



## **Medicare Hospital Wage Index AHW Criteria Analysis for FFY 2026 Reclassification Applications**

-Version 1-

### Analysis Description

This analysis is intended to allow hospitals to test their potential ability to obtain a federal fiscal year (FFY) 2026 Medicare hospital wage index reclassification.

**Applications for FFY 2026 hospital wage index reclassifications are due to the Medicare Geographic Classification Review Board (MGCRB) by September 3, 2024.** Applications not received by the MGCRB by this deadline will not be considered.

Applications, instructions, and other information regarding hospital wage index reclassifications are available on the Centers for Medicare and Medicaid Services (CMS) website at: <https://www.cms.gov/medicare/regulations-guidance/geographic-classification-review-board>. This analysis uses 3-year average hourly wage (AHW) data provided by CMS to perform the AHW threshold tests required for a hospital to achieve a wage index reclassification.

An individual hospital may reclassify from a rural area to an urban area, from a rural area to another rural area, or from an urban area to another urban area. Hospitals that acquired rural status through a process other than the MGCRB may subsequently also apply for a reclassification under the MGCRB, using distance and average hourly wage criteria designated for rural hospitals.

This analysis shows the hospital's 3-year AHW and the 3-year AHW for its permanent wage area (with and without inclusion of the hospital's own data). These data are used as the basis for determining individual hospital eligibility for reclassification. The analysis then allows the hospital to select multiple core-based statistical areas (CBSAs), using the Desired CBSA Selection control, to test whether the hospital is eligible for reclassification to those areas. Reclassification eligibility is based solely on the wage criteria test set in regulation for FFY 2026.

**To be eligible for reclassification, a hospital must meet both wage and proximity criteria, described below.**

## **Hospital Report**

The wage criteria to achieve a wage index reclassification require the hospital to first pass a Geographic CBSA Test. If the hospital meets this first criterion, it must then also pass the Desired CBSA Test.

The first table of this analysis shows the hospital's permanent geographic wage area (permanent CBSA) and, if applicable, the hospital's FFY 2026 MGCRB reclassified CBSA. The Geographic CBSA Test is also analyzed in this table. To meet this criterion, the hospital's 3-year AHW must be at least 106% (for hospitals located in rural areas) or at least 108% (for hospitals located in urban areas) of the 3-year AHW for all other hospitals in the permanent wage area, excluding the hospital's own data. If the hospital either passes the first test or is exempt, the last column of the table will be highlighted green.

If a hospital meets the first criterion, it must pass the Desired CBSA test, which is analyzed in the second table. To meet this criterion, the hospital's 3-year AHW must be at least 82% (for hospitals located in rural areas and rural referral centers (RRCs)) or at least 84% (for hospitals located in urban areas) or 85% for a group of hospitals (group reclassification tests are not shown in this analysis) of the 3-year AHW for the CBSA into which the hospital seeks to reclassify.

This section of the report allows a hospital to choose multiple CBSAs from the control on the left. If a hospital meets the second criterion, the second to last column of the report will be highlighted in green. If the hospital would benefit from a reclassification to the CBSA, the last column of the report will also be highlighted in green. The Desired CBSA table is ordered by CBSAs in which the hospital meets the Desired CBSA test requirements and then from largest to smallest CBSA 3-year AHW. **This application shows desired CBSAs in which the hospital is estimated to meet distance requirements; however, this list contain CBSAs that are outside of the distance requirements. It is left to the individual hospitals to determine whether these criteria are met.**

Under CMS proximity requirements, urban providers must be no more than 15 miles from the requested CBSA, and rural providers must be no more than 35 miles from the requested CBSA. RRCs and sole-community hospitals (SCHs) do not need to demonstrate a close proximity and may instead request redesignation to the closest area.

Straight-line distances were calculated from each hospital to census tracts (small statistical subdivisions of counties) within CBSAs. A 50% margin of error was used when determining if the distance criteria was met. In this analysis, a cutoff of 150 miles to the nearest CBSA is used for RRCs and SCHs to determine if distance criteria are met. A few hospitals were not evaluated on distance criteria because the hospital address was not available and therefore see all CBSAs nationwide in their list.

A hospital must obtain proof of meeting the distance requirement for CMS using a nationally recognized electronic mapping service. This analysis does not take into account the Employee Commuting Pattern proximity test.

## **Data Source**

CMS provides a file for FFY 2026 wage index reclassification applications, which contains each hospital's wages and hours used in the development of the wage index for FFYs 2023, 2024, and 2025. This file is available on the CMS website at <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Wage-Index-Files-Items/Three-Year-MGCRB-Reclassification-Data>.

Coordinates for census tracts were obtained from the US Census Bureau 2020 Gazetteer files found at: <https://www.census.gov/geographies/reference-files/time-series/geo/gazetteer-files.html>. Hospital coordinates were obtained using the Google Maps Geocode API and the hospital address provided in Healthcare Cost Report Information System or Care Compare.

Other factors taken into consideration by the MGCRB for wage index reclassifications may include special exceptions and exemptions to potential wage index reclassifications, including alternative criteria for special rural status and group reclassifications.

### **Eligibility Notes**

- *As described in the Modification of Limitations on Redesignation by the MGCRB, beginning with FFY 2023 reclassifications CMS amended regulations to allow urban hospitals that have been granted redesignation as rural under §412.103 to reclassify through the MGCRB using the rural reclassified area as their geographic area in which the hospital is located, rather than their home urban geographic area. Hospitals that reclassified as rural under §412.103 and are not former RRCs will have the option to view scenarios for both their home CBSA and their rural CBSA in this analysis.*
- *Hospitals that are now or have ever been designated as RRCs and hospitals that are the sole hospital in a CBSA are exempt from the geographic CBSA criterion. Hospitals that pay at least 40 percent of the adjusted uninflated wages in its CBSA are also exempt from this criterion. This report indicates these exemptions and accounts for any RRC changes since FFY 2010.*
- *This analysis takes into consideration the adopted CBSA delineation changes by CMS from OMB Bulletin No. 23-01.*

# Data Dictionary

$$\text{Hospital Three Year Total Wages} = \text{Wages}_{\text{Year 1}} + \text{Wages}_{\text{Year 2}} + \text{Wages}_{\text{Year 3}}$$

$$\text{Hospital Three Year Total Hours} = \text{Hours}_{\text{Year 1}} + \text{Hours}_{\text{Year 2}} + \text{Hours}_{\text{Year 3}}$$

$$\text{Hospital Three Year Average Hourly Wage (AHW)} = \frac{\text{Hospital Three Year Total Wages}}{\text{Hospital Three Year Total Hours}}$$

$$\text{CBSA Three Year Total Wages} = \text{Sum}(\text{Wages}_{\text{Year 1}}) + \text{Sum}(\text{Wages}_{\text{Year 2}}) + \text{Sum}(\text{Wages}_{\text{Year 3}})$$

$$\text{CBSA Three Year Total Hours} = \text{Sum}(\text{Hours}_{\text{Year 1}}) + \text{Sum}(\text{Hours}_{\text{Year 2}}) + \text{Sum}(\text{Hours}_{\text{Year 3}})$$

$$\text{CBSA 3 Year AHW} = \frac{\text{CBSA Three Year Total Wages}}{\text{CBSA Three Year Total Hours}}$$

$$\text{CBSA Three Year AHW, Excluding Hospital} = \frac{\text{CBSA Three Year Total Wages} - \text{Hospital Three Year Total Wages}}{\text{CBSA Three Year Total Hours} - \text{Hospital Three Year Total Hours}}$$

$$\text{Hospital Three Year AHW as Percentage of CBSA AHW, Excluding Hospital} = \frac{\text{Hospital Three Year AHW}}{\text{CBSA Three Year AHW, Excluding Hospital}}$$

$$\text{Hospital Three Year AHW as Percentage of Desired CBSA AHW} = \frac{\text{Hospital Three Year AHW}}{\text{Desired CBSA Three Year AHW}}$$

$$\text{Hospital Percentage of Wages in CBSA (for 40\% exemption)} = \frac{\text{Hospital Three Year Total Wages}}{\text{CBSA 3 Year Total Wages}}$$

If Desired CBSA AHW > Permanent CBSA AHW, the hospital benefits from the reclassification

$$\text{Straight Line Distance} = \sqrt{(69.1 * (\text{Lat}_{\text{Hosp}} - \text{Lat}_{\text{Census Tract}}))^2 + (53 * (\text{Long}_{\text{Hosp}} - \text{Long}_{\text{Census Tract}}))^2}$$