

implemented until we have collected the data necessary to establish an SNF-specific wage index. Accordingly, under the current legislative authority, we are prohibited from implementing an SNF reclassification system until reliable data in this area become available.

We would also like to point out on June 6, 2003, the Office of Management and Budget (OMB) issued OMB Bulletin No. 03-04, announcing revised definitions of Metropolitan Statistical Areas, and new definitions of Micropolitan Statistical Areas and Combined Statistical Areas. A copy of the bulletin may be attained at the following Internet address: <http://www.whitehouse.gov/omb/bulletins/03-04.html>.

These new definitions will not be applied to the FY 2004 wage index. However, we will be studying the new definitions and their impact and, if warranted, may adopt them in the future, using appropriate administrative processes. To the extent these definitions are used, the concerns expressed by many for the use of a geographical reclassification system may be mitigated.

## *2. Determining the Labor-Related Portion of the SNF PPS Rate*

The wage index adjustment is applied to the labor-related portion of the Federal rate, which in FY 2004 is 76.372 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.

## *3. Calculating the Budget Neutrality Factor*

Section 1888(e)(4)(G)(ii) of the Act also requires that we apply this wage

index in a manner that does not result in aggregate payments that are greater or lesser than would otherwise be made in the absence of the wage adjustment. In this sixth PPS year (Federal rates effective October 1, 2003), we are applying the wage index applicable to SNF payments using the most recent hospital wage data applicable to FY 2004 payments (as discussed in the following comments), and applying an adjustment to fulfill the budget neutrality requirement. This requirement is met by multiplying each of the components of the unadjusted Federal rates by a factor equal to the ratio of the volume weighted mean wage adjustment factor (using the wage index from the previous year) to the volume weighted mean wage adjustment factor, using the wage index for the fiscal year beginning October 1, 2003. The same volume weights are used in both the numerator and denominator and will be derived from 1997 Medicare Provider Analysis and Review File (MEDPAR) data. The wage adjustment factor used in this calculation is defined as the labor share of the rate component multiplied by the wage index plus the non-labor share. The budget neutrality factor for this year is 1.005. In order to give the public a sense of the magnitude of this adjustment, last year's factor was 0.9997.

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