

Report in Brief

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U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

We observed significant vulnerabilities in the wage index system while conducting 41 reviews of hospitals' wage data, with reports issued from 2004 through 2017.

The Centers for Medicare & Medicaid Services (CMS) uses area wage indexes to adjust hospital payments annually to reflect local labor prices. CMS calculates each area's wage index based on wage data submitted by acute-care hospitals in their Medicare cost reports. Medicare administrative contractors (MACs) perform limited reviews of these data.

Federal law requires that the area wage indexes applied to urban hospitals in a State cannot be lower than the wage index for the rural hospitals in that State. This provision is called the "rural floor."

Federal law allows some hospitals to reclassify to areas with higher wage indexes to receive higher payments. "Hold-harmless" provisions in Federal law and CMS policy protect hospitals from having their wage indexes lowered because of the geographic reclassification of other hospitals.

Our objective was to describe significant vulnerabilities we observed in the wage index system.

How OIG Did This Review

We reviewed and analyzed laws and policies relevant to the vulnerabilities in the wage index system that we observed during our previous reviews of individual hospitals' wage data.

Significant Vulnerabilities Exist in the Hospital Wage Index System for Medicare Payments

What OIG Found

We identified these significant vulnerabilities in the wage index system: (1) absent misrepresentation or falsification, CMS lacks the authority to penalize hospitals that submit inaccurate or incomplete wage data; (2) MAC limited reviews do not always identify inaccurate wage data; (3) the rural floor decreases wage index accuracy; and (4) hold-harmless provisions in Federal law and CMS policy pertaining to geographically reclassified hospitals' wage data decrease wage index accuracy. As a result of these vulnerabilities, wage indexes may not always accurately reflect local labor prices and, therefore, Medicare payments to hospitals and other providers may not be appropriately adjusted to reflect local labor prices.

What OIG Recommends and CMS's Comments

We recommend that (1) CMS and the Secretary of Health and Human Services revisit the possibility of comprehensive reform, including the option of a commuting-based wage index. In the absence of movement toward comprehensive reform, we recommend that (2) CMS seek legislative authority to penalize hospitals that submit inaccurate or incomplete wage data in the absence of misrepresentation or falsification; (3) seek legislation to repeal the law creating the rural floor; and (4) seek legislation to repeal the hold-harmless provisions in Federal law, allowing CMS to calculate each area wage index based on the wage data of hospitals that reclassify into the area and hospitals geographically located in the area provided that they do not reclassify out. Additionally, we recommend that (5) CMS rescind its hold-harmless policy relating to geographically reclassified hospitals' wage data and (6) work with the MACs to develop a program of in-depth wage data audits at a limited number of hospitals each year, focusing on hospitals whose wage data have high levels of influence on the wage index of their area.

In written comments on our draft report, CMS concurred with recommendation 6. CMS did not concur with recommendation 5, stating that its current hold-harmless policy promotes stability in wage indexes for hospitals in the reclassifying hospitals' original geographic areas. We responded that promoting stability for those hospitals decreases wage index accuracy and suggested that if CMS will not rescind its policy, it should consider revising it to increase accuracy.

CMS also stated that it will consider whether to recommend for inclusion in the President's next budget the statutory proposals mentioned in recommendations 1 through 4.