

# Supporting Statement For Paperwork Reduction Act Submissions

## Specific Instructions

### **A. Background**

The Office of the Actuary (OACT) in the Centers for Medicare and Medicaid Services (CMS) seeks to conduct a one-time, seven question survey of hospitals, skilled nursing facilities (SNF), and stand-alone kidney dialysis centers (or end-stage renal disease centers (ESRD)) regarding their purchases of professional contract labor (such as, accounting and auditing services, engineering services, legal services, and management consulting services).

CMS's payment updates to its perspective payment system (PPS) providers, including hospitals and SNFs, are based on price changes associated with the various inputs required to provide care. A significant proportion of these input costs is known as the labor-related share (LRS). The cost categories that are included in the LRS are those that are related to, influenced by, or vary with the local labor markets and typically include wages and salaries, fringe benefits, etc.

Also included in the LRS are contract labor costs for professional services such as accounting and auditing services, engineering services, legal services, and management consulting services. In the absence of empirical data, CMS presently assumes that 100 percent of these costs are related to, influenced by, or vary with the local labor markets and are thus, included in the LRS.

#### Why is the inclusion of these costs in the LRS important?

The LRS plays a critical role in the distribution of Medicare PPS payments as it represents the share of the payment that is subject to the area wage index adjustment. The area wage index is used to adjust the prospectively-set payment rates for regional variation in labor-related costs. In its simplest form, providers in areas with an area wage index above average (or above 1.0) receive a relatively higher payment while those with below average indexes (or under 1.0) receive a relatively lower one. Although this adjustment is budget neutral, having data-driven evidence regarding the proportion of contract labor costs that are purchased locally (versus nationally) will allow CMS to more appropriately and accurately categorize professional contract labor costs and thus more appropriately and accurately pay its many providers of hospital and skilled nursing care.

### **B. Justification**

#### 1. Need and Legal Basis

Need:

CMS needs the information that will be collected in this survey to more accurately determine

the shares of contract labor costs that are related to, influenced by, or vary with the local labor market and the share which represents purchases from contractors who are based nationally. Collection of this information via surveys of the hospital, SNF, and ESRD industries will enhance CMS's precision in making fair, equitable, and efficient payments to its PPS providers.

Legal Basis:

Specific to the Inpatient Hospital market basket, Section 404 of the Medicare Prescription Drug and Modernization Act of 2003 (MMA) requires the Secretary of Health and Human Services, and by extension CMS, to: "...establish a frequency for revising such [market basket] weights *including the labor share*, in such market basket to reflect the most current data available more frequently than every five years."

The current market basket was rebased and revised in 2005 and went into effect in FY 2006. The next rebasing and revision, by law, must occur by 2009 and will go into effect in FY 2010. As the law specifically calls attention to the labor-related share, CMS requires this data to more accurately determine the appropriate proportion of contract labor costs that should be included in the LRS. This will enhance CMS's ability to more accurately adjust payments for geographic variation.

2. Information Users

The results of this survey will be used by CMS in its work to improve the accuracy of Medicare reimbursements to hospitals, SNFs, and, possibly, ESRDs.

3. Use of Information Technology

The contractor will post all of the survey questions on a website, with respondents providing all of their answers electronically. These responses will be automatically gathered in a database. This database will be available to CMS on a continuous basis.

4. Duplication of Efforts

This collection does not contain duplication of similar information.

5. Small Businesses

This collection does not impose a significant impact on small businesses and other entities.

6. Less Frequent Collection

If this survey is not undertaken, CMS is more vulnerable to lawsuits by organizations which may contest CMS' decision to include all professional service contract labor costs in the labor-related share.

7. Special Circumstances

No special circumstances.

8. Federal Register/Outside Consultation

The emergency Federal Register notice for this collection published on December 14, 2007. However, it must be noted that CMS published both 60-day and 30-day Federal Register notices for this information collection prior to withdrawing it from OMB review in January 2007. We did not receive any public comments during either comment period.

The contractor will pretest the survey instrument to garner feedback regarding the clarity of the survey questions and potential difficulties of submitting electronic survey responses. The contractor will consult with pretest respondents to improve the instrument.

9. Payments/Gifts to Respondents

There are no payments/gifts to respondents associated with this information collection request.

10. Confidentiality

CMS will adhere to all statutes, regulations, and agency policies.

11. Sensitive Questions

This information collection request does not contain any questions of a sensitive nature.

12. Burden Estimates (Hours & Wages)

Estimated Number of Respondents/Plans = 4000

Frequency of Response: Once

**Estimated Per Respondent Burden:**

Hour Burden per Respondent = 1 hour

Annualized Hourly Burden per Respondent = 1 hour

Total Annual Responses = 1

**Estimated Burden Across All Respondents:**

Hour Burden = (1 hour/respondent/year) \* (4000 respondents) = 4000 hours

**Costs to Respondents:**

There are no significant costs to the respondents.

13. Capital Costs

There are no capital costs associated with this collection.

14. Cost to Federal Government

There are no costs to the Federal Government associated with this collection.

15. Changes to Burden

This is a new data collection.

16. Publication/Tabulation Dates

Collection of these data will occur between approximately December 2007 and June 2008.

The survey results will be tabulated between approximately July 2008 and September 2008.

17. Expiration Date

CMS does not object to the displaying of the expiration date.

18. Certification Statement

There are no exceptions.