

C. Wage Index Adjustment to Federal Rates

Section 1888(e)(4)(G)(ii) of the Act requires that we adjust the Federal rates to account for differences in area wage levels, using a wage index that we find appropriate. Since the inception of a PPS for SNFs, we have used hospital wage data in developing a wage index to be applied to SNFs. We propose to continue that practice for FY 2004.

Section 315 of the BIPA authorizes us to establish a reclassification system for SNFs, similar to the hospital methodology. This geographic reclassification system cannot be implemented until we have collected the data necessary to establish an area wage index for SNFs based on their wage data. We presented a comprehensive discussion of this wage data in the May 10, 2001 proposed rule (66 FR 23984) and the July 31, 2001 final rule (66 FR 39562).

In the May 10, 2001 proposed rule, we published a wage index prototype based on SNF data, along with the wage index based on the hospital wage data that was used in the preceding year's final rule (July 31, 2000, 65 FR 46770). In addition, we included a discussion of the wage index computations for the SNF prototype. We also indicated our concern about the reliability of the existing data used in establishing a SNF wage index, in view of the significant variations in the SNF-specific wage data and the large number of SNFs that are unable to provide adequate wage and hourly data. Accordingly, we expressed the belief that a wage index based on hospital wage data remains the best and most appropriate to use in adjusting payments to SNFs, since both hospitals and SNFs compete in the same labor markets.

In the July 31, 2001 final rule (66 FR 39579), we indicated that we had decided not to adopt the SNF-specific wage index prototype from the proposed rule, citing concerns such as the significant amount of volatility in the data. In addition, while we acknowledged that auditing all SNFs would provide more accurate and reliable data, we observed that this would place a burden on providers in terms of recordkeeping and completion of the cost report worksheet. We also noted that adopting such an approach would require a significant commitment of resources by us and by our contractors:

Developing a desk review and audit program similar to that required in the hospital setting would require significant resources. The fiscal intermediaries (FIs) that are involved in preparing the hospital wage

data currently spend considerable resources to ensure the accuracy of the wage data submitted by approximately 6,000 hospitals. This process involves editing, reviewing, auditing, and performing desk reviews of the data. Requiring FIs to do the same for the approximately 14,000 SNFs would nearly triple the FIs' workload and budgets in this area. (66 FR 39579).

While we continue to believe that the development of a SNF-specific wage index potentially could improve the accuracy of SNF payments, we do not regard an undertaking of this magnitude as being feasible within the current level of programmatic resources. However, we remain willing to consider the adoption of a SNF-specific wage index should sufficient staffing and budgetary resources to support it become available in the future.

We also propose to continue use of the FY 2003 wage index to adjust SNF PPS payments beginning October 1, 2003. The wage indexes published on July 31, 2002 (67 FR 49798) have undergone a number of changes to reflect certain changes in the data that were not foreseen prior to publication. For example, the Killeen-Temple, Texas Metropolitan Statistical Area (MSA) had two changes to its wage index during the course of the year. While this is consistent with the regulations governing mid-year corrections in the hospital wage index, it results in uncertainty for SNFs in knowing the wage index that will be applied to their payments at the beginning of the year. Such changes also prevent us from calculating the most accurate wage index budget neutrality factor, discussed later in this section. It is our intent that, for each future year, we will use a wage index based on the most recently published final hospital wage index data. In using the most recently published final data, we can be assured that the wage index published in each year's update will be used throughout the year to adjust payments. Therefore, providers and other interested parties who use the wage indexes to prepare budget and payment forecasts can be assured that the wage index will not change, thus also assuring the prospective nature of the SNF payment system. The policy of using the most recently published hospital wage index would also conform to the approach currently used in Medicare payment systems for other provider types, including home health agencies (HHAs) and inpatient rehabilitation hospitals.

The wage index adjustment would be applied to the proposed labor-related portion of the Federal rate, which is 76.435 percent of the total rate. This percentage reflects the labor-related

relative importance for FY 2004. The labor-related relative importance is calculated from the SNF market basket, and approximates the labor-related portion of the total costs after taking into account historical and projected price changes between the base year and FY 2004. The price proxies that move the different cost categories in the market basket do not necessarily change at the same rate, and the relative importance captures these changes. Accordingly, the relative importance figure more closely reflects the cost share weights for FY 2004 than the base year weights from the SNF market basket.

We calculate the labor-related relative importance for FY 2004 in four steps. First, we compute the FY 2004 price index level for the total market basket and each cost category of the market basket. Second, we calculate a ratio for each cost category by dividing the FY 2004 price index level for that cost category by the total market basket price index level. Third, we determine the FY 2004 relative importance for each cost category by multiplying this ratio by the base year (FY 1997) weight. Finally, we sum the FY 2004 relative importance for each of the labor-related cost categories (wages and salaries, employee benefits, nonmedical professional fees, labor-intensive services, and capital-related expenses) to produce the FY 2004 labor-related relative importance. Tables 5 and 6 show the Federal rates by labor-related and non-labor-related components.

TABLE 5.—CASE-MIX ADJUSTED FEDERAL RATES FOR URBAN SNFs BY LABOR AND NON-LABOR COMPONENT

RUG III category	Total rate	Labor portion	Non-labor portion
RUC	438.68	335.31	103.37
RUB	394.87	301.82	93.05
RUA	373.60	285.56	88.04
RVC	338.21	258.51	79.70
RVB	326.95	249.90	77.05
RVA	298.16	227.90	70.26
RHC	310.17	237.08	73.09
RHB	285.14	217.95	67.19
RHA	261.36	199.77	61.59
RMC	305.41	233.44	71.97
RMB	272.87	208.57	64.30
RMA	256.60	196.13	60.47
RLB	243.33	185.99	57.34
RLA	204.53	156.33	48.20
SE3	289.05	220.94	68.11
SE2	250.25	191.28	58.97
SE1	222.72	170.24	52.48
SSC	217.71	166.41	51.30
SSB	207.70	158.76	48.94
SSA	202.69	154.93	47.76
CC2	216.46	165.45	51.01