

# Analysis of Preliminary Wage Index Data for the Development of the Federal Fiscal Year (FFY) 2008 Wage Index

## Report Description

These reports analyze the preliminary 2004 wage index data released by the Centers for Medicare and Medicaid Services (CMS) on October 6. This data is the first in a series of wage data public use file (PUF) releases to be published throughout FFY 2007 and will eventually be used to develop the FFY 2008 Medicare wage index.

Because this is preliminary data and subject to revision, these are reports not intended to be used to calculate wage indexes, but to give hospitals a way to review the preliminary wage data as published by CMS.

The preliminary 2004 wage data includes four new Worksheet S-3 cost reporting lines. The lines are for contracted services. CMS has made no indication of whether or not these lines will be proposed for inclusion in the FFY 2008 wage index calculation. The new lines are:

Other Wages and Related Costs:

Line 9.03 – Management and Administrative Services

Overhead Costs – Direct Salaries:

Line 22.01 – Administrative and General Under Contract

Line 26.01 – Housekeeping Under Contract

Line 27.01 – Dietary Under Contract

**Data Sources:** This data comparison utilizes wage data files provided as PUFs by CMS. Final 2003 data are from the June 28, 2006 wage data PUF while preliminary 2004 data are from the October 6, 2006 PUF. The preliminary wage data PUF includes Worksheet S-3 wage data from Cost Reports submitted to HCRIS through June 30, 2006.

**Table 1:** The first table includes all lines from Worksheet S-3 Part II of the Cost Report. This report is intended to provide a comparison of the final 2003 (used for calculation of the FFY 2007 wage index) and preliminary 2004 (to be used for developing the FFY 2008 wage index) wage data that each hospital submitted to CMS. This report can be used to review the preliminary 2004 data release and highlight any errors in the reporting of the Worksheet S-3 data.

The analysis of wage-related costs at the bottom of the table is intended to provide a general idea of how total salaries compare to wage-related costs. As a general rule, the ratio of wage-related costs (Lines 13-20) to total salaries (Line 1) should be greater than 20%. The nationwide ratio of wage-related costs to total salaries from the 2004 preliminary wage data is 26%.

**Table 2:** The second table includes only lines relevant to the wage index calculation from Worksheet S-3 Part II of the Cost Report. This report is intended to provide a comparison of the preliminary 2004 wage data for the hospital, its Core-based Statistical Area (CBSA), State, and the Nation. This report will help in the review of the preliminary 2004 data release, allowing the user to focus on the areas where the average hourly wage (AHW) or ratio of fringe benefits to salaries are significantly different from the CBSA, State, or Nation.

The analysis at the bottom of this report compares the final 2003 and preliminary 2004 AHWs for the hospital, its CBSA, State, and the Nation. The AHW provided on these final lines (highlighted) is calculated using CMS' methodology using total salaries and hours adjusted to remove teaching, Certified Registered Nurse Anesthetists (CRNA), Part B, and excluded areas. This AHW calculation does not take the final steps in CMS' methodology to allocate overhead costs and overhead wage-related costs to areas excluded from the AHW calculation and does not incorporate the common period adjustment.

*Note: Table 1 shows the changes to all lines from Worksheet S-3 Part II of the Cost Report, while Table 2 looks specifically at the Worksheet S-3 Part II lines used in CMS' wage index calculation. Therefore, the percentage change in AHW shown on Line 1 of Table 1 may not be comparable to the percentage change in the AHW calculated on Table 2 due to the addition or subtraction of individual Cost Report lines.*

**State Summary:** This table provides a comparison of the final 2003 data to the preliminary 2004 data by hospital. Hospitals in this table are sorted by CBSA allowing a focused review of the hospitals driving AHW changes in a CBSA.

Like Table 2, the wages, hours and AHW provided on this table are calculated using CMS' methodology using total salaries and hours adjusted to remove teaching, CRNA, Part B, and excluded areas. This AHW calculation does not take the final steps in CMS' methodology to allocate overhead costs and overhead wage-related costs to areas excluded from the AHW calculation and does not incorporate the common period adjustment.