

<b>BA2</b>	0.56		69.53		13.77	67.55	150.85
<b>BA1</b>	0.48		59.60		13.77	67.55	140.92
<b>PE2</b>	0.79		98.09		13.77	67.55	179.41
<b>PE1</b>	0.77		95.60		13.77	67.55	176.92
<b>PD2</b>	0.72		89.40		13.77	67.55	170.72
<b>PD1</b>	0.70		86.91		13.77	67.55	168.23
<b>PC2</b>	0.65		80.70		13.77	67.55	162.02
<b>PC1</b>	0.64		79.46		13.77	67.55	160.78
<b>PB2</b>	0.51		63.32		13.77	67.55	144.64
<b>PB1</b>	0.50		62.08		13.77	67.55	143.40
<b>PA2</b>	0.49		60.84		13.77	67.55	142.16
<b>PA1</b>	0.46		57.11		13.77	67.55	138.43

**BILLING CODE 4120-01-C****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 are continuing 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 SNF 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).

**1. Selecting the Most Appropriate Wage Index**

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 were 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.

As we noted in the May 16, 2003 proposed rule (68 FR 26767), 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.

In the May 16, 2003 rule, we proposed continuing to use the final FY 2003 hospital wage index to adjust SNF PPS payments beginning October 1, 2003. Then, for future rate years, we proposed continuing to use the most recently published wage index values (that is, the final FY 2003 wage index data) final wage index values rather than following our current practice of using the most recent available data. The impact of this change would have been to establish a one-year lag between the wage index values used in the hospital PPS (that is, FY 2004 wage index) and the data used

in the SNF PPS. As explained in our responses to the comments shown later in this section, we have decided not to implement this one-year lag. Therefore, the wage index values in Tables 7 and 8 reflect the most recent available data; that is, the same FY 2004 wage data that will be used for the FY 2004 inpatient hospital PPS rates.

*Comment:* A substantial number of commenters expressed concern about the appropriateness of using the most recently published wage index values to adjust the payments for SNFs, when more recent data are available. Many asked that we use the more recent data, even if they are more vulnerable to errors requiring mid-year correction. They pointed out that the most recently published wage index values are already several years old, since the data have to be reviewed and audited before use in a wage index. These commenters argued that imposing an additional 1-year lag on wage data ignores the current trends in the labor markets, fails to recognize fully those areas where severe nursing shortages necessitate paying a higher rate to attract nurses, and results in a less accurate reimbursement rate. In addition, a few commenters were concerned about the burden on hospital-based providers that would have to maintain two wage index systems, one for the hospital and another for the SNF.

*Response:* Based on our review of the comments, we have determined to continue using the most current available wage index data in determining the SNF payment rates, and we are not adopting the position taken in the May 16, 2003 proposed rule.

*Comment:* A few commenters, while opposing the use of the most recently published wage index values, urged us to make a retroactive wage index adjustment to account for errors in a prior year's reporting of hospital wage