

## **FY 2009 INPATIENT PROSPECTIVE PAYMENT SYSTEM PROPOSED RULE** **Rural and Imputed Floor Within-State Budget Neutrality Adjustment**

On April 11, 2008, the Centers for Medicare & Medicaid Services (CMS) issued a proposed rule to apply the rural and imputed floor budget neutrality adjustments to the wage index within each State beginning in FY 2009. Since the rural and imputed floors are calculated at the State level, we believe it would be sound policy to make the budget neutrality adjustment specific to the State, redistributing payments among all hospitals within the State, rather than adjusting payments to hospitals in other states.

### ***Background***

Section 4410 of the Balanced Budget Act of 1997 (BBA) established the rural floor by requiring that the wage index for a hospital in an urban area of a State cannot be less than the area wage index determined for that State's rural area. The BBA also stated that the budget neutrality requirement for the rural floor would be achieved by adjusting the wage index of all hospitals not receiving the floor. In order to compensate for the increased wage indices of urban hospitals receiving the rural floor, CMS applied a nationwide budget neutrality adjustment to account for the additional payment to these hospitals.

Beginning in FY 2006, we temporarily adopted an "imputed" floor measure by establishing a wage index floor for those states that did not have rural hospitals. We have proposed to extend this policy through FY 2011. The imputed floor was also funded through a nationwide budget neutrality adjustment.

### ***Impact of National Budget Neutrality***

In FY 2009 proposed wage index, 266 hospitals in 27 States benefit from the rural floor. An additional 26 hospitals in New Jersey receive the imputed floor. We compared each state's percentage of payments received from the rural and imputed floor provisions to the percentage each state paid to fund the rural and imputed floor payments. As a result of this analysis, we found that the rural and imputed floor is creating a benefit for a minority of States that is funded by a majority of States, including States that are overwhelmingly rural in character. We are also concerned with the possibility that a state's rural wage index could be artificially inflated by certain high wage rural hospitals converting to IPPS status for the sole purpose of creating a higher rural floor.

### ***Proposed Within-State Budget Neutrality***

For these reasons, we are proposing to apply a statewide (rather than a nationwide) rural floor budget neutrality adjustment to the wage index beginning in FY 2009. This means that states with no hospitals receiving a rural floor wage index would no longer have a negative budget neutrality adjustment applied to their wage indices. Conversely, hospitals within each state with hospitals receiving a rural floor would fund the higher payments for those hospitals.

The budget neutrality adjustment for the imputed floor would also be addressed. Similar to the rural floor, the effect of the imputed floor measure is also state-specific. Therefore, we believe that the budget neutrality adjustments for the imputed floor and the

rural floor should be applied in the same manner. Therefore, beginning with FY 2009, we are also proposing to apply the imputed floor budget neutrality adjustment to the wage index at the state level.

***Impacts of Within-State Budget Neutrality***

Based on our impact analysis of these proposals for FY 2009, of the 49 States (Maryland is excluded because it is under a State waiver), the District of Columbia, and Puerto Rico, 39 would either see no change or an increase in total Medicare payments as a result of applying a budget neutrality adjustment to the wage index for the rural and imputed floors at the State rather than the national level.

**Estimated FY 2009 IPPS Impacts of the Current National and the Proposed Within-State Rural and Imputed Floor Budget Neutrality Policies**

<b>State</b>	<b>Application of National Rural Floor and Imputed Floor Budget Neutrality</b>	<b>Change in Payment from National Budget Neutrality to Proposed Within-State Budget Neutrality</b>
Alabama	-0.1	0.3
Alaska	0.0	-0.2
Arizona	-0.2	0.3
Arkansas	-0.1	0.3
California	0.7	-0.8
Colorado	0.0	-0.1
Connecticut	2.1	-2.2
Delaware	-0.2	0.3
Washington, D.C.	-0.2	0.3
Florida	0.0	0.0
Georgia	-0.1	0.3
Hawaii	-0.1	0.3
Idaho	-0.1	0.3
Illinois	-0.2	0.1
Indiana	-0.1	0.0
Iowa	0.1	-0.1
Kansas	-0.1	0.3
Kentucky	-0.1	0.3
Louisiana	-0.1	0.0
Maine	-0.1	0.3
Massachusetts	-0.2	0.3
Michigan	-0.2	0.3
Minnesota	-0.2	0.3
Mississippi	-0.1	0.3
Missouri	-0.1	0.0
Montana	-0.1	0.2
Nebraska	-0.1	0.3
Nevada	-0.2	0.3
New Hampshire	1.1	-1.2
New Jersey	0.7	-0.8
New Mexico	-0.1	0.0
New York	-0.2	0.3
North Carolina	-0.1	0.1
North Dakota	0.1	-0.1
Ohio	-0.1	0.1
Oklahoma	-0.1	0.1
Oregon	-0.1	0.0
Pennsylvania	-0.1	0.1
Rhode Island	-0.2	0.3
South Carolina	-0.1	0.0
South Dakota	-0.1	0.3
Tennessee	0.0	0.0

Texas	-0.1	0.1
Utah	-0.1	0.3
Vermont	3.5	-3.4
Virginia	-0.1	0.0
Washington	-0.1	-0.1
West Virginia	0.0	-0.1
Wisconsin	-0.1	-0.1
Wyoming	0.0	0.1

## Estimated Impacts of Using National Budget Neutrality for the Rural and Imputed Floor

