

Wage Index Pension Cost Spreadsheet Overview & Instructions

Background

The Office of the Actuary within CMS has developed a spreadsheet to assist hospitals and FI/MACs in determining the annual allowable defined benefit pension for the FY 2011 wage index.

Under sections 3605.2 and 4005.2 of Medicare Provider Reimbursement Manual (PRM), Part II (PRM-2; Forms CMS-2552-96 and CMS-2552-10, respectively), for purposes of the wage index, the amount reported for wage-related costs must meet the “reasonable cost” provisions of Medicare. For developing pension and deferred compensation costs, hospitals must comply with the requirements in 42 CFR 413.100 and the PRM, Part I (PRM-I), §§ 2140, 2141 and 2142 (see discussion in 70 FR 47369, August 12, 2005).

As required by PRM-I § 2142.4(A), hospitals, without regard to its taxable or tax exempt status, must provide the “valuation interest rate,” “actuarial accrued liability” and “normal cost” data used to determine the minimum and tax-deductible maximum contributions under ERISA (Employee Retirement Income Security Act of 1974). Note that the ERISA “current liability” values do not satisfy the PRM-I meaning of actuarial accrued liability.

Effective for plan years beginning after December 31, 2007, ERISA was amended by the Pension Protection Act of 2006 (PPA), Pub. L. 109-280. As amended by the PPA, the minimum and tax-deductible maximum contributions under ERISA are no longer determined using a “valuation interest rate”, “actuarial accrued liability” and “normal cost”. The spreadsheet and instructions provide guidance for determining pension costs for periods after the effective date of the PPA. We note that the instructions below (regarding the PPA) reflect a technical clarification to crosswalk the current interest, liability, and normal cost terminology found in the Medicare cost reporting requirements under section 2142 of the PRM-I to the new terminology under the PPA.

The spreadsheet should be completed using plan year data. If the pension plan year does not coincide with the fiscal year reporting period for the wage-index, the hospital must consistently follow its established accounting practice for attributing contributions to plan years for wage-index purposes. Typical practices include using either the pension cost for the plan year commencing during the reporting period, the plan year ending within the reporting period, or on a pro-rata basis. This conversion must be done independently of the spreadsheet.

PRM-I § 2142.4 (A) requires the hospital to have data available to reconcile the amount of pension costs included in the cost report with the amount funded. PRM-I § 2142.4 (A) further requires that the hospital identify any excess funding that will be applied as a payment towards pension costs of future periods in accordance with PRM-I 2142.6 (C). The spreadsheet permits the user to input up to 4 years of historical plan year data, along with the pension cost reported by the FI/MAC for those prior periods. Entering historical plan year data will allow a hospital or FI/MAC to reconcile prior period differences between (a) the pension costs determined in accordance with the PRM, (b) the amounts funded, and (c) the pension costs reported for wage index purposes. If applicable, any amount of funding in excess of the pension cost determined in

accordance with the PRM will be carried forward and be applied towards the funding of pension costs in subsequent periods. (Hereafter this excess is referred to as a “prepayment credit.”) Any differences in the pension costs determined in accordance with the PRM and the pension costs reported for wage index purposes will be carried forward to subsequent period as a cost adjustment charge or credit. (Hereafter referred to as a “cost adjustment carryover.”)

The spreadsheet contains three (3) tabs. Below is an explanation of each tab that is used to compute the annual allowable pension cost.

Note: Only those fields highlighted in yellow shall be filled in by the user. All other cells are protected.

Input Tab

This tab contains three (3) sections. Data can be entered for the current year and optionally up to four historical years. The earliest year should be entered in the Year 1 column.

Data entered into Sections A and B must come from supporting documentation such as the annual actuarial valuation report or the Actuarial Information (Schedule B or Schedule SB) of IRS Form 5500. The data for Section C is optional and would come from prior period records of the pension costs developed and reported for wage index purposes.

Section A: Required Information

ERISA Covered Plans

For years prior to December 31, 2007, hospitals with ERISA covered plans shall input data in section A directly from a certified IRS Form 5500 Schedule B. References of the appropriate lines to the Schedule B are provided on the right side of the Input Tab¹. The certified Schedule B submitted to the IRS will be considered as adequate supporting documentation of the data. Data not supported by Schedule B of IRS Form 5500 must be supported by a certified actuarial valuation report.

PPA Transitional Rule: For ERISA covered pension plans, the PPA amendments to ERISA mandated a change in the basis for determining minimum and maximum tax deductible pension costs, effective for plan periods beginning after December 31, 2007. In order to ensure accuracy and for the ease of burden for the hospital and the FI/MAC, the hospital shall input data directly from a certified IRS Form 5500 Schedule SB. References of the appropriate lines to the Schedule SB are provided on the right side of the Input Tab¹. The certified Schedule SB submitted to the IRS will be considered as adequate supporting documentation of the data. Data not supported by Schedule SB of IRS Form 5500 must be supported by a certified actuarial valuation report.

¹ See columns H and I in the Input Tab as a guide for which fields from Schedule B or Schedule SB correspond to the correct inputs on the spreadsheet. These references (regarding the PPA) reflect a technical clarification to crosswalk the current interest, liability, and normal cost terminology found in the Medicare cost reporting requirements under section 2142 of the PRM-I to the new terminology under the PPA.

As an alternative to the Schedule SB, for plan years after December 31, 2007, hospitals with ERISA covered plans can use data that would have been reportable on IRS Form 5500 Schedule B (without regard to the amendments of PPA). However, hospitals must choose one methodology (either the rules and regulations prior to or after the implementation of the PPA) and that election becomes part of the hospital's established accounting practice for subsequent periods. For either methodology, supporting documentation (i.e., certified actuarial valuation report) is required.

Non ERISA Covered Plans

We recognize that most non-ERISA covered plans (such as Church plans, Government plans and nonqualified plans) will not have actuarial information prepared in accordance with the PPA amendments. Therefore, in order to ensure accuracy and for the ease of burden for the hospital and the FI/MAC, for plan years before and after the implementation of the PPA, the entries shall correspond to the data that would be reportable on IRS Form 5500 Schedule B (without regard to the amendments of PPA). The Hospital shall continue to provide a certified actuarial valuation report that provides sufficient information to verify and support the data.

As an alternative to the data that would have been reported on Schedule B, for plan years after December 31, 2007, hospitals with non-ERISA covered plans can use data that would have been reportable on IRS Form 5500 Schedule SB. However, hospitals must choose one methodology (either the rules and regulations prior to or after the implementation of the PPA) and use such methodology for all subsequent periods. The Hospital shall provide a certified actuarial valuation report that provides sufficient information to verify and support the data (for the methodology that the hospital chooses).

Section B: ERISA Amortization Information from Schedule B or Schedule SB

This data is used to determine if the unfunded actuarial liability may be amortized over a period shorter than 10-years in accordance with PRM-I § 2142.5(A). Only hospitals with ERISA covered defined benefit pension plans shall input data into Section B. Non ERISA covered plans do not fall under the regulations of ERISA and therefore are not required by ERISA to use a shorter amortization period than 10 years. Accordingly, this provision permitting amortization of a shorter period does not apply and Section B for non-ERISA covered plans shall be left blank.

References to the appropriate lines of Schedule B or Schedule SB are provided on the right side of the spreadsheet.

Section C: Prior Reported Pension Costs, Prepayment Credits and Cost Adjustment Carryovers

Section 2142.6 (C) of the PRM-I states if the payment made by the hospital is more than the lesser of the tax deductible maximum or the current period liability for pension cost determined in accordance with § 2142.5, the excess may be carried forward and considered as payment credit against the liability to the fund of a future period. The excess funding from prior periods is reflected on the spreadsheet as a Prepayment Credit.

Furthermore, in any period that the pension cost reported for wage index purposes differs from the allowable pension cost determined in accordance with the PRM by this spreadsheet, a Cost Adjustment Carryover Credit or Charge will be created. The identification of the Prepayment Credits and the Cost Adjustment Carryovers will reconcile prior pension costs funded with pension costs included in cost reports (PRM-I § 2142.4 (A)).

There are 3 components that must be entered into the spreadsheet to determine the Prepayment Credit and Cost Adjustment Carryover.

1. The current and prior plan year data in Sections A and B. (See above.)
2. The prior period pension costs allowed by the FI/MAC for wage index reporting.
3. All contributions for the current and prior periods in the Contribution tab. (See below.)

Line 15 – Line 15 shall be left blank for the current plan year. If the hospital has elected to reconcile prior pension costs with contributions over the last several years, the hospital shall enter the prior pension costs included in cost reports on line 15. If historical information is not available, this line should be left blank (do not enter “0”).

Line 16 – If the hospital does not elect a historical reconciliation, the hospital may enter the accumulated value of the prepayment credits (PRM-I § 2142.6 (C)) from the prior period. The hospital must submit supporting documentation verifying the Prepayment Credit from the prior year. NOTE: If the hospital opted to use a historical reconciliation then this line shall remain blank.

Line 17 – If the hospital does not elect a historical reconciliation, the hospital can request that the FI/MAC input the Cost Adjustment Carryover Credit or Charge amount on line 17. However, the hospital must submit supporting documentation verifying the Cost Adjustment Carryover entered on line 17. NOTE: If the hospital opted to use a historical reconciliation then this line shall remain blank (do not enter “0”).

Contribution Tab

Section 2142.6 (A) of the PRM limits the reportable pension cost to the amount funded within one year following the reporting period². To reconcile the allowable cost amount with the actual funded amount, hospitals must input their plan contributions. The allocation of contributions to a particular plan year must be consistent with the basis used for the actuarial valuation or Schedule B/Schedule SB used to support the data reported in Section A.

If the contribution data is not supported by Schedule B or Schedule SB, the hospital must provide source documentation (such as cancelled checks or trust account statements) to the FIs/MACs.

² Funding may be accomplished later than 1-year but within 3-years following the end of the period in limited circumstances – See PRM-1 § 2142.6 (A).

For hospitals that inputted historical data in section A, B and C of the Input tab, in order to determine the Prepayment Credit and Cost Adjustment Carryover amounts, hospitals must fill in all contribution data attributable to the current and prior periods.

Pension Cost Calculation Tab

This tab uses data entered by the user on the Input and Contribution Tabs to determine the allowable pension amount. All other cells are protected and no data shall be entered by the user in this tab. Hospitals may follow the formulas throughout this tab to learn how the allowable pension amount is determined. Line 53 of this tab is the final allowable pension amount, determined in accordance with Section 2142 of the PRM-I.