

Issue Brief

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Proposed FY 2020 IPPS May Have an Incorrect AWI Value

The Centers for Medicare & Medicaid Services' proposed FY 2020 Inpatient Prospective Payment System rule may have an incorrect value regarding the area wage index. This involves the proposed reduction calculation for wage areas at and above the 75th percentile.

CMS has proposed to reduce all high wage index hospitals so that the estimated decreased aggregate payments to high wage index hospitals would offset the estimated proposed increased aggregate payments to low wage index hospitals.

In the proposal, CMS estimated this factor at 3.4 percent for FY 2020. It is now believed that the 3.4 percent number is in error. The correct amount is 4.3 percent.

CMS provided the following example. The distance between Hospital A's wage index value and the 75th percentile would be reduced by 0.0238 (that is, the "prior distance" of $0.7000 * 0.034$), and therefore, the wage index for Hospital A after application of the proposed budget neutrality adjustment would be 1.7113 (that is, $1.7351 - 0.0238$).

Using 4.3 percent changes the above example. The uniform distance amount now would be $0.7000 * 0.043$. This translates to an adjustment of 0.0301. Therefore, the correct application of Hospital A's wage index after the application of the revised budget neutrality factor would be 1.7050 ($1.7351 - 0.0301$).

*Analysis provided for MHA
by Larry Goldberg,
Goldberg Consulting*

4712 Country Club Drive
Jefferson City, MO 65109

P.O. Box 60
Jefferson City, MO 65102

573/893-3700
www.mhanet.com

