

CHART 4.—EXCLUDED HOSPITAL WITH CAPITAL INPUT PRICE INDEX (FY 1997) VINTAGE WEIGHTS—Continued

Year from farthest to most to most recent	Fixed assets (23-year weights)	Movable assets (11-year weights)	Interest: capital- related (23-year weights)
14	0.049	.....	0.049
15	0.051	.....	0.053
16	0.053	.....	0.059
17	0.057	.....	0.065
18	0.060	.....	0.072
19	0.062	.....	0.077
20	0.063	.....	0.081
21	0.065	.....	0.085
22	0.064	.....	0.087
23	0.065	.....	0.090
Total*	1.0000	1.0000	1.0000

*Due to rounding, weights sum to 1.000.

Comment: One commenter asked about the derivation of the professional liability cost weight. The commenter believed the reduction in the professional liability weight (shown in Chart 3) from the 1992-based excluded with capital market basket (.983) to the 1997-based excluded with capital market basket (.733) was inconsistent with the trends in professional liability insurance.

Response: Recent trends show professional liability insurance growing faster than our market basket but in the post 1997 period. This growth is reflected in the movement of the professional liability insurance price proxy.

The professional liability cost weight used in the 1997-based excluded with capital market basket was derived from a survey conducted by ANASYS under contract to CMS (Contract Number 500–98–005). This survey attempted to estimate hospital malpractice insurance costs over time at the national level for years 1996 and 1997 using a statistical sample. The statistical sample was drawn from a population universe of non-Federal short-term, acute care prospective payment system hospitals. CMS applied the results—more specifically the relationship between professional liability and other hospital costs—to the excluded hospital with capital market basket. (More results about this survey are published in the

May 9, 2002 IPPS Hospital Proposed Rule (90 FR 31440)).

We believe the reduction in the professional liability insurance weight from 1992 to 1997 does reflect the actual conditions facing hospitals at that time. The relevant professional liability insurance price proxy shows a decline in prices from 1990 to 1998 while the overall market basket shows an increase. In the most recent five years, the professional liability insurance price proxy has been accelerating, resulting in an increasing relative importance of its weight in the market basket. This is consistent with recent trends.

Chart 5 “Percent Changes in the 1992-based and 1997-based Excluded Hospital with Capital Market Baskets, FY 1999–2004” compares the 1992-based excluded hospital with capital market basket to the 1997-based excluded hospital with capital market basket. As is shown, the rebased and revised market basket grows slightly faster over the 1999–2001 period than the 1992-based market basket. The major reason for this was the switching of the previous wage and benefit proxies to the ECI for hospital workers from the previous occupational blend. We believe that the ECI is the best most appropriate price proxy for measuring changes in wage data facing IRFs. This wage series reflects actual wage data reported by civilian hospitals to the Bureau of Labor Statistics that is more

reflective of current trends in hospitals than is the blended wage previously used. The ECIs are fixed-weight indexes and strictly measure the change in wage rates and employee benefits per hour. They are appropriately not affected by shifts in skill mix. This differs from the proxy used in the FY 1992-based index in which a blended occupational wage index was used. The blended occupational wage proxy used in the FY 1992-based index and the ECI for wages and salaries for hospitals both reflect a fixed distribution of occupations within a hospital. The major difference between the two proxies is in the treatment of professional and technical wages (legal, accounting, management, and consulting services from outside the facility). In the blended occupational wage proxy, the professional and technical category was blended evenly between the ECI for wages and salaries for hospitals and the ECI for wages and salaries for professional and technical occupations in the overall economy. The ECI for hospitals reflects, instead of hospital-specific occupations as reflected in the ECI for hospitals. This revision had a similar impact on the hospital PPS and excluded market baskets, as described in the IPPS final rule published in the August 1, 2001 **Federal Register**. The FY 2004 increase in the 1997-based excluded hospital with capital market basket is 3.2 percent.

CHART 5.—PERCENT CHANGES IN THE 1992-BASED AND 1997-BASED EXCLUDED HOSPITAL WITH CAPITAL MARKET BASKETS, FY 1999–2004

Fiscal year	Percent change, FY 1992-based market basket	Percent change, FY 1997-based market basket
Actual Historical % Increase (FY 1999–2002)		
1999	2.3	2.7