

November 23, 2011

CURRENT «POSITION» or
«TITLE» «FIRST» «LAST» «POSITION»
«DOING_BUSINESS_AS_NAME»
«ADDRESS1»
«ADDRESS2»
«CITY» «STATE» «ZIP1» «ZIP2»

Provider No. «Prov_No»
FYE: «Fiscal_Year_End»

Subject: Federal Fiscal Year (FY) 2013 Wage Index Pension Cost Guidelines

Dear «Title» «Last»:

Section 2142 of the Medicare Provider Reimbursement Manual (PRM), Part I defines the allowable pension cost for Medicare cost reporting purposes. Under the Pension Protection Act (PPA) of 2006 amendments to ERISA, there is no longer a standard actuarial cost basis used by all types of plans. Therefore, in the FY 2012 Inpatient Prospective Payment System (IPPS) final rule (76 FR 51586) we revised our policy for defined benefit pension plan cost so that it no longer relies on actuarial computations to determine the maximum annual cost limitation for Medicare. Instead, the new policy maintains the requirement that pension costs must be funded to be reportable for the Medicare wage index and requires all hospitals to report the actual pension contributions funded during the reporting period. Under this cash basis approach, we adopted two separate methodologies for measuring pension costs for Medicare cost-finding purposes and for wage index purposes to address the different goals of determining a hospital's payments and developing average hourly wage data for establishing a measure of relative differences in area wage levels. These two distinct policies require separate updates to the instructions in section 2142 of the PRM-I for Medicare cost-finding purposes and in section 3605.2 of PRM-II of Form CMS-2552-96 (and section 4005.2 of Form CMS-2552-10) for wage index purposes.

Beginning with FY 2013, the wage index shall include pension cost equal to a hospital's average actual cash contributions deposited to its defined benefit pension plan over a 36 month period. The 36 month average is intended to reduce the volatility that often occurs due to timing of contributions. Attached are detailed instructions (Attachment A, a supplement to the pension policy discussion in the preamble of the FY 2012 IPPS final rule) to assist hospitals and Medicare contractors in determining the allowable defined benefit pension cost for the FY 2013 wage index, which will be computed using wage data from cost reporting periods beginning during FY 2009 (that is, cost reporting periods beginning on or after October 1, 2008 and before October 1, 2009). In addition, we have posted a spreadsheet on our website, at <https://www.cms.gov/AcuteInpatientPPS/WIFN/list.asp#TopOfPage>, that provides step-by-step guidance for developing a hospital's pension cost for the FY 2013 wage index, including a tab providing steps for determining, if applicable, a hospital's annual prefunding installment (sort the *Wage Index Files* tab by fiscal year and select *FY 2013 Wage Index Home Page*—the spreadsheet is under the file name *FY 2013 Pension Cost Spreadsheet*). Hospitals are strongly encouraged to use the spreadsheet, although it is not a formal, mandatory CMS form for FY 2013, as it will facilitate the development of a hospital's pension cost for the wage index.

The deadline for a hospital to submit to its FI/MAC any revisions to its pension cost for the FY 2013 wage index, and revised Worksheet S-3 wage data reflecting its revised pension cost, is **December 5, 2011** (consistent with the wage index data revision schedule specified in the attached FY 2013 Wage Index Development Timetable).

If you have any questions regarding this letter, please contact me toll-free at (866)734-9444, extension «FIELD1».

Sincerely,

«FIELD2»

Supervisor Cost Report Audit
Medicare Audit and Reimbursement
Wisconsin Physicians Service

Attachments:

- Pension Cost Instructions for the FY 2013 Wage Index
- FY 2013 Wage Index Development Timetable