

hospitals in accordance with sections 1886(d)(8)(B) and 1886(d)(10) of the Act when calculating the wage index. Under section 1886(d)(8)(D) of the Act, the Secretary is required to adjust the standardized amounts so as to ensure that aggregate payments under the IPPS after implementation of the provisions of sections 1886(d)(8)(B) and (C) and 1886(d)(10) of the Act are equal to the aggregate prospective payments that would have been made absent these provisions. This adjustment is discussed in section II.4.b. of the Addendum to this final rule.

Section 1886(d)(3)(E) of the Act also provides for the collection of data every 3 years on the occupational mix of employees for each short-term, acute care hospital participating in the Medicare program, in order to construct an occupational mix adjustment to the wage index. The initial collection of these data must be completed by September 30, 2003, for application beginning October 1, 2004 (the FY 2005 wage index). In the April 4, 2003 **Federal Register** (68 FR 16516), we published a notice of intent to collect calendar year 2002 data from hospitals.

Many commenters on the April 4, 2003 notice requested that CMS publish a more detailed proposed methodology, illustrating how the occupational mix index will be calculated and how it will be used to adjust the overall wage index. Other comments on the April 4, 2003 notice included: CMS should develop or expand more categories to include all hospital employees; CMS should develop and publish a more reasonable timeframe for the hospitals to complete the survey, and a more reasonable timeframe for fiscal intermediaries to audit the occupational mix survey; CMS should clarify the relationship between the current annual cost report wage index schedule and the proposed occupational mix survey.

We plan to publish a final notice of intent in the **Federal Register**, with a 30-day comment period. The notice will include any revisions to the survey published on April 4, 2003 based on the comments we received, a detailed timetable, and all audit guidelines. Subsequent to that, we plan to send the surveys to all IPPS hospitals (and hospitals in Maryland that are under a waiver from the IPPS) through the fiscal intermediaries, with the intent to collect these data to be incorporated in the FY 2005 wage index.

Comment: In response to the May 19, 2003 IPPS proposed rule, commenters requested that we publish a detailed proposed methodology, for comment, illustrating how the occupational mix

index will be calculated and how it will be used to adjust the overall wage index.

Response: Although our approach will not be finalized until publication of the FY 2005 rule, one possible approach to computing an occupational mix adjusted index is to first calculate, based on the hours collected for each occupational category from all hospitals nationally, a national average percentage attributable to each occupational category. Next, for each hospital, the total dollars and hours for each category would be summed, and an average hourly wage would be determined for each category by dividing dollars by hours. Each hospital's occupational mix adjusted average hourly wage would be calculated by multiplying each category's average hourly wage by the applicable weighting factors and then summing the results across all categories. Similar calculations would then be performed at the labor market level and the national level to construct an index.

We intend to analyze the impacts of implementing an occupational mix adjusted index in the proposed rule for FY 2005. Based on the estimated impacts, we will also evaluate at that time the possibilities for blending such an index with the FY 2005 wage index calculated using our current methodology based on data from the Worksheet S-3, Part II of the Medicare cost report.

B. FY 2004 Wage Index Update

The FY 2004 wage index values (effective for hospital discharges occurring on or after October 1, 2003 and before October 1, 2004) in section VI. of the Addendum to this final rule are based on the data collected from the Medicare cost reports submitted by hospitals for cost reporting periods beginning in FY 2000 (the FY 2003 wage index was based on FY 1999 wage data).

The data for the FY 2004 wage index were obtained from Worksheet S-3, Parts II and III of the FY 2000 Medicare cost reports. Instructions for completing the Worksheet S-3, Parts II and III are in the Provider Reimbursement Manual, Part I, sections 3605.2 and 3605.3. The FY 2004 wage index includes the following categories of data associated with costs paid under the IPPS (as well as outpatient costs), which were also included in the FY 2003 wage index:

- Salaries and hours from short-term, acute care hospitals.
- Home office costs and hours.
- Certain contract labor costs and hours (includes direct patient care, certain top management, pharmacy,

laboratory, and nonteaching physician Part A services).

- Wage-related costs (The September 1, 1994 **Federal Register** included a list of core wage-related costs that are included in the wage index, and discussed criteria for including other wage-related costs (59 FR 45356)).

Consistent with the wage index methodology for FY 2003, the wage index for FY 2004 also excludes the direct and overhead salaries and hours for services not subject to IPPS payment, such as skilled nursing facility (SNF) services, home health services, costs related to GME (teaching physicians and residents) and certified registered nurse anesthetists (CRNAs), and other subprovider components that are not paid under the IPPS.

These wage data are also currently used to calculate wage indexes applicable to other providers, such as SNFs, home health agencies, and hospices. They are also used for prospective payments to rehabilitation and long-term care hospitals, and for hospital outpatient services.

C. FY 2004 IPPS Wage Index

1. Elimination of Wage Costs Associated With Rural Health Clinics and Federally Qualified Health Centers

In the FY 2001 IPPS final rule, we discussed removing from the wage index the salaries, hours, and wage-related costs of hospital-based rural health clinics (RHCs) and Federally qualified health centers (FQHCs) because Medicare pays for these costs outside of the IPPS (65 FR 47074). We noted that because RHC and FQHC costs were not previously separately reported on Worksheet S-3 of the Medicare cost report, we could not exclude these costs from the prior wage indexes. We further noted that we would evaluate the exclusion of RHC and FQHC wage data in developing the FY 2004 wage index.

We revised the FY 2000 Worksheet S-3 so that it now allows for the separate reporting of RHC and FQHC wage costs and hours. In the May 19, 2003 proposed rule, we proposed to exclude the wage and hours data for RHCs and FQHCs from the hospital wage index calculation beginning with the FY 2004 wage index.

We received several comments, all supporting this proposal. Therefore, beginning with the FY 2004 wage index, we are excluding the salaries, hours and wage-related costs associated with RHCs and FQHCs. This change is consistent with others we have implemented in our continuous effort to limit the wage index as much as possible to costs for which hospitals receive payment under