

Report on Medicare Compliance Volume 28, Number 16. April 29, 2019 In IPPS Proposed Rule, CMS Cracks Down on Rural Reclassifications

By Nina Youngstrom

Concerned that some hospitals may play games with the wage index in a way that widens the payment disparity between urban and rural hospitals, CMS is cracking down on rural reclassifications, according to the proposed 2020 inpatient prospective payment system regulation, which was announced April 23.

“It appears that hospitals in a limited number of states have used urban to rural hospital reclassifications to inappropriately influence the rural floor wage index value,” CMS said. “To address this, CMS proposes removing urban to rural hospital reclassifications from the calculation of the rural floor wage index value beginning in FY 2020.”

The wage index is a measure of the geographically adjusted labor costs. It’s based on wage data reported by hospitals to CMS, which uses the wage index to adjust DRGs and other Medicare prospective payments because paying people is the lion’s share of most hospital budgets. The wage index is calculated for every state or core-based statistical area (CBSA), so all hospitals in a state or CBSA have their DRGs adjusted by the same wage index. Under federal law, the wage index for urban hospitals can’t be lower than the wage index for rural hospitals in the same state, which is called the rural floor.

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