

FYI – We have posted a revised file with the preliminary 2007 wage indexes compared with the 2006 wage indexes computed from the corrected March 9, 2006 Public Use File. **Please discard the previous wage index file based on the February 24, 2006 PUF.** We have substituted the statewide rural floors if the rural wage index is higher than the urban area.

CMS released both a corrected detailed file by hospital and a corrected inflated average hourly wage for each MSA and statewide rural area. We computed the wage indexes from the detail and reconciled closely in the vast majority of cases to the published average hourly wage for most of the wage index areas. The wage indexes attached are computed from the MSA – Statewide Rural CMS published average hourly wages.

There are three possible adjustments that also need to be considered.

First, some counties have an out migration adjustment which is an add-on to the wage index. These amounts, which are computed once every three years, can be found in the August 11, 2005 Federal Register in Table 4J (page 47608-47617). These adjustments are presumably being used by CMS for FFY 2007 as well as FFY 2005 and 2006.

Secondarily in a few MSAs there are hospitals reclassified into an MSA that have an aggregate average hourly wage higher than the MSA to which the hospitals are reclassified. In these rare cases (such as Oakland, CA) the wage index is computed including the higher reclassified AHW data. Our data does not reflect these higher wage indexes.

We have not calculated the “diluted wage indexes” received by some reclassified hospitals. For hospitals reclassified to another area, we suggest that the 2007 wage index can be estimated (assuming the hospital was reclassified to the same area in FFY 2006) by reviewing the tables in the August 11, 2005 Federal Register. Table 2 shows the wage index for each hospital. Table 4A and B shows the full wage index. If there is a difference between the Table 2 wage index and the Table 4A or B wage index, deduct the difference from the 2005 Tables wage index from the FFY 2007 estimated wage indexes. Section 508 reclassified hospitals may experience a different wage index effective April 1, 2007 if the 508 reclassification expires.

Based on the revised file the national average hourly wage increased by 5.69% to \$29.5959 based on our analysis of the revised detailed CMS PUF files. As you review the tables you will note that there are more decreasing wage indexes than increasing wage indexes. The last three years there was an increase in the national average hourly wage in excess of 6%. A quick review of the data indicates 233 MSAs and rural areas with a decrease in the wage index compared to 200 with increases or a ratio of 1.17 decreases for each increase. Interestingly, for FFY 2001 there were 4792 acute care hospitals. This year’s preliminary file has only 3,589 PPS hospitals, a difference of 1,203. Most of the decreases are due to hospitals being designated Critical Access Hospitals (CAHs).

The Connecticut Hospital Association has been exploring if the increases in national average hourly wage for the past several years could be caused, at least in part, by the removal of critical access hospitals with low average hourly wages from the overall data.

It is time for the hospital industry to challenge whether an adjustment needs to be made to “rebalance” the national average hourly wage and the computation of the individual wage indexes. It is possible that national aggregate PPS payments are understated because of the artificial increase in the national average hourly wage caused by excluding low wage CAHs and the resultant understatement of the wage indexes for each MSA and each rural area throughout the country. This March 9th revised data is more reasonable than the February 24th file but is still, in our judgment, suspect.