NOTE: Workers who are contracted solely for the purpose of providing services on-call can only be included on Worksheet S-3 when they actually work the on-call schedule; that is, they are actually delivering patient care at the hospital, or are at the hospital so as to be available to deliver patient care. If either of these latter two scenarios occur, then both the wages and associated hours actually worked must be included in the appropriate contract labor line on Worksheet S-3. Do not include wages or hours associated with Part B services.

Column 6--Enter on all lines (except lines 17 through 25) the average hourly wage resulting from dividing column 4 by column 5.

4005.3 Part III - Hospital Wage Index Summary.--This worksheet provides for the calculation of a hospital's average hourly wage (without overhead allocation, occupational mix adjustment, and inflation adjustment) as well as analysis of the wage data.

Columns 1 through 6--Follow the same instructions discussed in Part II, except for column 6, line 5.

Line 1--From Part II, enter the result of line 1 minus the sum of lines 2, 3, 4.01, 5, 6, 7, 7.01, and 8. Add to this amount lines: 28, 33, and 35.

Line 2--From Part II, enter the sum of lines 9 and 10.

Line 3--Enter the result of line 1 minus line 2.

Line 4--From Part II, enter the sum of lines 11, 12, 13, 14, 14.01, 14.02, and 15. (Line 16 is omitted from Part III, line 4, because physicians' teaching services are excluded from the wage index.)

Line 5--For cost reporting periods beginning prior to October 1, 2015, from Part II, enter the sum of lines 17, 18, 22, 25.50, 25.51, and 25.52. Enter on this line in column 6 the wage-related cost percentage computed by dividing Part III, column 4, line 5, by Part III, column 4, line 3. Round the result to two decimal places.

For cost reporting periods beginning on or after October 1, 2015, from Part II, enter the sum of lines 17, 22, 25.50, 25.51, and 25.52. Enter on this line in column 6 the wage-related cost percentage computed by dividing Part III, column 4, line 5, by Part III, column 4, line 3. Round the result to two decimal places.

Line 6--Enter the sum of lines 3 through 5.

Line 7--Enter from Part II above, the sum of lines 26 through 43. If the hospital's ratio for excluded area salaries to net salaries is greater than 5 percent, the hospital must complete all columns for this line. (See instructions in Part II, lines 26 through 43 for calculating the percentage.)

4005.4 Part IV - Wage Related Costs.--The hospital must provide the contractor with a complete list of all core wage related costs included in Part II (§4005.2), lines 17 and 19 through 25. This worksheet provides for the identification of such costs.

For lines 1 through 23, for wage related costs not covered by Medicare reasonable cost principles (excluding the reporting of certain defined benefit pension costs; see instructions below), a hospital shall use GAAP in reporting wage related costs. In addition, some costs such as payroll taxes, which are reported as a wage related cost(s) on Worksheet S-3, Part IV, are not considered fringe benefits for Medicare cost finding.

See instructions for line 25 on including "other" wage related costs in the wage index that are not a core wage related cost reported on lines 1 through 23.

Enter on each line as applicable the corresponding amount from your accounting books and/or records.

Line 3--Report pension cost for defined benefit pension plans that do not meet the applicable requirements for a qualified pension plan under section 401(a) of the Internal Revenue Code.

The policy adopted in the FFY 2012 IPPS final rule (CMS-1518-F; 76 FR 51586-51590, August 18, 2011) does not change the reporting basis for these costs.

NOTE: These plans generally are not funded by a funding vehicle that is for exclusive benefit of employees or their beneficiaries and do not qualify for special tax benefits, such as tax deferral of employer contributions. For such unfunded defined benefit plans, the costs of these plans are reported on a cash basis which recognizes benefit payments made during the current period. Typically, these plans supplement the basic qualified defined benefit plan or provide benefits to a select class of employees, such as executives.

Line 4--Commencing with cost reporting periods used for the FFY 2013 wage index, report pension cost for defined benefit pension plans which meet the applicable requirements for a qualified pension plan under §401(a) of the Internal Revenue Code for the wage index. The allowable pension costs to be reported for these defined benefit pension plans shall be determined in accordance with the policy adopted in the FY 2012 IPPS final rule (CMS-1518-F; 76 FR 51586-51590, August 18, 2011), modified in the FY 2016 IPPS final rule (CMS-1632-F; 80 FR 49505-49508, August 17, 2015) and as discussed below. Enter the pension costs from your records or from the Wage Index Pension Cost Schedule available for download from the CMS website at www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Wage-Index-Files.html. (See CMS Pub. 15-1, chapter 21, §2142.)

Policy

Defined Benefit Pension Plan: A defined benefit pension plan is a type of deferred compensation plan, which is established and maintained by the employer primarily to provide systematically for the payment of definitely determinable benefits to its employees usually over a period of years, or for life, after retirement. Pension plan benefits are generally measured by, and based on, such factors as age of employees, years of service, and compensation received by employees. This section applies only to defined benefit pension plans which meet the applicable requirements for a qualified pension plan under §401(a) of the Internal Revenue Code. A qualified pension plan is for the exclusive benefit of employees or their beneficiaries and qualifies for special tax benefits, such as tax deferral of employer contributions.

Pension Contributions: Pension costs for a defined benefit pension plan are allowable only to the extent that costs are actually incurred by the provider Such costs are found to have been incurred only if paid directly to participants or beneficiaries under the terms of the plan or paid to a pension fund which meets the applicable tax qualification requirements under §401(a) of the Internal Revenue Code. For purposes of the wage index, provider pension payments shall be measured on a cash-basis without regard to CMS Pub. 15-1, chapter 23, §2305. Payment must be made by check or other negotiable instrument, cash, or legal transfer of assets such as stocks, bonds, and real property. A contribution payment shall be deemed to occur on the date it is credited to the fund established for the pension plan, or for provider payments made directly to a plan participant or beneficiary, on the date the provider's account is debited. Contributions made under a pension plan that covers multiple providers or employers shall be allocated on a basis consistent with plan records. If the plan records do not show a separate accounting of the actuarially determined cost estimates, contribution deposits, and/or assets attributable to each participating provider or employer, the allocation basis must represent a reasonable approximation of the funding attributable to each employer.

Source of Documentation for Pension Contributions: Providers are required to obtain contribution data from the pension trustee, insurance carrier, Schedule B or SB of IRS Form 5500, and if applicable, from accounting records showing the allocation of total plan contributions to each participating provider. These records must be maintained as needed for subsequent periods.

Reasonable Compensation: In order for pension costs to be allowable, the benefits payable under the plan (attributable to employer contributions) together with all other compensation paid to the employee must be reasonable in amount.

Defined Benefit Pension Plan Costs for the Wage Index**:** The annual pension to be included in the wage index shall be the average annual employer contributions made by or on behalf of the provider (on a cash basis) to all defined benefit plans covered under this section during the averaging period. Contribution payments must satisfy the allowability requirements outlined above; see "Pension Contributions" and "Reasonable Compensation" above. A reversion of plan assets shall be treated as a negative contribution payment and a negative pension cost resulting from a reversion of plan assets shall offset a provider's other wage related costs.

In the FY 2016 IPPS final rule and effective with the FY 2017 wage index, the averaging period used to compute the average defined benefit pension cost for the wage index was modified. Prior to this modification, the averaging period was generally the 36 consecutive calendar month period centered on the midpoint of the cost reporting period used for the wage index (the cost reporting period used for the wage index shall hereafter be referred to as the wage index cost reporting period). Beginning with the FY 2017 wage index, generally, the averaging period is based on the base cost reporting period, plus the prior two cost reporting years (36 months).

A provider who adopts a new defined benefit pension plan and has no other defined benefit plan in existence during the averaging period may elect to exclude from the averaging period all cost reporting periods ending prior to the date the new plan was adopted. No defined benefit pension cost is reportable for a wage index cost reporting period that is excluded from the averaging period in accordance with this paragraph. An election to claim costs for a newly adopted plan based on an averaging period of less than 36 months must be applied on a consistent basis for all wage index cost reporting periods for which the 36-month averaging period contains the plan effective date.

If the wage index cost reporting period does not represent a 12-month period, the annual pension cost otherwise determined in accordance with this section shall be prorated to reflect the number of months in the wage index cost reporting period.

For the FY 2013 through FY 2022 wage index only, a provider may include a prefunding installment as a component of pension cost regardless of whether or not the plan(s) which gave rise to the prefunding balance are still in existence. The annual prefunding installment shall equal 1/10th of the prefunding balance. A prefunding installment that is not reflected in the pension cost for a wage index cost reporting period may not be reassigned and added to the pension cost reported for wage index purposes in any subsequent period. The prefunding balance equals the excess, if any, of (i) provider contributions made (on a cash-basis) to its defined benefit pension plans during the look-back period over (ii) the pension costs included in the wage-index for the same look-back period. A provider's share of the total contributions made under a pension plan that covers multiple providers or employers shall be determined on a basis consistent with the methodology used to determine the wage index pension costs for the cost reporting periods included in the prefunding balance. The look-back period shall consist of consecutive provider cost reporting periods commencing no earlier than October 1, 2002 and ending with the provider's cost reporting period immediately prior to the FY 2013 wage index cost reporting period. The look-back period may not include any cost reporting period for which the provider is unable to provide documentation of the contributions made or the pension costs included in the wage index;

all prior cost reporting periods must also be excluded in order to satisfy the requirement that the look-back period consist of consecutive cost reporting periods. A provider who establishes a prefunding balance must submit documentation to the Medicare contractor to support the calculation of the prefunding balance and annual prefunding installment. A prefunding worksheet with complete instructions is available for download from the CMS website at www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Wage-Index-Files.html.

Pension Plan with Multiple Entities**:** If a hospital participates in a pension plan or retirement system that also covers other entities, the hospital must report its respective 3-year average pension cost (or prefunding balance) reflecting only the hospital's allocated share of total plan contributions, and not including any share of pension costs of other entities. For each hospital, this is accomplished by first determining the hospital's allocated portion of pension contribution for each year of the 3-year average, and then computing the 3-year average for that hospital based only on that hospital's respective allocated pension contributions. This is consistent with the regulations at 42 CFR 413.24(a), which state, in pertinent part, that providers must provide adequate cost data based on their financial and statistical records. Therefore, a provider may not claim as an allowable cost the costs of services associated with another entity. It is not appropriate to compute the 3-year average (or prefunding balance) based on the total contributions made to the plan by all participating entities and then determine a hospital's allocated portion of the 3-year average cost (or prefunding balance) because there are instances in which the 3-year average could be skewed because a hospital may be including pension costs from another entity in its 3-year average. Specifically, if the allocated percentage of total plan contributions for one or more of the participating entities changes during the 3-year average, the average will be skewed. The allocated percentage to each entity can change due to mergers, changes in plan coverage, or other factors. We also note that the allocation of contributions between the various entities participating in a pension plan or pension system should agree with the methodology used for plan reporting purposes and/or financial statement purposes, and the methodology used should be applied consistently over time. Furthermore, if wage index reporting is required for two or more hospitals covered under the same pension plan or retirement system, those hospitals must ensure that the allocation of plan contributions for each reporting period is determined on a consistent basis to avoid duplicate reporting of costs.

Examples

Example 1 (prefunding balance and prefunding installment):

- Provider's FY 2017 wage index cost reporting period is 01/01/2013-12/31/2013. The look-back period ends with the cost reporting period immediately prior to the cost reporting period used for the FY 2013 wage index. Since the FY 2013 wage index was based on the providers 1/1/2009-12/31/2009 cost reporting period, the look-back period ends on 12/31/2008. Assuming the provider has always reported costs on a calendar year basis, the earliest possible cost reporting period in the look-back period is the period commencing 01/01/2003 (first cost reporting period commencing on or after 10/01/2002).

- The provider is able to document its pension contributions (on a cash basis) and the pension costs included in the wage index for all cost reporting periods except for the 2004 year. Therefore, 2004 and all prior cost reporting periods must be excluded from the look-back period. The data for 2005 through 2008 is as follows:

Cost Reporting Year	Cash Basis Contributions	Wage-Index Pension Costs
2005	$400,000	$500,000
2006	$800,000	$0
2007	$0	$600,000
2008	$650,000	$700,000

- Because the pension cost reported in the wage index for 2005 was higher than the cash contributions made during that same period, the provider may elect to drop 2005 (and all prior periods) from the look-back period.

- Although the contributions made in 2007 were also less than the pension cost reported for that same period, the provider cannot exclude 2007 without also excluding 2006 (look-back period must consist of consecutive cost reporting periods).

- Although the contributions made in 2008 were less than the pension cost reported in that same period, the provider cannot exclude 2008 since the look-back period must end with 2008 because that is the cost reporting period immediately prior to the FY 2013 wage index cost reporting period.

- The prefunding balance based on a 2006-2008 look-back period is $150,000 ($1,450,000 [$800,000+$0+$650,000] total contributions - $1,300,000 [$0 + $600,000 + $700,000] in wage index pension costs reported for the same period). The annual prefunding installment is $15,000 (1/10th of $150,000).

<u>Example 2 (pension cost for a 12-month wage index cost reporting period):</u>

- Provider's FY 2017 wage index cost reporting period is 12 months (01/01/2013 - 12/31/2013); the 36-month averaging period is 01/01/2011 to 12/31/2013, which includes the wage index cost reporting year and the prior two cost reporting periods.

- Contributions made during 01/01/2011 - 12/31/2011 = $500,000.

- Contributions made during 01/01/2012 - 12/31/2012 = $300,000.

- Contributions made in wage index cost reporting period 01/01/2013 - 12/31/2013 = $600,000.

- Total contributions made during the 36-month averaging period = $1,400,000.

- The provider has no prefunding balance or prefunding installment.

- The pension cost for the FY 2017 wage index cost reporting period is $466,667 ($1,400,000 total contributions divided by 36 months in the averaging period multiplied by 12 months in the wage index cost reporting period).

Example 3 (pension cost for a 7-month wage index cost reporting period):

- Provider's FY 2017 wage index cost reporting period is 7 months (01/01/2013 - 07/31/2013); the 36-month averaging period is 8/01/2010 to 07/31/2013 (begins 29 months prior to the Fiscal Year Begin Date of the wage index cost reporting period for a total of 36 months).

- Contributions made during 08/01/2010 - 12/31/2010 = $300,000.

- Contributions made during 01/01/2011 - 12/31/2011 = $500,000.

- Contributions made during 01/01/2012 - 12/31/2012 = $400,000.

- Contributions made in wage index cost reporting period 01/01/2013 - 07/31/2013 = $200,000.

- Total contributions made during the 36-month averaging period = $1,400,000.

- The provider has documented a prefunding balance of $1,000,000; the annual prefunding installment is therefore $100,000 (1/10th of prefunding balance).

- The pension cost for the FY 2017 wage index cost reporting period is $330,555 ($272,222 average pension cost [$1,400,000 total contributions divided by 36 months in the averaging period multiplied by 7 months in the wage index cost reporting period] plus $58,333 pro-rata prefunding installment [$100,000 annual prefunding installment multiplied by 7/12^{ths} to reflect a 7-month wage index cost reporting period]).

Example 4 (pension cost for a new plan):

- Provider's FY 2017 wage index cost reporting period is 12 months (01/01/2013 - 12/31/2013); the 36-month averaging period is 01/01/2011 to 12/31/2013, which includes the wage index cost reporting year and the prior two cost reporting periods.

- The provider adopted a new pension plan effective 07/01/2012 and had no other pension plan in effect prior to that date; therefore, there is no prefunding balance or prefunding installment.

- Contributions made during 01/01/2011 - 12/31/2011 = $0 (no plan in existence)

- Contributions made during 01/01/2012 - 12/31/2012 = $500,000.

- Contributions made in the wage index cost reporting period 01/01/2013 - 12/31/2013 = $1,200,000.

- Total contributions during the 36-month averaging period = $1,700,000.

- The provider did not report a pension cost attributable to the new plan based on a 36-month averaging period during any prior wage index cost reporting period; therefore, it may elect to exclude cost reporting periods ending prior to the 07/01/2012 plan effective date from the averaging period; the 36-month averaging period is, therefore, shortened to 24 months and excludes the period 01/01/2011 to 12/31/2011. The pension cost for the FY 2017 wage index cost reporting period would then be $850,000 ($1,700,000 total contributions divided by 24 months in the averaging period multiplied by 12 months in the wage index reporting period).

Lines 8, 8.01, 8.02, and 8.03--Effective for cost reporting periods beginning prior to October 1, 2015, complete line 8 if the hospital has purchased or self-funded insurance. Effective for cost reporting periods beginning on or after October 1, 2015, complete line 8.01 if the hospital has self-funded insurance without a TPA. Complete line 8.02 if the hospital has self-funded insurance with a TPA. Complete line 8.03 if the hospital purchases health insurance. (See the instructions under Worksheet S-3, Part II, regarding health insurance as a wage-related cost for the wage index).

Line 21--Report costs of executive deferred compensation plans and awards for executives. The policy adopted in the FFY 2012 IPPS final rule; 76 FR 51586-51590 (August 18, 2011) does not change the reporting basis for these costs. Examples of executive deferred compensation include special stock option or bonus plans and sum certain postemployment awards that are not available to other employees.

NOTE: Costs reported on line 21 exclude costs of executive deferred compensation that are defined contribution pension plans, tax-sheltered annuity plans, nonqualified defined benefit plans, and qualified defined benefit plans that are available to other employees that are reportable on lines 1 through 4, respectively.

Line 25--Enter each wage related cost that is considered an “other” wage related cost separately. Subscript this line for each “other” wage related cost in accordance with the following criteria. For line 25 and subscripts specify the type of each “other” wage related cost. The total of line 25 and its subscripts is reported on Worksheet S-3, Part II, line 18, column 4. Do not complete this line effective for cost reporting periods beginning on or after October 1, 2015.

A hospital may report an “other” wage related cost (defined as the value of the benefit) if it meets all of the following criteria:

- The costs are not listed on lines 1 through 23 “Wage Related Costs Core” of this worksheet or included in salaries reported on Worksheet S-3, Part II, column 4, line 17.

- The “other” wage related cost is greater than 1 percent of total salaries after the direct excluded salaries are removed. Line 25 and each subscript must independently meet this 1 percent test. See below for instructions to calculate the 1 percent test.

- The wage related cost is a fringe benefit as described by the IRS and is reported to the IRS on an employee’s or contractor’s W-2 or 1099 as taxable income.

- The wage related cost is not being furnished for the convenience of the provider or otherwise excludable from income as a fringe benefit (such as a working condition fringe).

NOTE: Direct salaries and wages, including amounts related to paid vacation, holiday, sick leave, etc., reported on line 1 of Worksheet S-3, Part II, must not be included as other wage related costs on this line, nor on line 18 of Worksheet S-3, Part II.

NOTE: Do not include wage related costs applicable to the excluded areas reported on Worksheet S-3, Part II, lines 9 and 10. Instead, these costs are reported on Worksheet S-3, Part II, line 19. Also, do not include on this line the wage related costs for physician Parts A and B, non-physician anesthetists Parts A and B, interns and residents in approved programs, and home office personnel.

Calculate the 1 percent test by dividing each individual category of the other wage related cost (that is, the numerator) by the sum of Worksheet S-3, Part III, lines 3 and 4, column 4, (that is, the denominator). The other wage related costs associated with contract labor and home office/related organization personnel are included in the numerator because these other wage related costs are allowed in the wage index (in addition to other wage related costs for direct employees), assuming the requirements for inclusion in the wage index are met. For example, if a hospital is including parking garage costs as an other wage-related cost that is reported on the W-2 or 1099 form, when running the 1 percent test, include in the numerator all the parking garage other wage related cost for direct salary employees, contracted employees, and home office employees, and divide by the sum of Worksheet S-3, Part III, lines 3 and 4, column 4.

Calculate the 1 percent test only one time for a category of other wage related costs, inclusive of other wage related costs for employees, contracted employees, and home office employees.