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MEDICARE'S SHIFTING LANDSCAPE: NEW LABOR MARKET AREAS MAY JEOPARDIZE SPECIAL RURAL STATUS FOR CERTAIN HOSPITALS AND CREATE NEW OPPORTUNITIES FOR OTHERS

On August 5, 2014, the Centers for Medicare & Medicaid Services ("CMS") released the 2015 Inpatient Prospective Payment System ("IPPS") Final Rule ("Final Rule"). Among other changes in the Final Rule, CMS is adopting updated labor market area delineations based on the 2010 census to take effect on October 1, 2014. Hospitals should review whether they are in a county that is affected by the updated delineations and what effect, if any, it will have on their Medicare reimbursement, especially if the provider is required to be located in a rural area.

BACKGROUND

Metropolitan and Micropolitan Statistical Areas (collectively called "Core Based Statistical Areas" or "CBSAs") are defined by standards issued by the Office of Management and Budget ("OMB"). 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. The Medicare program also has an in between status called "Lugar status." Generally, these "Lugar counties" would otherwise be rural, but because of their proximity and commuting patterns to one or more MSAs, they are treated as urban for some purposes and rural for others. CBSAs and Lugar status are typically adjusted and redefined every 10 years, based on the national census, which may cause some hospitals to change from urban to rural or rural to urban for IPPS purposes based on the county in which they are located.In the Final Rule, CMS is doing just that - updating labor market area delineations based on 2010 census data to take effect on October 1, 2014. The changes will cause 37 counties to convert from urban to rural, 105 counties to convert from rural to urban and the addition of 58 new Lugar counties. In addition, some CBSAs will change names, split apart or merge.The most common impact of updating labor market area delineations will be changes to hospitals' wage indices. Because hospitals will be entering and leaving various labor markets, this will cause an increase or decrease in the area wage index depending on the specifics of the situation. To protect hospitals against the negative impacts of these changes, CMS is providing a transition for hospitals that change from urban to rural whereby such hospitals will receive the wage index for the urban area in which they were located under the old delineations (or the urban area to which they are closest if the old urban area no longer exists) for a period of three years, unless they have another reclassification in effect. CMS is applying a similar three-year transition for hospitals that lose their Lugar status. In addition, CMS is providing a one-year blended wage index for all hospitals that would experience a decrease in their actual wage index due to the new labor market area delineations. The blended wage index will consist of 50% of the wage indices under both the old and new labor market area delineations for a hospital.Another important issue that may be affected by the new labor market area delineations is the special statuses under the Medicare program that require a hospital to be located in a rural area. For example, sole community hospital ("SCH"); rural referral center ("RRC"); Medicare-dependent, small rural hospital ("MDH"); and critical access hospital ("CAH" and, collectively, "Special Rural Status") status each may require the hospital to be located in a rural area. CMS is allowing CAHs that are in counties that will change from rural to urban up to two years to reclassify as rural in order to retain CAH status. However, SCHs, RRCs or MDHs in counties that will change from rural to urban or rural to Lugar could lose their Special Rural Status unless they act before October 1.Hospitals with Special Rural Status should review whether they are in a county that will be affected. In many instances, these hospitals may be able to reclassify from urban to rural to maintain their Special Rural Status, but they should make sure that doing so will result in the best possible reimbursement scenario. It is possible that changing from a rural to urban area and losing Special Rural Status could be more advantageous depending on the specific circumstances. Finally, there are some hospitals in counties that changed from urban to rural and now may be eligible for Special Rural Status and/or geographic reclassification to an urban area for wage index purposes.

PRACTICAL TAKEAWAYS

- Hospitals should determine whether they are in a county that is impacted by the new labor market delineations.
- If a hospital with Special Rural Status is located in a county that will change from rural to urban or rural to Lugar, it should analyze what,

if anything, should be done to maintain its Special Rural Status.

- CAHs have up to two years to reclassify from urban to rural to maintain their Special Rural Status, but SCHs, MDHs and RRCs only have until October 1, 2014.
- Hospitals in counties that will change from urban to rural should determine whether they are eligible for Special Rural Status.
- Hospitals in affected counties should assess whether new geographic reclassification opportunities are available.

The Final Rule is available here. The list of counties that will change from urban to rural begins on page 101, the list of counties that will change from rural to urban begins on page 101 and the list showing new Lugar counties begins on page 126.If you have any questions or would like additional information about this topic, please contact:

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