

TENNESSEE HOSPITAL ASSOCIATION ISSUE BRIEF

Area Wage Index

Key Points:

- Tennessee hospitals are unfairly disadvantaged by a flawed area wage index (AWI) formula used in determining Medicare reimbursement.
- **Support** the *Save Rural Hospitals Act* (S.803) to implement a permanent fix to the AWI problem.
- **Urge** CMS to continue their Low Wage adjustment policy to account for the pandemic's impact on the workforce/industry and to provide ongoing temporary relief to hospitals.
- Tennessee hospitals will **lose more than \$37 million** in FY 2024 if the policy expires.

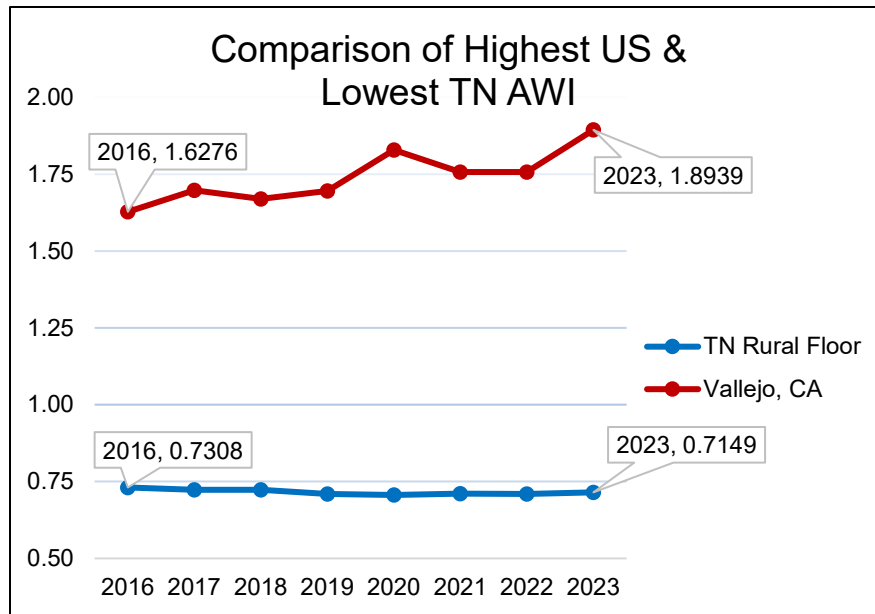
Background

The Medicare Hospital Area Wage Index (AWI) is used to adjust payment rates for differences in wages across geographic areas. However, the formula is flawed and has strained Tennessee hospitals for decades. The flawed formula rewards states with high costs and results in disproportionately low Medicare payments for hospitals in rural and low wage areas, such as Tennessee.

CMS has acknowledged that the current wage index system, which is applied in a budget neutral manner, perpetuates and exacerbates the disparities between high and low wage index hospitals. High wage states increase their wages, receive an increase from CMS, and pull funding from low wage states. Meanwhile, declining Medicare payments in low wage states mean hospitals have less money to pay employees, resulting in lower wages, which decreases the Medicare AWI adjustment and lowers future payments to hospitals even further.



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Enact a Permanent Legislative Fix

THA is grateful for the robust support from our delegation on the *Save Rural Hospitals Act* (S.803). The bill has been reintroduced by Senator Blackburn in the Senate and will soon be reintroduced in the House. We ask for your continued support this Congress so we can build on the momentum and successfully pass this important legislation. The legislation would establish a permanent wage index floor of 0.85, which would benefit the majority of Tennessee hospitals. Currently 73 percent of Tennessee hospitals are below the floor the *Save Rural Hospitals Act* would establish. The *Save Rural Hospitals Act* will provide a necessary backstop to the eroding wage index Tennessee receives and secure protection for stable reimbursement.

Continuation of Critical Regulatory Relief

THA is also grateful for the strong engagement and support from our delegation, signing onto letters over the last two years urging CMS to extend the 2019 low wage index hospital policy that has helped to mitigate the AWI disparity felt by Tennessee hospitals. In 2019, CMS established a four-year lower-quartile adjustment where hospitals in the lowest reimbursement areas (the bottom 25%) saw their reimbursement rate increase, which is set to expire this year.



The low wage index hospital policy has protected Tennessee hospitals from the continued unfair erosion in Medicare payments and has been a critical lifeline for Tennessee hospitals, providing more than \$100 million in reimbursement relief between FY 2020 and 2022.

THA is pleased CMS indicated in their IPPS proposed rule this month that they intend to continue the low wage index hospital policy through FY2024. COVID-19 further skewed the labor market and other factors incorporated in the flawed AWI. Extending the policy several years will ensure CMS and impacted hospitals have the ability to understand the policy's true impact as well their investments into wages in a normal environment.

Hospitals across Tennessee are incredibly grateful for our delegation's leadership and support on both a permanent legislative fix as well as the continuation of critical regulatory relief.