS has identified urban hospitals in a limited number of states that have inappropriately used this provision to influence the rural floor wage index value "at the expense of hospitals in other states, which also contributes to wage index disparities". (CMS Fact Sheet April 23, 2019 available [here](#).) Hence, under the FY202 IPPS final rule, the urban-to-rural reclassifications will no longer be factored into the rural floor wage index value.

In a call after the final rule was released, CMS Administrator Seema Verma said the current wage index was making it difficult for rural hospitals to attract qualified employees and limiting access to care in some of areas of the country that need it the most: "With this change", Verma remarked, "low-wage and rural hospitals will be able to increase employee compensation and have sustainability".