



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

JAN 25 2012

Administrator  
Washington, DC 20201

TO: The Secretary  
THRU: DS \_\_\_\_\_  
COS \_\_\_\_\_  
ES \_\_\_\_\_  
FROM: *Marilyn Tavenner*  
Marilyn Tavenner  
Acting Administrator

SUBJECT: Report to Congress: Plan to Reform the Medicare Wage Index  
Settings —ACTION

**BACKGROUND**

Section 3137(b) of the Patient Protection and Affordable Care Act requires the Secretary of Health and Human Services to submit to Congress a report that includes a plan to comprehensively reform the Medicare wage index applied under section 1886(d) of the Social Security Act, the Medicare hospital inpatient prospective payment system. In developing the plan, the Secretary was instructed to take into consideration the goals for reforming the wage index that were set forth by MedPAC in its June 2007 report entitled, "Report to Congress: Promoting Greater Efficiency in Medicare."

**HIGHLIGHTS**

This report describes the current Medicare wage index methodology, including a history of reform efforts and a description of multiple current exceptions and adjustments. The report further discusses the proposed Commuting-Base Wage Index (CBWI) system, including a brief description of potential issues with implementation, including comments from the statutorily-required consultation with relevant affected parties. The report concludes by offering the following findings as to whether CBWI is a suitable replacement for the current wage index methodology:

1. The CBWI, by focusing on hospital employee commuting patterns that better define labor markets, would eliminate large differences, or "cliffs," between wage index values for nearby hospitals in adjacent MSAs, and would minimize potential market distortions resulting from hospitals altering employment behavior in response to the new system.
2. If CBWI is adopted to calculate the wage index, a data reporting system for collecting commuting data would have to be established.
3. As current statutory provisions governing the Medicare wage index and exceptions to that wage index were designed for the current MSA-based wage index system, their applicability would need to be reviewed were CBWI to be adopted.



THE SECRETARY OF HEALTH AND HUMAN SERVICES  
WASHINGTON, D.C. 20201

April 11, 2012

The Honorable John A. Boehner  
Speaker of the House of Representatives  
Washington, DC 20515

Dear Mr. Speaker:

Please find enclosed the "Report to Congress: Plan to Reform the Medicare Wage Index," which describes the current Medicare wage index system and presents an alternative methodology developed by the Centers for Medicare & Medicaid Services. The Affordable Care Act requires the Secretary of Health and Human Services to submit to Congress a plan that comprehensively reforms the wage index applied to the Medicare hospital inpatient prospective payment system. In developing this plan, the Secretary was directed to consider the goals for reforming the wage index that were set forth by the Medicare Payment Advisory Commission's June 2007 report entitled, "Report to Congress: Promoting Greater Efficiency in Medicare."

As stated in the enclosed report, the Commuting Based Wage Index (CBWI) addresses the goals of broad-based Medicare wage index reform. The CBWI is based upon actual employment patterns of hospitals and would reduce large wage index differences between nearby hospitals and more accurately reflect the true labor market forces of individual hospitals.

I am also sending a copy of this report to the President of the Senate.

Sincerely,

A handwritten signature in black ink, reading "Kathleen Sebelius", is written over a printed name.

Kathleen Sebelius

Enclosure



THE SECRETARY OF HEALTH AND HUMAN SERVICES  
WASHINGTON, D.C. 20201

April 11, 2012

The Honorable Joseph R. Biden, Jr.  
President of the Senate  
Washington, DC 20510

Dear Mr. President:

Please find enclosed the "Report to Congress: Plan to Reform the Medicare Wage Index," which describes the current Medicare wage index system and presents an alternative methodology developed by the Centers for Medicare & Medicaid Services. The Affordable Care Act requires the Secretary of Health and Human Services to submit to Congress a plan that comprehensively reforms the wage index applied to the Medicare hospital inpatient prospective payment system. In developing this plan, the Secretary was directed to consider the goals for reforming the wage index that were set forth by the Medicare Payment Advisory Commission's June 2007 report entitled, "Report to Congress: Promoting Greater Efficiency in Medicare."

As stated in the enclosed report, the Commuting Based Wage Index (CBWI) addresses the goals of broad-based Medicare wage index reform. The CBWI is based upon actual employment patterns of hospitals and would reduce large wage index differences between nearby hospitals and more accurately reflect the true labor market forces of individual hospitals.

I am also sending a copy of this report to the Speaker of the House of Representatives.

Sincerely,

A handwritten signature in black ink, reading "Kathleen Sebelius", is positioned above the printed name. The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Kathleen Sebelius

Enclosure