



## THE HOSPITAL & HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA

### HAP Summary of Acumen Area Wage Index Study

#### *Part I: Wage Data Analysis*

- *Differences between the BLS data and the CMS wage data*—Acumen assessed the strengths and weaknesses of the data used to construct the CMS wage index and the MedPAC compensation index by examining the differences between the Bureau of Labor Statistics (BLS) and the CMS wage data. Acumen also evaluated the importance of accounting for self-employed workers, part-time workers, and industry wage differences.
- *Employee benefit (wage-related) cost*—Acumen considered whether benefit costs need to be included in the hospital wage index and discussed the differences between Worksheet A benefits data (proposed by MedPAC to use with BLS wage data) and Worksheet S-3 benefit data. Acumen also analyzed the possibility of using BLS' Employer Costs for Employee Compensation (ECEC) series as an alternative to Worksheet A or Worksheet S-3 benefits data that would pose less of a data collection burden for providers.
- *Impact of the fixed national occupational weight*—Acumen assessed MedPAC's and CMS' methods for adjusting for occupational mix differences. While the proposed MedPAC compensation index uses fixed weights for occupations representative of the hospital industry nationally, the CMS wage index incorporates an occupational mix adjustment (OMA) from a separate data collection.
- *Year-to-year volatility in the CMS and BLS wage data*—Acumen calculated the extent of volatility in the CMS and BLS wage indexes using several measures of volatility. Acumen also explored potential causes of volatility, such as the number of hospitals and the annual change in the number of hospitals in a wage area.

Acumen also evaluated the impact on annual volatility of using a two-year rolling average of CMS wage index values.

#### Part I: Finding

*Acumen suggests that MedPAC's recommended methods for revising the wage index has both benefits and limitations, but notes that the recommended methods represent an improvement over the existing methods, and that the BLS data should be used so that the MedPAC approach can be implemented.*

#### *Part II: Wage Index Construction*

- *Alternative wage area definitions*—Acumen explored the conceptual basis for defining wage areas and investigated alternative wage area definitions that have been considered in prior literature to reduce differences between areas. Four distinct methods to define a wage index were considered—by political entities, by economic activity, by health-related activity, or by hospital-specific factors.



- *Differences between and within contiguous wage areas*—Acumen estimated different methods for smoothing wage index values between geographically proximate areas and examined the justification for and sensitivity to assumptions used by MedPAC in its smoothing method.
- *Reasons for differential impacts of shifting to a new index*—Acumen analyzed the impact on hospitals if CMS were to adopt MedPAC’s proposed compensation index, with a focus on hospitals that would no longer qualify for exceptions such as geographic reclassification and the rural floor. Acumen also examined if there are identifiable reasons for the different impacts.

### *Part II: Findings*

*Acumen noted that problems remain with each of the four alternatives for defining wage areas that were examined and believed that several of them would be complex and difficult to implement. Acumen recommends further exploration of labor market definitions.*

*Regarding the issue blending and smoothing between contiguous areas, Acumen stated that the MedPAC recommendations reduce, but do not eliminate the differences, and further could create additional issues, thereby not producing accurate representations of a hospital labor market. Acumen “believes that MedPAC’s blending and smoothing method is not well-suited to the existing Medicare wage index.”*

*Finally, Acumen notes that not all hospitals would embrace a wage index with significantly improved accuracy, as many would experience declines, especially those that currently have a reclassification or exception.*