

# Washington Bulletin

Health care legislative and regulatory update

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## **CMS Releases Final Hospice FY 2011 Wage Index Rule**

The Centers for Medicare and Medicaid Services (CMS) have issued a final notice with comment period to update the Medicare hospice wage index for fiscal year (FY) 2011. A [copy](#) is available on the Federal Register web site. Publication is scheduled for July 22.

The hospice wage index would be effective October 1, 2010 through September 30, 2011. CMS says it is not modifying the hospice wage index methodology.

The hospice wage indexes are shown in Addenda A and B. Specifically, Addendum A reflects the FY 2011 wage index values for urban areas under the Core-Based Statistical Area (CBSA) designations. Addendum B reflects the FY 2011 wage index values for rural areas under the CBSA designations.

The hospital market basket update for FY 2011 is 2.6 percent. Hospices are not subject in FY 2011 to any payment reduction provisions in the Affordable Care Act (ACA). CMS says that the final update rates will be communicated through an administrative instruction.

## **Budget Neutrality Adjustment Factor**

The original hospice wage index was based on 1981 Bureau of Labor Statistics hospital data. The hospice wage index was updated in 1995 with a provision that in a given year, the estimated aggregate payments for Medicare hospice services using the updated hospice values will equal estimated payments that would have been made for these services if the 1983 hospice wage index values had remained in effect.

To implement this policy, a budget neutrality adjustment factor (BNAF) was computed and applied annually to the pre-floor, pre-reclassified hospital wage index, when deriving the hospice wage index.

CMS is phasing out this factor over seven years, with a 10 percent BNAF reduction in FY 2010, an additional 15 percent reduction for a total of 25 percent in FY 2011, an additional 15 percent reduction for a total of 40 percent in FY 2012, an additional 15 percent reduction for a total of 55 percent in FY 2013, an additional 15 percent reduction for a total of 70 percent in FY 2014, an additional 15 percent reduction for a total of 85 percent in FY 2015, and an additional 15 percent reduction for complete phase-out in FY 2016.

The BNAF has been computed and applied annually, in full or in reduced form, to the labor portion of the hospice payment. Currently, the labor portion of the payment rates are as follows: for Routine Home Care, 68.71 percent; for Continuous Home Care, 68.71 percent; for General Inpatient Care, 64.01 percent; and for Respite Care, 54.13 percent. The non-labor portion is equal to 100 percent minus the labor portion for each level of care. Therefore the non-labor portion of the payment rates are as follows: for Routine Home Care, 31.29 percent; for Continuous Home Care, 31.29 percent; for General Inpatient Care, 35.99 percent; and for Respite Care, 45.87 percent.

An unreduced BNAF for FY 2011 is computed to be 0.060562 (or 6.0562 percent). A 25 percent reduced BNAF, which is subsequently applied to the pre-floor, pre-reclassified hospital wage index values greater than or equal to 0.8, is computed to be 0.045422 (or 4.5422 percent). Pre-floor, pre-reclassified hospital wage index values which are less than 0.8 are subject to the hospice floor calculation.

The hospice floor calculation would still apply to any pre-floor, pre-reclassified hospital wage index values less than 0.8. Currently, the hospice floor calculation has 4 steps. First, pre-floor, pre-reclassified hospital wage index values that are less than 0.8 are multiplied by 1.15. Second, the minimum of 0.8 or the pre-floor, pre-reclassified hospital wage index value times 1.15 is chosen as the preliminary hospice wage index value. Steps 1 and 2 are referred to in this notice with comment period as the hospice 15 percent floor adjustment. Third, the pre-floor, pre-reclassified hospital wage index value is multiplied by the BNAF. Finally, the greater result of either step 2 or step 3 is the final hospice wage index value. The hospice floor calculation is unchanged by the BNAF reduction.

CMS estimates that the total hospice payments for FY 2011 will decrease by \$110 million as a result of the application of the updated wage data (\$-30 million) and the total 25 percent reduction in the BNAF (\$-80 million). However, the estimate does not take into account any hospital market basket update, which is 2.6 percent for FY 2011.

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