

United States Senate Committee on Finance

For Immediate Release

Tuesday, August 1, 2006

Grassley, Baucus sponsor bill to improve accuracy of Medicare payments to hospitals

WASHINGTON - Sens. Chuck Grassley and Max Baucus today introduced legislation to improve the accuracy of Medicare payments to hospitals that provide acute care.

The senators said their bill — the *Medicare Wage Index Improvement Act of 2006* — is needed in order to give the Centers for Medicare & Medicaid Services (CMS) the opportunity to develop a process in which the agency accurately adjusts inpatient hospital payments for differences in area labor prices.

“These payment adjustments can have a big impact on a full-service hospital’s ability to keep its doors open in rural America, and area residents depend on these institutions for health care,” Grassley said. “Congress needs to act to make certain the Medicare program can properly develop the adjustments and, in turn, make accurate payments.”

“Medicare payments to hospitals must be both accurate and predictable. Adjusting hospital payments with hurriedly-collected data, at the 11th hour, will provide neither accurate nor predictable payment information,” said Baucus. “This bill will ensure that any unforeseen consequences of phasing in of the occupational mix adjustment can be spotted early and controlled or avoided.”

Medicare makes a number of adjustments to payments for inpatient hospital services to take into account differences such as geographic location, types of patients served and staffing.

The area wage index is one of these adjustments and is intended to account for differences in area labor prices. The *Benefits Improvement and Protection Act of 2000* also required CMS to adjust the wage index for a hospital's occupational mix in order to ensure that the wage index reflects differences in labor costs among markets and not a hospital's decision to employ higher skilled and more expensive workers. CMS is required to collect data every three years on a hospital's staffing in order to calculate the occupational mix adjustment.

Based on data collected in 2004, CMS only adjusted 10 percent of the wage index for occupational mix in fiscal years 2005 and 2006 in part because the agency lacked confidence in the data. The agency originally proposed to continue this limited adjustment for occupational mix in fiscal year 2007, but a federal appellate court ordered the agency to apply the occupational mix adjustment, based on data collected in 2006, to 100 percent of the wage index effective for fiscal year 2007.

In order to comply with the court's decision, CMS collected these data hurriedly, using only three months of data collected this year and will not be able to post the final wage index information until after the agency announces the fiscal year 2007 inpatient hospital payment rates. On top of that, since the survey instrument used to collect data in 2006 has changed from the last time the agency collected data in 2004, CMS will not have sufficient time to analyze fully the data and determine its accuracy.

Grassley and Baucus said that given the lack of opportunity to ensure data accuracy, the uncertainty of how the occupational mix adjustment will affect hospital payments, and the disruption that can occur in moving immediately from a 10 percent adjustment for occupational mix to a 100 percent adjustment, the *Medicare Wage Index Improvement Act of 2006* would limit application of the occupational mix to the current rate for a two-year period and require the agency to conduct a study on the collection of data and manner in which the occupational mix adjustment is calculated.

Grassley is Chairman and Baucus is Ranking Member of the Senate Committee on Finance, which is responsible for Medicare legislation.

The text of the floor statements made today by Grassley and Baucus follow here.

Floor Statement of U.S. Senator Chuck Grassley of Iowa
Chairman of the Committee on Finance
Introduction of the Wage Index Accuracy Improvement Act
Tuesday, August 1, 2006

Mr. President, I am pleased to join once again my good friend and colleague Senator Baucus to introduce the *Medicare Wage Index Accuracy Improvement Act of 2006*.

The *Wage Index Accuracy Improvement Act* enables the Centers for Medicare & Medicaid Services (CMS) to improve the accuracy of Medicare payments for acute care hospital services.

Under Medicare, acute care hospitals are paid for inpatient services through the Hospital Inpatient Prospective Payment System (IPPS). Around 3,500 hospitals received payment through the IPPS totaling approximately \$100 billion in fiscal year 2004.

As you know, hospitals in the United States vary greatly in terms of size, geographic location, types of patients served and staffing. Since a one-size-fits-all approach to paying hospitals would not fairly compensate hospitals for the inpatient services they provide to Medicare patients, payments under the IPPS are adjusted to take into account these differences.

CMS has been refining one such adjustment, as required by law, and has limited its application until it has been adequately developed. This significant adjustment, the area wage index, is intended to account for differences in prices for labor in various markets.

In order to ensure that the wage index accurately reflects the difference in labor costs among hospitals and not a hospital's employment choices, an occupational mix adjustment is also applied to the wage index.

For example, a hospital choosing to employ predominantly registered nurses would have higher labor costs than a hospital employing (less-expensive) licensed practical nurses. Because a hospital's staffing practices are unrelated to area wages, its staff composition should not influence the area wage index.

CMS collected data in 2004 from hospitals for purposes of calculating the occupational mix adjustment; however, because of the agency's lack of confidence in the data, only 10 percent of the wage index was adjusted for occupational mix in fiscal years 2005 and 2006.

Questions concerning the reliability of these data can be seen in my home state of Iowa. Since the state is largely rural, Iowa hospitals generally employ a less expensive mix of personnel. One would expect the occupational mix adjustment to the wage index to benefit these hospitals; however, the opposite effect has occurred. In fact, it is estimated that the occupational mix adjustment has adversely affected eight of the ten geographic locations in Iowa.

CMS originally proposed to continue this limited adjustment for occupational mix in fiscal year 2007, but a federal appellate court ordered the agency to apply the occupational mix adjustment, based on data collected in 2006, to 100 percent of the wage index effective for fiscal year 2007.

CMS collected these data hurriedly, using only three months of data, and will not be able to post the final wage index information until the after the new rates are announced in the FY 2007 IPPS final rule. Moreover, since the data collection instrument has changed from the last time CMS collected data, CMS will not have sufficient time to analyze fully the data and determine their accuracy.

Given the lack of opportunity to ensure data accuracy, the uncertainty of how the occupational mix adjustment will affect hospital payments, and the disruption that can occur in moving immediately from a 10 percent adjustment for occupational mix to a 100 percent adjustment, the *Medicare Wage Index Improvement Act* would limit application of the occupational mix to the current rate for a two-year period.

This legislation would give CMS the opportunity to look at the data and act accordingly both to apply the occupational mix adjustment to the wage index appropriately and to avoid disruptions.

In the meantime, the *Medicare Wage Index Improvement Act* would require CMS to evaluate the way in which they collect data for and calculate the occupational mix adjustment and present us with recommendations by January 1, 2008.

I would also like to point out that the changes required under this legislation would be budget neutral because the Social Security Act requires that aggregate payments under this adjustment not

be greater or less than payments made without the adjustment.

Mr. President, adjusting inpatient hospital payments under Medicare can have significant effects on a hospital's financial health. These adjustments should therefore be adequately developed to ensure that payments are accurate and not fully implemented until they are ready.

In the case of the wage index adjustment, let's provide CMS the opportunity to get the job done right.

I thank the Chair and yield the floor.

STATEMENT OF SENATOR MAX BAUCUS
WAGE INDEX ACCURACY IMPROVEMENT ACT
AUGUST 1, 2006

Mr. BAUCUS. Mr. President, today, along with Finance Committee Chairman Chuck Grassley, I am introducing the Wage Index Accuracy Improvement Act. This bill would help ensure access to quality, affordable health care in rural America. And this bill would improve accuracy, reduce volatility, and ease uncertainty in the way that Medicare pays hospitals.

Medicare pays most hospitals through the inpatient prospective payment system, or IPPS. Under the IPPS, Medicare pays hospitals a standardized amount for each patient discharged. The Government's Centers for Medicare and Medicaid Services, or CMS, adjusts this amount for local wages, with a mechanism known as the area wage index. CMS intends that the area wage index help adjust for the wide variation of prices for labor and supplies across the Nation. After adjusting for wages, CMS then multiplies the standardized amount by the relative weight of the diagnosis -- the Diagnosis Related Group or DRG -- to determine the total payment to the hospital. CMS further increases payments if the hospital is a teaching hospital, cares for a disproportionate share of low-income patients, or treats an exceptionally costly case.

Rural providers have had concerns about the accuracy of the wage index. Largely in response to these concerns, Congress enacted an important provision as part of the Medicare Modernization Act, or MMA, in 2003. For hospitals with wage indexes below 1.0 -- that is, hospitals where CMS thinks that local wages are below average -- section 403 of the MMA reduced the portion of the standardized amount subject to wages to 62 percent, down from about 70 percent. This provision increased payments to hospitals in low-wage areas by an estimated \$5.2 billion over 10 years. And this change was an important step toward ensuring access to quality, affordable health care in rural areas.

Nonetheless, significant problems with the wage index still exist. Some of those problems relate to section 304 of the Benefits Improvement and Protection Act of 2001. In that law, Congress required CMS to collect data on hospitals' occupational mix, in order to remove incentives to employ a relatively more-expensive workforce.

For instance, a hospital that employs predominantly higher-paid registered nurses would typically

have higher labor costs than a facility employing mostly lower-paid licensed practical nurses. In an effort to remove the influence of these staffing choices on Medicare hospital payments, section 304 required CMS to adjust the wage index for occupational mix. Congress intended through section 304 to bring greater accuracy to the payment system, leading to fairer reimbursement for hospitals. I am concerned that this provision may well have the opposite effect.

CMS collected data for occupational mix adjustment in 2004. But given concerns over the accuracy of the data, in fiscal years 2005 and 2006, CMS applied only a 10 percent adjustment for occupational mix. CMS proposed the same adjustment – 10 percent – for fiscal year 2007.

On April 3, 2006, the Second Circuit Court of Appeals ordered CMS to apply 100 percent of the occupational mix adjustment for fiscal year 2007. The Court directed CMS to complete data collection and measurement by September 30, 2006, and then apply the adjustment in full.

Mr. President, if CMS proceeds with a 100 percent occupational mix adjustment, hospital payments will be subject to inaccuracy, uncertainty, and volatility. Congress can prevent these outcomes, by passing the Wage Index Accuracy Improvement Act that we introduce today.

This bill would maintain the current 10 percent occupational mix adjustment for the next 2 fiscal years, giving CMS time to collect accurate data. The bill would require CMS to report on its data collection for the occupational mix adjustment by January 1, 2008. Both of these actions will give hospitals more time – and more information – to better understand the effect of the occupational mix adjustment.

Mr. President, Medicare pays for more than \$100 billion of hospital inpatient services every year. This system should be as accurate as possible. This system should not be subject to swings resulting from quickly-collected data, applied at the last minute. I urge my Colleagues to join Chairman Grassley and me in passing this important legislation as soon as possible.