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CMS FINALIZES FFY 2024 CHANGES FOR RURAL FLOOR WAGE INDEX POLICY

CMS released the FFY 2024 IPPS Final Rule ("Final Rule") on August 1, 2023, publishing a fact sheet on its website. The Final Rule is expected to be published in the Federal Register on August 28, 2023. In doing so, CMS will finalize changes to its rural floor wage index policy that can drastically change payments for certain hospitals and its extension of the wage index add-on for low-wage hospitals.

BACKGROUND

The Medicare Hospital Inpatient Prospective Payment System ("IPPS") is designed to pay hospitals for services provided to Medicare beneficiaries based on a national standardized amount adjusted for the patient's condition and related treatment. Further, Social Security Act Section 1886(d)(3)(E) requires that the standardized amount be adjusted for differences in hospital wage levels, which CMS implemented through the wage index system. CMS also uses the hospital wage index for the Outpatient Prospective Payment System.

In computing the wage index, CMS calculates an average hourly wage for each urban and rural area (total wage costs divided by total hours for all hospitals in the geographic area) and a national average hourly wage (total wage costs divided by total hours for all hospitals in the nation). A labor market area's wage index value is the ratio of the area's average hourly wage to the national average hourly wage.

CMS defines hospital labor market areas based on the definitions of Core-Based Statistical Areas ("CBSAs") established by the Office of Management and Budget. A Metropolitan Statistical Area ("MSA") is a CBSA associated with at least one urbanized area that has a population of at least 50,000 that comprises the central county or counties containing the core, plus adjacent outlying counties that have a high degree of social and economic integration with the central county measured through commuting. Medicare payment programs classify hospitals into rural and urban status for a variety of purposes. An "urban area" is defined as an area within an MSA. A "rural area" is defined as any area outside an urban area.

FINALIZED A MAJOR CHANGE TO RURAL FLOOR WAGE INDEX POLICY

For the Medicare Program, the wage index applicable for any hospital that is located in an urban area of a state may not be less than the wage index applicable to hospitals located in rural areas in that state. This is known as the "rural floor." Since this would act to increase the payments for some hospitals, Congress also required that the rural floor be implemented in a budget-neutral manner.

CMS finalized a proposal to change its policy for the rural floor to treat hospitals with rural reclassification (also known as §401 or §412.103 rural reclassification) the same as geographically rural hospitals for purposes of calculating the wage index. Beginning in FY 2024, CMS will include hospitals with §412.103 reclassification along with geographically rural hospitals in rural wage index calculations. By including these hospitals in the calculation of the wage index and rural floor, CMS will increase the wage index factor for several states. Since the Social Security Act also requires that the rural floor policy be budget neutral, this will not increase overall Medicare payments. CMS maintains budget neutrality of the rural floor through an adjustment known as the "Rural Floor Budget Neutrality Adjustment," which is applied to the wage index of all hospitals.

EXTENSION OF THE LOW-WAGE HOSPITAL POLICY

CMS is extending its policy first outlined in the FY 2020 IPPS/LTCH PPS final rule. Beginning in FY 2020, CMS began to increase the wage index for hospitals with an index value below the 25th percentile. Hospitals in this group have experienced an increase in their wage index amounting to half the difference between its wage index for a year and the 25th percentile wage index for that year across all hospitals. To illustrate how this adjustment works, the following example is from the original proposed rule for the adjustment:

> [A]ssume the otherwise applicable final FY 2020 wage index value for a geographically rural hospital in Alabama is 0.6663, and the 25th percentile wage index value for FY 2020 is 0.8457. Half the difference between the otherwise applicable wage index value and the 25th percentile wage index value is 0.0910 (that is, (0.8457 – 0.6663)/2). Under the IPPS Final Rule, the FY 2020 wage index value for such a hospital would be 0.7573 (that is, 0.6663 + 0.0910).

CMS originally intended to continue this policy for a period of four years. So far, CMS has gathered one year of data with which to evaluate potential policy impact and has deemed it appropriate to continue its policy in efforts to obtain and review additional data. The wage index

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threshold for the low wage add-on for FFY 2024 will be .8667.

PRACTICAL TAKEAWAYS

Beginning October 1, 2023, the following policies will be effective under the IPPS Final Rule:

- Hospitals with an urban-to-rural reclassification under 42 C.F.R. § 412.103 will be included in the calculation of their state's rural floor wage index value beginning in FY 2024 in the same manner as geographic rural hospitals.
- This has the impact of raising the wage index in several states considerably.
- To keep overall Medicare payments from increasing, CMS is adjusting its rural floor budget neutrality adjustment accordingly. Due to this policy change, the rural floor budget neutrality adjustment is decreasing by about 1.5 percentage points.
- Hospitals with a wage index value in the lowest quartile will continue to receive a wage index adjustment of 50 percent of the difference between the otherwise applicable wage index value for that hospital and the 25th percentile wage index value (0.8667).
- CMS will continue to apply this policy in a budget-neutral manner.

If you have any questions about the wage index and rural floor policies or how they may affect your facility, please contact:

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