



Hospicio La Paz

June 6, 2007

Centers for Medicare & Medicaid Services,
Department of Health and Human Services,
Attention: CMS-1539-P
Mail Stop C4-26-05,
7500 Security Boulevard,
Baltimore, MD 21244-1850

To whom it may Concern,

We are sending you original and 2 copies of the following study: "Comments on the CMS Study, "Medicare Program: Hospice Wage Index for Fiscal Year 2008," Relating to the Impact on Puerto Rico Hospices.

We hope that this study will provide the necessary information to make the right decision about the correct Wage Index for Puerto Rico.

Should you have any questions regarding the Study, please do not hesitate to contact us.

Sincerely yours,

Luis R. Monrouzeau, MBA/HCM

**COMMENTS ON THE CMS STUDY
"MEDICARE PROGRAM: HOSPICE WAGE
INDEX FOR FISCAL YEAR 2008", RELATING
TO IMPACT ON PUERTO RICO HOSPICES**

MAY, 2007

Submitted to:

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INTRODUCTION

CMS study calculations have concluded to reduce payments to 34 hospices operating in Puerto Rico by 2.6 percent from \$58,903,000 in F.Y. 2007 to \$57,367,000 in FY 2008. The purpose of this study is to evaluate the impact of this conclusion on the functioning of Hospicio La Paz Inc. a major agency in Puerto Rico, which provides services to about 23 percent of terminally ill patients.

SUMMARY OF CONCLUSIONS

1. The study says (p.33) that “through the analysis, we estimate that total hospice payment will be budget neutral with a negligible decrease from FY 2007 by \$538,000.” This decrease pertains to the entire hospice system in the United States.
2. Hospicio La Paz, Inc. has prepared analysis as to what will be the impact of a 2.6 percent reduction in hospice payment to Puerto Rico. The analyses indicate that Hospicio La Paz’s revenues alone will decline by about \$648,605. The decline in revenues of Hospicio La Paz, Inc. will be larger than the revenue decrease of the entire hospice system in the U.S. Hospicio La Paz has estimated that daily revenue loss will be \$1,777 which on annual basis will be \$648,605 ($\1777×365).
3. Hospicio La Paz will have loss of revenue of \$648,605. This is for just one firm. There are 34 firms operating in this industry in Puerto Rico. Hospicio La Paz is serving 1,700 patients and the industry in Puerto Rico 7,500 patients. This means that La Paz serves 22.7 percent of patients. The industry could have loss of revenues amounting to \$2,857,291 ($\$648,605 \div 22.7 \times 100$).
4. Under the study “Medicare Program: Hospice Wage Index for Fiscal Year 2008”, (1) there will be increase in payment for the three U.S. regions, namely, Mountain, Pacific and East North Central; (2) there will be reductions in payments for six regions, namely, New England, Middle Atlantic, South Atlantic, East-South Central and reduction for these six regions will be in the range of 0.1-0.6 percent;

(3) there will be reduction in payment to Puerto Rico and the reduction will be 2.6 percent (4) the largest reduction in payment at 0.6 percent will be in the East-South Central region, and (5) the reduction in Puerto Rico will be 4.3 times that of the reduction in the East-South Central Region.

5. The reduction in payment of 2.6 percent in F.Y. 2008 will reduce revenues of 34 hospices operating in Puerto Rico by \$2.9 million.
6. The hospices in Puerto Rico already receive much lower payments and this reduction of 2.6 percent will further lower their payments (and revenues).
7. Difference in payments per day of routine home care in any U.S. region and Puerto Rico is in the range of \$45.59 – 88.58 in F.Y. 2007 and this difference will be in the range of \$47.14 – 90.05 in F.Y. 2008.
8. In 2008, payments for a routine care per day in Puerto Rico will be \$87.05 and for the region of New England this payment will be \$177.10 . Puerto Rico hospices will be paid \$90.05 per day per patient less than the payment to a hospice per day per patient in New England.
9. A basic point is that in routine home care, the national payment rate is \$130.79 in F.Y. 2007, of which 68.7 percent is wage component and 31.3 percent is non-wage component. In 2007, for Hospicio La Paz, routine home care per day per patient rate is \$89.89, of which the wage component is 33.9 percent and non-wage component is 66.1.
10. During the period of 2005 and 2006, Hospicio La Paz Inc. had income (revenues) amounting to \$22,165,000 and net income \$240,000. During the last two years, net income of La Paz constituted 1.1 percent of income. Net income of La Paz during the last two years declined due to rising salaries of staff, particularly nursing staff. The salaries of nurses have increased due to a special legislation which put floors on salaries of nurses.

11. It should be of basic importance that hospice daily rate per patient is based on hospital wage index of Puerto Rico.
12. A press release of CMS on March 31, 2004 said as follows: (Hospitals) “are currently paid on a blend of 50 percent Federal standardized rate and 50 percent of lower Puerto Rico specific rate. Effective for discharges from April 1, 2004 through September 30, these rates will see an increase on their reimbursement as the blend changes to 62.5 percent Federal rate and 37.5 Puerto Rico – specific rate. There will be a further increase beginning with discharges on or after October 1, 2004, as the blend changes again to 75 percent Federal and 25 percent Puerto Rico – specific rate.”
13. Hospice rates are implicitly based on hospital rates and if the hospital rates are increased by CMS then CMS should also increase hospice rates.
14. It will be reasonable to expect that hospice daily rates will be increased in proportionate with hospital daily rates announced on March 31, 2004 by CMS.
15. If living costs are higher then the cost of doing business is also higher. The Federal Office of Personnel Management has calculated that cost of living in Puerto Rico is higher than in Washington D.C. by 9.5 percent. The 12,000 Federal employees working in Puerto Rico receive 9.5 percent cost-of-living allowance, which means if a Federal worker’s salary in Washington D.C. is \$100 that same worker’s salary in Puerto Rico will be \$109.50.
16. CMS says that Wage Index can be developed by determining “per patient wage cost.” If direct data is not available a proxy data can be used.
17. The U.S. Bureau of Labor Statistics has calculated mean hourly wages and salaries of healthcare practitioners and technical occupations in the U.S.A. and Puerto Rico, and mean hourly wages and salaries of healthcare support occupations in the U.S A. and Puerto Rico. If these two sources are blended, it will be seen that mean hourly wages and salaries of healthcare workers in Puerto Rico is 68.0 percent of

mean hourly salaries and wages of health workers in the U.S.A. This ratio for healthcare practitioners and technical occupations is 64.1 percent and this ratio for health support occupations is 76.4 percent. Please see page 22 as to the occupations included by BLS in healthcare practitioners and technicians and page 24 as to the occupations included by BLS in healthcare support occupations. It should be pointed out that the May 2005 BLS Survey of Occupational Employment and Wages is a very comprehensive and expansive study and should be of great value to CMS.

18. Page 36 of the CMS Hospice Wage Index for Fiscal Year 2008 study includes CBSA Code # 10740 which determines Wage Index at 1.0082 for Albuquerque, New Mexico. This means that CMS gives value of 1.00 to the Wage Index of New Mexico. On page 69 of the CMS F.Y. 2008 Study under CBSA Code 41980, there is given a Wage Index for San Juan–Caguas–Guaynabo, Puerto Rico and the index is 0.5120 or 51.20. On page 69, there is also included Arecibo.
19. According to the May 2005 BLS occupational wage survey, hourly wage of all healthcare workers in New Mexico was \$18.86 and mean hourly wage of all healthcare workers in Puerto Rico was \$10.32. This means that Puerto Rico mean hourly wage for all healthcare workers is 54.7 percent of New Mexico mean hourly wage of all healthcare workers. It is this percentage which has basic importance.
20. The routine home care daily rate per patient for CBSA #41980 wage index is 0.5120 which translates into \$86.93 per day per patient for F.Y. 2008 as compared to \$88.68 for F.Y. 2007. This is computed as follows:

	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>
A. Non-Wage Component	\$40.92	\$40.92
<hr/>		
B. Wage Component (WC)	\$89.97	\$89.87
Percent of W.C.	53.14%	51.20%
Which is Equal to	\$47.76	\$46.01
<hr/>		
C. Routine Home Care Rate	\$88.68	\$86.93

21. It is recommended that for CBSA #41980 the ratio should be 54.7 percent of the national wage component instead of the CMS determination of 51.20 of the national wage component. This figure of 54.7 percent is equal to the mean hourly wage of all healthcare workers in Puerto Rico as a percentage of mean hourly wage of all healthcare workers in New Mexico—New Mexico is equal to 1.00.

22. Consequently, per day per patient payment for routine home care services for fiscal year 2008 should be as follows:

Non-Wage component	\$40.92
Wage Component (\$89.87 x 54.7%)	49.16
Total CBSA #41980 Rate (Puerto Rico)	<u>\$90.08</u>

23. On page 31 of the CMS F.Y. 2008 study, there is shown that percentage change in hospice payments to Puerto Rico will be -2.6%. We recommend that percentage change in hospice payment to Puerto Rico for F.Y. 2008 will be + 1.58 percent, as compared to the payment of \$88.68 in 2007.

24. The cost of doing business in Puerto Rico has increased and the increase has been substantial due to (a) imposition of 7.5 percent comprehensive sales tax (a new tax), (b) increases in electric utilities rates and water and sewer rates, (c) increase in crude oil prices, and (d) increase in interest rates. The Puerto Rican economy almost solely depends on the use of gasoline and diesel and the use of other sources of energy is very limited. On the basis of increased cost of doing business, Puerto Rico deserves increased per day per patient routine home care payments.

25. There are 34 hospices providing services in Puerto Rico and Hospicio La Paz, Inc. is one of the largest, serving some 23 percent of the patients. In 2006, Hospicio La Paz Inc. had wage and salary cost of \$5,282,916 and for 2007, it is estimated that the cost will be \$6,944,916 which will be equal to an increase of 31.5 percent. This magnitude of salary increase will constitute a very substantial increase in the cost of doing business for Hospicio La Paz, Inc.

26. Hospicio La Paz, Inc.'s business constitutes 22.7 percent of businesses of 34 firms in Puerto Rico. Based on Hospicio La Paz Inc. experience, salary and wage cost of the industry will increase to \$30.6 million in 2007, as compared to \$23.3 million in 2006. This means that the industry's salary and wage cost will increase by \$7.3 million.

Salary and Wage Increase

	2006 (\$000)	2007 (\$000)
Hospicio La Paz Inc.	\$5,283	\$6,945
Total Industry	\$23,273	\$30,595

27. The 34 hospice firms will have very substantial squeeze on their revenues and operating costs, as follows:

a. Reduction in Revenues	\$2.9 million
b. Increase in costs	<u>\$7.3 million</u>
c. Thus, total financial impact will be	\$10.2 million

28. Thus, what hospices deserve in Puerto Rico is an increase in per day per patient payment for routine home care services for the F.Y. 2008. CMS is paying \$88.68 in F.Y. 2007. It is strongly recommended that this payment be increased to \$90.08, of which wage component will be \$49.16 and non-wage component will be \$40.92.
29. CMS intends to reduce payments to hospices in Puerto Rico for the services hospices provide to terminally ill patients. Hospices are confronting increased operating costs due to contemplated increases in Federal minimum wage rate and installation of required electronic system. These developments may force hospices in Puerto Rico to discontinue services in which case CMS will have to offer services to terminally ill patients through long-term hospital care which could annually cost CMS \$1,800,000,000, with a net cost increment of \$1,670,400,000. This will be a tremendous cost for CMS to bear.

**IMPACT OF HOSPICE WAGE INDEX ON
PAYMENTS FOR ROUTINE HOME CARE**

It has been calculated by CMS that 34 hospices operating in Puerto Rico will have their revenues reduced from \$58,903,000 in F.Y. 2007 to \$57,367,000 in F.Y. 2008 which will constitute a reduction of 2.6 percent. If the number of Routine Home Care Days is sustained at 659,000 in Puerto Rico, payment for Routine Home Care Per Day will be reduced from \$89.38 in F.Y. 2007 to \$87.05 in F.Y. 2008, a reduction of \$2.33 per day. This is a formidable reduction for hospices in Puerto Rico to bear, particularly when their payments for a routine home care per day are already only a fraction of payments in different U.S. regions. The details are shown in Table 1.

**TABLE 1 IMPACT OF HOSPICE WAGE INDEX CHANGE ON PAYMENTS
FOR A ROUTINE HOME CARE PER DAY**

Urban Regions	Number of Routine Home Care Days in Thousands (000)	Payments Using F.Y. 2007 Wage Index in Thousands (\$000)	Estimated Payments Using F.Y. 2008 Wage Index in Thousands (\$000)	Payments for a Routine Home Care Per Day	
				<u>2007</u>	<u>2008</u>
New England	1,524	271,214	269,900	\$177.96	\$177.10
Middle Atlantic	4,450	726,343	725,493	163.22	163.03
South Atlantic	9,895	1,607,162	1,599,320	162.42	166.68
East-North Central	6,661	1,020,561	1,026,738	153.21	154.14
East-South Central	3,773	509,258	506,298	134.97	134.19
West-North Central	2,976	409,772	409,274	137.69	137.52
West-South Central	6,461	914,938	910,550	141.61	140.93
Mountain	3,928	612,959	618,209	156.05	157.39
Pacific	5,793	965,445	970,559	166.66	167.54
Puerto Rico	659	58,903	57,367	89.38	87.05

Source: Calculated from the data on CMS, 42 CFR Part 418.

DIFFERENCE IN PAYMENTS BY CMS TO U.S. REGIONS AND PUERTO RICO IN 2007

Payments to different U.S. regions for Routine Per Day Home Care in 2007 is much higher than the payment to Puerto Rico. Table 2 provides the data as follows:

1. Payment per day of routine home care in the New England region is \$177.96 in contrast with Puerto Rico \$89.38, a difference of \$88.58.
2. Payment per day of routine home care in East South Central region is \$134.97 in contrast with Puerto Rico \$89.38, a difference of \$45.59.
3. Payment per day of routine home care in South Atlantic region is \$162.42 in contrast with Puerto Rico \$89.38, a difference of \$73.04.

TABLE 2 DIFFERENCE IN PAYMENTS BY CMS TO U.S. REGIONS PER DAY OF ROUTINE HOME CARE IN 2007 AS COMPARED TO PUERTO RICO

	Payment in 2007	Puerto Rico Less Regions
New England	\$177.96	\$-88.58
Middle Atlantic	163.22	-73.84
South Atlantic	162.42	-73.04
East-North Central	153.21	-63.83
East-South Central	134.97	-45.59
West-North Central	137.69	-48.31
West-South Central	141.61	-52.23
Mountain	156.05	-66.67
Pacific	166.66	-77.28
Puerto Rico	89.38	-

Source: Calculated from the data on CMS, 42 CFR Part 418.

**CONCLUSION OF THE HOSPICE WAGE INDEX
FOR FISCAL YEAR 2008 STUDY**

Page 33 of the above cited study states as follows:

“Our impact analysis compared hospice payments by using the FY 2007 wage index to the estimated payments using FY 2008 wage index. Through the analysis, we estimate that total hospice payments will effectively be budget neutral with a negligible decrease from FY 2007 by \$538,000. Additionally, we compared estimated payments using the FY 1983 hospice wage index to estimated payments using the FY 2008 wage index and determined the current hospice wage index to be budget neutral, as required by the negotiated rulemaking committee. As noted above, the payment rates used reflect the FY 2007 rates. The FY 2008 payment rates will be adjusted to reflect the full FY 2008 hospital market basket, as required by section 1814(i)(C)(ii)(VII) of the Act. We publish these rates through administrative issuances.

“In accordance with the provisions of Executive Order 12866, this regulation was reviewed by the Office of Management and Budget.”

A point of great consequence is that there would be “negligible (payment) decrease from FY 2007 by \$538,000.” This figure of \$538,000 pertains to the entire hospice system in the United States.

Hospicio La Paz, Inc. has prepared analysis as to what will be the impact of 2.6 percent reduction in hospice payment to Puerto Rico. The analysis indicates that Hospicio La Paz’s revenues will decline by about \$648,605.

The decline in revenues of Hospicio La Paz Inc. will be larger than the revenue decrease of the entire hospice system in the United States.

Hospicio La Paz has estimated that daily revenue loss will be \$1,777 which on an annual basis will be \$648,605 ($\$1,777 \times 365$). For the 34 hospices in Puerto Rico, the revenue loss will be \$2.9 million.

**THE DIFFERENCE IN PAYMENT AGAINST
PUERTO RICO WILL FURTHER
INCREASE IN 2008**

There is a good deal of difference against Puerto Rico in regard to per day routine home care payment in 2007. The differences against Puerto Rico in payments for routine home care will further increase if CMS's payments plan is put into effect in F.Y. 2008. The CMS plan for 2008 calls for:

1. Increase in payment for three regions, namely, Mountain, Pacific, and East-North Central.
2. Reduction in payments for six regions, namely, New England, Middle Atlantic, South Atlantic, East South Central, West North Central, and West South Central and reduction will in the range of 0.1-0.6 percent.
3. There will be reduction in payment to Puerto Rico and reduction in payment will be 2.6 percent.
4. Among all the regions, the largest reduction in payment in 2008, at 0.6 percent will be in the East South Central region. In Puerto Rico, the reduction will be 2.6 percent, which will be 4.3 times larger than the 0.6 percent reduction in the East South Central region.
5. The proposed 2008 changes in routine home care payments will further accentuate the problem in regard to payments to Puerto Rico by CMS. The details may be seen in Table 3.

TABLE 3 DIFFERENCE IN PAYMENTS PER DAY OF ROUTINE HOME CARE AGAINST PUERTO RICO WILL BE GREATER IN 2008 AS COMPARED TO 2007

Urban Region	In 2007¹	In 2008²
New England	\$-88.58	\$-90.05
Middle Atlantic	-73.84	-75.98
South Atlantic	-73.04	-79.63
East-North Central	-63.83	-67.09
East-South Central	-45.59	-47.14
West-North Central	-48.31	-50.47
West-South Central	-52.23	-53.88
Mountain	-66.67	-70.34
Pacific	-77.28	-85.38
Puerto Rico	-	-

Source: Calculated from the data on CMS, 42 CFR Part 418.

¹ Estimated by CMS.

² Projected by CMS

**WEIGHTS GIVEN TO WAGE COMPONENT AND
NON-WAGE COMPONENT IN ROUTINE
HOME CARE BY CMS IN 2007**

CMS rates to pay hospice care providers are based on aggregate of costs at the national level, adjusted for differences in Case Based Statistical Area. The costs are based as wage costs and non-wage costs.

For 2007, for the program of Routine Home Care, CMS has established national daily rate at \$130.79, of which wage component is \$89.87 and non-wage component is \$40.92. The wage component constitutes 68.7 percent of the national rate and non-wage component constitutes 31.3 percent of the national rate

**TABLE 4 WEIGHTS GIVEN TO WAGE COMPONENT AND NON
WAGE COMPONENT IN ROUTINE HOME CARE
BY CMS IN 2007**

	U.S.A.	Percent
Total National Rate	\$130.79	100.0
Wage Component	89.97	68.7
Non-wage Component	40.92	31.3

Source: CMS.

**DETERMINATION OF HOSPICE HOME CARE
RATE FOR PUERTO RICO IN 2007**

CMS has established Hospice Home Care rate for Aguadilla-Isabela-San Sebastian, Puerto Rico at \$89.89 of which \$48.97 corresponds to wage component and \$40.52 for non-wage component.

The national rate for wage component is \$89.87 and for Puerto Rico it is 0.5449 of \$89.87 which is \$48.97.

The national rate for non-wage component is \$40.92 and for Puerto Rico the rate is 1.0000 of \$40.92 which is \$40.92.

**TABLE 5 DETERMINATION OF HOSPICE ROUTINE HOME CARE
RATE FOR PUERTO RICO IN 2007**

	U.S.A.	Puerto Rico Share	Dollars
Total National Rate	\$130.79	0.6873	\$89.89
Wage Component	89.87	0.5449	48.97
Non-wage Component	40.92	1.000	40.92

Source: Computed from CMS data for 2007.

**IMPORTANCE OF WAGE AND NON-WAGE
COMPONENTS IN OPERATING EXPENSES
OF HOSPICIO LA PAZ INC., 2003-06**

Hospicio La Paz Inc. is a corporation organized under the laws of Puerto Rico. This corporation provides hospice services to terminally ill persons under the program of Routine Home Care. The services are provided in the home environments by doctors, nurses, social workers, psychologists and priests, with the goal of making the individual as physically and emotionally comfortable as possible. The Hospicio La Paz also provides counseling services and inpatient respite services to the family of the hospice patient. Hospicio La Paz Inc. considers both the patient and the family as a unit of care.

PRMEC has calculated that Hospicio La Paz Inc. had \$33.2 million in operating expenses during the period of 2003-2006, of which wage component was \$11.3 million and non-wage component \$22.0 million. This means that wage component constituted 33.9 percent of operating expenses and non-wage component 66.1 percent.

It may be noted that the wage component in the national average is 68.7 percent in 2007 and Hospicio La Paz Inc. wage component is 33.9 percent during the period of 2003-06. This constitutes a substantial difference.

Further, it may be noted that the non-wage component in the national average constitutes 31.3 percent in 2007 and the non-wage component constitutes 66.1 percent of the operating costs of Hospicio La Paz Inc., 2003-06. Once again, there is quite a difference.

It needs to be emphasized that the high cost of living in Puerto Rico is reflected in the fact that some 12,000 Federal employees working in Puerto Rico receive cost-of-living allowance equal to 9.5 percent of their salaries. It should be noted that cost of living has a great deal of effect on cost-of-doing business, which is higher in Puerto Rico than in Washington, D.C.

**TABLE 6 IMPORTANCE OF WAGE COMPONENT AND NON-
WAGE COMPONENT IN OPERATING EXPENSES
OF HOSPICIO LA PAZ, INC., 2003-06
(\$000)**

	Dollars	Percent
Operating Expenses	33,224	100.0
Wage Component	11,256	33.9
Non-wage Component	21,968	66.1

Source: Financial Statement of Hospicio La Paz Inc.-2003-06.

**NET INCOME MARGIN OF
HOSPICIO LA PAZ INC.**

Hospicio La Paz, Inc. provides hospice care to terminally ill patients for which the agency is paid for the services rendered. During the four-year period of 2003-06, the agency was paid \$35.6 million. Hospicio La Paz, Inc. operates for profits and expects that it should have reasonable profits. During the period of 2003-2006, it had net income of \$1.4 million. In these four years, the agency had profits in three years. In fact, in 2005, it had losses.

During the four-year period of 2003-06, its net income margin was 4.1 percent. During the two-year period of 2003-04, Hospicio La Paz Inc. had income of \$13,469,000 and net income of \$1,206,000. Net income of La Paz Constituted almost 9 percent of income during the period. However, during the recent period of 2005-06, income of La Paz amounted to \$22,165,000 and net income \$240,000. In the last two years, net income La Paz constituted 1.1 percent of income. Net income of Hospicio La Paz declined during the period of 2005-06 due to rising cost of operations, particularly salaries and wages of the people working in the firm, and especially legislated increase in the salaries of nurses.

**TABLE 7 HOSPICIO LA PAZ INC.: INCOME AND NET INCOME
DURING THE PERIOD OF 2003-06
(\$000)**

	2006	2005	2004	2003	Total
Income	13,242	8,923	8,098	5,371	35,634
Net Income	252	-12	619	587	1,444

Source: Hospicio La Paz Inc.

PAYMENTS TO HOSPITALS IN PUERTO RICO BY CMS

On March 31, 2004, CMS gave a press release which had to deal with payments to hospitals in Puerto Rico by CMS. Hospitals were protesting to CMS in regard to their inadequate payments. CMS acceded to their requests and issued a press release as shown below:

“Hospitals in Puerto Rico will receive an additional \$400 million over ten years, as a result of changes made to the payment formula applicable only in Puerto Rico. These hospitals are currently paid on a blend of 50 percent Federal standardized rate and 50 percent of the lower Puerto Rico specific rate. Effective for discharges from April 1, 2004 through September 30, these hospitals will see an increase on their reimbursement as the blend changes to 62.5 percent Federal rate and 37.5 percent Puerto Rico-specific rate. There will be a further increase beginning with discharges on or after October 1, 2004, as the blend changes again to 75 percent Federal and 25 percent Puerto Rico-specific rates.”¹

Hospitals were not being made full payment in Puerto Rico by CMS, just like the Hospices in Puerto Rico. Since April 1, 2004, Hospital payments were increased from 50 percent to 62.5 percent and from October 1, 2004, hospital payments have been increased to 75 percent.

Hospice services are just an extension of the services offered by hospitals. Hospices need treatment similar to that of hospitals.

¹ CMS Press Release of March 31, 2004 on payments to hospitals.

MONEY WAGES AND COST OF LIVING

Bellante and Jackson, two economics professors, with a book titled "Labor Economics: Choice in Labor Markets"¹ on page 163, says as follows:

"The 10 percent differential in money wages must then be reflecting the 10 percent differential in living costs between the North and the South."²

Thus, there is established a link between wages and cost of living. Wages are high because cost-of-living is high. This is very relevant as to what happens in regard to Federal Government employees working in Puerto Rico, States of Alaska and Hawaii, Territory of Guam and Commonwealth of the Northern Mariana Islands and U.S. Virgin Islands. On the subject of wages and cost of living, the Federal Register/Vol. 71, No. 208/Friday, October 27, 2006 stated as follows:

"Non-Foreign Area Cost-of-Living Allowance Rates; Alaska, Puerto Rico, and the U.S. Virgin Islands

"Summary: The Office of Personnel Management is publishing a proposed regulation to change the cost-of-living allowance rates received by certain white-collar Federal and U.S. Postal Service employees in Alaska, Puerto Rico and the U.S. Virgin Islands. The changes are the result of living-cost surveys conducted by OPM in 2005 and interim adjustments OPM calculated based on relative Consumer Price Index differences between the cost-of-living allowance areas and the Washington, D.C. area.

"Supplementary Information: Section 5941 of title 5, United States Code, authorizes Federal agencies to pay cost-of-living allowances (COLAs) to white-collar Federal and U.S. Postal Service employees stationed in Alaska, Hawaii, Guam and the Northern Mariana Islands, Puerto Rico, and the U.S. Virgin Islands (USVI). Executive Order 10000, as amended, delegates to the Office of Personnel Management (OPM) the authority to administer non-foreign area COLAs and prescribes certain operational features of the program. OPM conducts living-cost survey in each allowance area and in the Washington, D.C. area to determine whether, and to what degree, COLA area living costs are higher than those in the D.C. area. OPM sets the COLA rate for each area based on the results of these surveys.

¹ Don Bellante and Mark Jackson, Labor Economics, McGraw Hill Book Company, 1979.

² Ibid, p. 167.

“As required by Section 591.223 of the title 5, Code of Federal Regulations, OPM conducts COLA surveys once every 3 years on a rotating basis. For areas not surveyed during a particular year, OPM adjusts COLA rates by the relative change in the Consumer Price Index (CPI) for the COLA area compared with the Washington, D.C. area. (See 5 CFR 591.224-226.) OPM adopted these regulations pursuant to the stipulation of settlement in *Caraballo et al. v. United States*, No. 1997-0027 (D.V.I), August 17, 2000. *Caraballo* was a class-action lawsuit which resulted in many changes in the COLA methodology and regulations. Although most of the changes were effective in 2002 when the new regulations became effective, this is the first year that OPM will apply the interim adjustments.”

“OPM conducted living-cost surveys in Puerto Rico, the U.S. Virgin Islands, and the Washington, D.C. area in the spring of 2005. We are publishing the results of these surveys in the *2005 Nonforeign Area Cost-of-Living Allowance Survey Report: Caribbean and Washington, D.C., Areas*, which accompanies this proposed rule.

“As described in the 2005 survey report, OPM compared the results of the COLA area surveys with the results of the DC area survey to compute a living-cost index for each of the COLA area. The results of the living-cost surveys indicate an increase in the COLA rate for the U.S. Virgin Islands from 23 percent to 25 percent and a decrease in the COLA rate for Puerto Rico from 10.5 percent to 9.5 percent.

“OPM also computed interim adjustments based on the relative change in the CPI for the Alaska, Hawaii, and Guam and the Northern Mariana Islands COLA areas. We are publishing the calculation of these interim adjustments in a notice, which also accompanies this proposed rule. The interim adjustments indicate that the COLA rates for the Hawaii and Guam COLA areas are currently set at the appropriate level but that the Anchorage, Fairbanks, and Juneau, Alaska, COLA rates should be reduced by one percentage point in each area, from 24 percent, which is the current COLA rate in each of these areas, to 23 percent.

“However, 5 CFR 591.228© limits COLA rate decreases to 1 percentage point in a 12-month period, and OPM implemented COLA rate decreases in Anchorage, Fairbanks, Juneau, and Puerto Rico effective on the first pay period beginning on or after September 1, 2006. Therefore, under this proposed rule, the COLA rate reductions in these areas would take effect on the first day of the first pay period beginning 12 months after the effective date of the 2006 reduction. For example, if the COLA rate reduction was effective on Sunday, September 3, 2006, the 2007 COLA rate reduction would take effect on Sunday, September 16, 2007.

“Executive Order 12866, Regulatory Review**“This rule has been reviewed by the Office of Management and Budget in accordance with Executive Order 12866....”**

It may be noted that the cost-of-living allowance for Puerto Rico, established by OPM, is 9.5 percent which means that if a worker's salary in Washington D.C. is \$100, that same worker's salary in Puerto Rico will be \$109.50.

There are some 12,000 Federal employees in Puerto Rico. Their wages in relation to the wages of the workers in Washington, D.C. are higher. Similarly, wage ratios of employees working in Alaska, Hawaii, U.S. Virgin Islands are higher than those of Federal Employees in Washington, D.C.

AVERAGE WAGE AND SALARIES OF HEALTHCARE WORKERS

The U.S. Department of Labor, Bureau of Labor Statistics published findings of May 2005 on Occupational Employment and Wages for the U.S.A. and Puerto Rico. These findings can be obtained in www.bls.gov.

The May 2005 Wage and Occupations survey included the following occupational groupings.

- 0000 All Occupations
- 11-0000 Management Occupations
- 13-0000 Business and Financial Operations Occupations
- 15-0000 Computer and Mathematical Occupations
- 17-0000 Architecture and Engineering Occupations
- 19-0000 Life, Physical, and Social Science Occupations
- 21-0000 Community and Social Services Occupations
- 23-0000 Legal Occupations
- 25-0000 Education, Training, and Library Occupations
- 27-0000 Arts, Design, Entertainment, Sports, and Media Occupations
- 29-0000 Healthcare Practitioner and Technical Occupations
- 31-0000 Healthcare Support Occupations
- 33-0000 Protective Service Occupations
- 35-0000 Food Preparation and Serving Related Occupations
- 37-0000 Building and Grounds Cleaning and Maintenance Occupations
- 39-0000 Personal Care and Service Occupations
- 41-0000 Sales and Related Occupations
- 43-0000 Office and Administrative Support Occupations
- 45-0000 Farming, Fishing, and Forestry Occupations
- 47-0000 Construction and Extraction Occupations
- 49-0000 Installation, Maintenance, and Repair Occupations
- 51-0000 Production Occupations
- 53-0000 Transportation and Material Moving Occupations

Among the occupational groupings, for this study, there were two occupational groups which are of particular interest. These two occupations are:

- 29-0000 Healthcare Practitioner and Technical Occupations
- 31-0000 Healthcare Support Occupations

The May 2005 surveys included data on employment, percent of total, median hourly wage, mean hourly wage, and mean annual wage and mean relative standard error (RSE). It

may be noted that RSE is a measure of the reliability of a survey statistic. The smaller the relative standard error, the more precise the estimate.

For the purposes of this study, there is need to obtain mean hourly wage and mean annual wage for the U.S. and Puerto Rico. These data, extracted from the May 2005 survey, are presented in Table 8.

**HEALTHCARE PRACTITIONER AND TECHNICAL
OCCUPATIONS: 29-0000**

This occupational group included the following occupations:

29-0000 Healthcare Practitioner and Technical Occupations (Major Group)

This major group comprises the following occupations:

Chiropractors ; Dentists, General ; Oral and Maxillofacial Surgeons ; Orthodontists ; Prosthodontists ; Dentists, All Other Specialists ; Dietitians and Nutritionists ; Optometrists ; Pharmacists ; Anesthesiologists ; Family and General Practitioners ; Internists, General ; Obstetricians and Gynecologists ; Pediatricians, General ; Psychiatrists ; Surgeons ; Physicians and Surgeons, All Other ; Physician Assistants ; Podiatrists ; Registered Nurses ; Audiologists ; Occupational Therapists ; Physical Therapists ; Radiation Therapists ; Recreational Therapists ; Respiratory Therapists ; Speech-Language Pathologists ; Therapists, All Other ; ; Health Diagnosing and Treating Practitioners, All Other ; Medical and Clinical Laboratory Technologists ; Medical and Clinical Laboratory Technicians ; Dental Hygienists ; Cardiovascular Technologists and Technicians ; Diagnostic Medical Sonographers ; Nuclear Medicine Technologists ; Radiologic Technologists and Technicians ; Emergency Medical Technicians and Paramedics ; Dietetic Technicians ; Pharmacy Technicians ; Psychiatric Technicians ; Respiratory Therapy Technicians ; Surgical Technologists ; Veterinary Technologists and Technicians ; Licensed Practical and Licensed Vocational Nurses ; Medical Records and Health Information Technicians ; Opticians, Dispensing ; Orthotists and Prosthetists ; Health Technologists and Technicians, All Other ; Occupational Health and Safety Specialists ; Occupational Health and Safety Technicians ; Athletic Trainers ; Healthcare Practitioner and Technical Workers, All Other.

**TABLE 8 AVERAGE WAGES AND SALARIES OF HEALTHCARE
PRACTITIONERS AND TECHNICAL OCCUPATIONS
IN THE U.S.A. AND PUERTO RICO**

	Mean Hourly	Mean Annual	Median Hourly
U.S.A.	\$20.48	\$42,600	\$18.94
Puerto Rico	13.12	27,280	10.10
Puerto Rico as % of U.S.A.	64.1	64.0	53.3

Source: May 2005 Survey of Occupational Employment and Wages, U.S. Department of Labor, Bureau of Labor Statistics.

From Table 8, it is possible to derive the following conclusions:

1. For the United States, mean hourly wage was \$20.48 under the May 2005 survey and for Puerto Rico mean hourly wage was \$13.12. This means that Puerto Rico's mean hourly wage constituted 64.1 percent of the U.S. mean hourly wage.
2. For the United States, mean annual wage was \$42,600 under the May 2005 survey and for Puerto Rico, mean annual wage was \$27,280. This means that Puerto Rico mean annual wage constituted 64.0 percent of the U.S. mean annual wage.
3. For the United States, median hourly wage was \$18.94 under the May 2005 survey and for Puerto Rico median hourly wage was \$10.10. This means that Puerto Rico median hourly wage was 53.3 percent of the U.S. median hourly wage.

HEALTHCARE SUPPORT OCCUPATIONS: 31-0000

This occupational group includes the following occupations:

- Home Health Aides
- Nursing Aides, Orderlies, and Attendants
- Psychiatric Aides
- Occupational Therapist Assistants
- Occupational Therapist Aides
- Physical Therapist Assistants
- Physical Therapist Aides
- Massage Therapists
- Dental Assistants
- Medical Assistants
- Medical Equipment Preparers
- Medical Transcriptionists
- Pharmacy Aides
- Healthcare Support Workers, all other.

**TABLE 9 AVERAGE WAGES AND SALARIES OF HEALTH SUPPORT
OCCUPATIONS IN THE U.S.A. AND PUERTO RICO**

	Mean Hourly	Mean Annual	Median Hourly
U.S.A.	\$9.83	\$20,450	\$9.37
Puerto Rico	\$7.51	\$15,610	\$6.75
Puerto Rico as % of U.S.A.	76.4	76.3	72.0

Source: May 2005 Survey of Occupational Employment and Wages, U.S. Department of Labor, Bureau of Labor Statistics.

From Table 9, it is possible to derive the following conclusions:

1. For the United States, mean hourly wage was \$9.83 under the May 2005 survey and for Puerto Rico mean hourly wage was \$7.51. This means that Puerto Rico's mean hourly wage constituted 76.4 percent of the U.S. mean hourly wage.
2. For the United States, mean annual wage was \$20,450 under the May 2005 survey and for Puerto Rico, mean annual wage was \$15,610. This means that Puerto Rico mean annual wage constituted 76.3 percent of the U.S. mean annual wage.
3. For the United States, median hourly wage was \$9.37 under the May 2005 survey and for Puerto Rico median hourly wage was \$6.75. This means that Puerto Rico median hourly wage was 72.0 percent of the U.S. median hourly wage.

**AVERAGE WAGE AND SALARIES OF ALL
HEALTHCARE WORKERS IN THE U.S.A.
AND PUERTO RICO**

In the previous two sections of this Chapter, there have been presented mean hourly wages and median hourly wages for the U.S.A and Puerto Rico in respect of (1) practitioners and technical occupations, and (2) health support occupations. In Table 10 the data obtained on practitioners and technical occupations and health support occupations have been consolidated and averages of the two tables have been presented.

**TABLE 10 AVERAGE WAGES AND SALARIES OF HEALTH SUPPORT
OCCUPATIONS IN THE U.S.A. AND PUERTO RICO**

	Mean Hourly	Mean Annual	Median Hourly
U.S.A.	\$15.16	\$31,525	\$14.16
Puerto Rico	\$10.32	\$21,445	\$8.43
Puerto Rico as % of U.S.A.	68.0	68.0	59.5

Source: May 2005 Survey of Occupational Employment and Wages, U.S. Department of Labor, Bureau of Labor Statistics.

From Table 10, it is possible to derive the following conclusions:

1. For the United States, mean hourly wage was \$15.16 under the May 2005 survey and for Puerto Rico mean hourly wage was \$10.32. This means that Puerto Rico's mean hourly wage constituted 68.0 percent of the U.S. mean hourly wage.
2. For the United States, mean annual wage was \$31,525 under the May 2005 survey and for Puerto Rico, mean annual wage was \$21,445. This means that Puerto Rico mean annual wage constituted 68.0 percent of the U.S. mean annual wage.
3. For the United States, median hourly wage was \$14.16 under the May 2005 survey and for Puerto Rico median hourly wage was \$8.43. This means that Puerto Rico median hourly wage was 59.5 percent of the U.S. median hourly wage.

**HEALTHCARE WORKERS WAGES IN
PUERTO RICO IN RELATION TO
NEW MEXICO**

The Centers for Medicare and Medicaid (CMS) has prepared a rule which sets forth the hospice wage index for fiscal year 2008. The addendum Table A – Hospice Wage Index for Urban Areas by CBSA provides data on Urban Area (Constituent Counties or County Equivalent). This table provides wage indices for urban counties in all states. Wage indices are provided in the last column of Table A.

The data on urban counties wage indices show that wage indices provided in the last column is somewhat greater than 1.00, sometimes lower than 1.00 and occasionally equal to 1.00.

Albuquerque, New Mexico, with CBSA Code #10740, wage index is 1.0082. In essence, this index is 1.00. It appears that for New Mexico this is only a hospice wage index and no other hospice wage index for this state is provided in Table A.

Since the wage index is almost 1.00, it was thought Puerto Rico health workers wages could be studied in the context of healthcare workers wages in New Mexico.

The U.S. Department of Labor, Bureau of Labor Statistics (www.bls.gov.) has prepared May 2005 employment and wage estimates for the U.S. as a whole and for each one of the 50 states. The same May 2005 survey covered Puerto Rico also.

The May 2005 U.S. Department of Labor Survey for New Mexico and Puerto Rico are entirely comparable in respect of:

1. Employment wage estimates are calculated with data collected from employees in all industry sectors in metropolitan and non-metropolitan areas in New Mexico and Puerto Rico.

2. For both political entities, there is provided data on 23 major occupational groups, which are, as follows:

- 0000 All Occupations
- 11-0000 Management Occupations
- 13-0000 Business and Financial Operations Occupations
- 15-0000 Computer and Mathematical Occupations
- 17-0000 Architecture and Engineering Occupations
- 19-0000 Life, Physical, and Social Science Occupations
- 21-0000 Community and Social Services Occupations
- 23-0000 Legal Occupations
- 25-0000 Education, Training, and Library Occupations
- 27-0000 Arts, Design, Entertainment, Sports, and Media Occupations
- 29-0000 Healthcare Practitioner and Technical Occupations
- 31-0000 Healthcare Support Occupations
- 33-0000 Protective Service Occupations
- 35-0000 Food Preparation and Serving Related Occupations
- 37-0000 Building and Grounds Cleaning and Maintenance Occupations
- 39-0000 Personal Care and Service Occupations
- 41-0000 Sales and Related Occupations
- 43-0000 Office and Administrative Support Occupations
- 45-0000 Farming, Fishing, and Forestry Occupations
- 47-0000 Construction and Extraction Occupations
- 49-0000 Installation, Maintenance, and Repair Occupations
- 51-0000 Production Occupations
- 53-0000 Transportation and Material Moving Occupations

3. Both political entities have the following two healthcare occupation codes:

- 29-0000 Healthcare Practitioner and Technical Occupations
- 31-0000 Healthcare Support Occupations

4. For both New Mexico and Puerto Rico, the May 2005 employment and wage surveys provide data on the following variables.

- a. Occupation Code
- b. Occupation title
- c. Employment
- d. Median Hourly Wage
- e. Mean Hourly Wage
- f. Mean Annual Wage, and
- g. Mean RSE

5. For both the entities, the sources of data are the same, that is, the data is collected from employers in all industry sectors.
6. For both the entities, the data of compilation of data the same.

In view of the similarities, it can be concluded that the wage data being used in this study is totally comparable.

MAJOR CONCLUSIONS OF COMPARISONS

Table 11 presents for New Mexico the following wage data:

1. Healthcare Practitioner and Technical Occupations data on:
 - a. Mean Hourly Wage
 - b. Mean Annual Wage
 - c. Median Hourly Wage

2. Healthcare Support Occupations data on:
 - a. Mean Hourly Wage
 - b. Mean Annual Wage
 - c. Median Hourly Wage

Table ___ presents for Puerto Rico the following data:

1. Healthcare Practitioner and Technical Occupations data on:
 - a. Mean Hourly Wage
 - b. Mean Annual Wage
 - c. Median Hourly Wage

2. Healthcare Support Occupations data on:
 - a. Mean Hourly Wage
 - b. Mean Annual Wage
 - c. Median Hourly Wage

There is presented Table 11 from which the following conclusions emerge:

**TABLE 11 WAGES OF HEALTHCARE WORKERS IN PUERTO RICO
AND NEW MEXICO**

	Mean Hourly	Mean Annual	Median Hourly
<u>New Mexico</u>			
1. Healthcare Practitioner & Technical Occupations	\$27.13	\$56,430	\$22.42
2. Healthcare Support Occupations	\$10.59	\$22,030	\$9.83
3. Average of (1) and (2)	\$18.86	\$39,230	\$16.13
<u>Puerto Rico</u>			
1. Healthcare Practitioner & Technical Occupations	\$13.12	\$27,280	\$10.10
2. Healthcare Support Occupations	\$7.51	\$15,610	\$6.75
3. Average of (1) and (2)	\$10.32	\$21,445	\$8.43
Puerto Rico as Percent of New Mexico	54.7%	54.7%	52.3%

1. For New Mexico, consolidated ¹ and mean hourly wage was \$18.86 and for Puerto Rico, consolidated mean hourly wage was \$10.32. This means that Puerto Rico consolidated hourly wage constituted 54.7 percent of New Mexico consolidated mean hourly wage.
2. For Mexico, consolidated mean annual wage was \$39,230 under the May 2005 survey and for Puerto Rico, consolidated mean annual wage was \$21,445. This means that Puerto Rico consolidated mean annual wage constituted 54.7 percent of the U.S. consolidated mean annual wage.

¹ Consolidated = (Healthcare Practitioner Occupations + Health Support Occupations) ÷ 2.

3. For New Mexico, consolidated median hourly wage was \$16.13 under the May 2005 Survey, and for Puerto Rico consolidated median hourly wage \$8.43. This means that Puerto Rico consolidated median hourly wage was 52.3 percent of the U.S. consolidated median hourly wage.

It should be pointed out that consolidated wage is obtained by simple summing up of wages for healthcare practitioners and technicians and healthcare support occupations and dividing the sum by a factor of 2.

**HOSPICIO LA PAZ INC., HAS A SHARP
INCREASE IN COST OF SALARIES**

In 2006, Hospicio La Paz Inc. had monthly salary costs amounting to \$440,243. This means annual salary costs for Hospicio La Paz were \$5,282,916.

On the basis of the first four months of 2007, it is estimated that Hospicio La Paz Inc. has monthly salary costs of \$578,743. This means that annual salary costs in 2007 are estimated at \$6,944,916.

Thus in 2007, the annual salary costs are expected to be higher by \$1,662,000 than in 2006, which constitutes an increment of 31.5 percent. This is a formidable increase in one year in the salary costs of Hospicio La Paz, Inc.

**TABLE 12 HOSPICIO LA PAZ INC.: CHANGE IN ANNUAL COST
OF SALARIES OF EMPLOYEES
(\$000)**

	2007	2006
Annual Cost of Salaries	\$6,944,916	\$5,282,916
Number of Employees	450	400

Further, it may be noted that in 2006, Hospicio La Paz had 400 people working and in 2007, this number has increased to 450.

**TABLE 13 HOSPICIO LA PAZ INC: MONTHLY COST OF INCREASE IN SALARIES
IN 2007 AND 2006**

	2007			2006			Per Employee Monthly Differential	Total Difference in Salaries (\$)
	Total Salaries (\$)	Per Employee (\$)	Num. of Employees	Total Salaries (\$)	Per Employee (\$)	Num. of Employees		
Administrator	4,500	4,500	1	3,380	3,380	1	1,120	1,120
Patient Services Director	3,800	3,800	1	3,162	3,162	1	638	638
Assistant Director Patient Services (2)	5,600	2,800	2	4,200	2,100	2	700	1,400
Personal Educator	3,500	3,500	1	3,300	3,300	1	200	200
Medical Director	25,000	25,000	1	5,500	5,500	1	19,500	19,500
Doctors (5)	13,402	2,680	5	12,302	2,460	5	220	1,100
Doctors (Professional Services (18)	45,200	2,511	18	41,000	2,411	17	100	1,700
Accounting Dept.	5,465	2,733	2	5,065	2,533	2	200	400
Human Resources Dept.	2,700	2,700	1	2,500	2,500	1	200	200
President's Assistant	2,756	2,756	1	2,556	2,556	1	200	200
Legal Department	8,200	4,100	2	7,700	3,850	2	250	500
Quality Control Supervisor	2,850	2,850	1	2,268	2,268	1	582	582
Information Dept. Supervisor	2,850	2,850	1	2,305	2,305	1	545	545
Nursing Supervisors (9)	28,698	3,189	9	20,298	2,255	9	934	8,406
Graduate Nurses	93,111	2,517	37	47,533	1,698	28	819	22,932
Assoc. Degree Nurses	42,106	2,005	21	30,306	1,595	19	410	7,790
Practical Nurses	29,000	1,526	19	19,411	1,078	18	448	8,064
Chaplains' Supervisor	2,735	2,735	1	2,535	2,535	1	200	200
Chaplains	19,477	1,498	13	18,152	1,396	13	102	1,326
Social Services Supervisor	2,375	2,375	1	2,175	2,175	1	200	200
Social Workers	23,971	1,598	15	20,436	1,572	13	26	338
Psychologist	4,200	4,200	1	---	---	---	4,200	4,200
Coordination Department Supervisor	3,000	3,000	1	2,800	2,800	1	200	200
Coordinators	25,875	1,362	19	22,475	1,249	18	113	2,034
Nutritionist	3,505	3,505	1	3,305	3,305	1	200	200
Nutritionists, Professional Services	7,375	819	9	6,700	744	9	75	675
Physical Therapist	2,500	2,500	1	2,500	2,500	1	0	---
Directors – Medical Equipment	8,400	4,200	2	8,000	4,000	2	200	400
Supervisor – Medical Equipment	1,571	1,571	1	1,480	1,480	1	91	91
Employees – Medical Equipment	9,599	1,199	8	8,910	1,114	8	85	680
Supervisor Medical Supplies	1,269	1,269	1	1,224	1,224	1	45	45
Employees Medical Supplies	6,724	961	7	6,312	902	7	59	413
Receptionists	48,191	1,302	37	43,524	1,318	33	---	---
Security	2,000	2,000	1	2,000	2,000	1	---	---
Maintenance	5,662	566	10	5,301	530	10	36	360
Housekeepers	81,576	412	198	69,628	412	169	---	---
TOTAL	578,743	109,089	450	440,245	76,207	400	32,898	86,639

Hospicio La Paz attended 1,700 patients in 2006. If the number of patients remains unchanged, the salary cost component, per patient, will increase by \$978.

The cost of salary is increasing due to:

1. Obligatory increase in salaries of nurses prompted by a new law on salaries of nurses.
2. Increment in salaries of non-nursing staff in order to maintain parity between nursing staff salaries and non-nursing staff salaries.
3. Increment in the number of graduated nurses from 28 to 37 during 2006-07, associated nurses from 19 to 21, practical nurses from 18 to 19, social workers from 13 to 15.

**IMPACT OF LOSS OF REVENUE AND
INCREASE IN COST OF SALARY
AND WAGES**

The hospice industry in Puerto Rico consisting of 34 firms which provided 659,000 days of routine home care is under substantial squeeze due to (1) reduction in payments by CMS which will reduce hospices revenues and (2) rising costs of salaries and wages prompted by legislated salaries of nurses. These two developments could reduce net income of 34 firms by as much as \$10.2 million in an industry which according to CMS receives payments of \$58.9 million.

The 34 hospices are likely to have reduction in revenues due to reduction in hospice payments for routine home care by CMS. This reduction is 2.6 percent in F.Y. 2008 as compared to payment in 2007.

The 34 hospices are also going to experience increase in costs of wages and salaries warranted by Legislative change in salaries of nurses.

These two factors can have a negative impact on fiscal conditions of 34 firms, as follows:

1. Loss of revenues (\$648,605 ÷ 22.7 x 100)	\$2,857,291
2. Increase in Cost of Salaries and Wages	\$7,322,000
3. TOTAL NEGATIVE IMPACT ON FINANCIAL CONDITIONS	\$10,179,291

Loss of revenue for Hospicio La Paz Inc. is estimated at \$648,605. La Paz serves 22.7 percent of all patients served in Puerto Rico. This means that revenue loss for the industry will be $\$648,605 \div 22.7 \times 100$ which is equal to \$2,857,291.

Increase in costs of salaries and wages will be as follows:

COST OF SALARIES AND WAGES

(\$000)

	2006	2007
Hospicio La Paz Inc.	\$5,283	\$6,945
Total Industry	\$23,273	\$30,595

Costs of salaries and wages for 34 firms is computed as follows:

$$2006 = \$5,283,000 \div 22.7 \times 100 = \$23,273,000$$

$$2007 = \$6,945,000 \div 22.7 \times 100 = \$30,595,000$$

Within a period of 12 months, the costs of increase in salaries and wages could be \$7,322,000.

Further, it should be pointed out that the U.S. Congress has legislated that Federal minimum wage be increased from \$5.15 to \$7.25 in 24 months. Within the first 12 months of signing into law by the President, the minimum wage will be increased to \$5.85 per hour. This legislation is expected to affect 7.5 percent of employees in the private sector, including hospices. The Federal minimum wage legislation will additionally increase operating costs of hospices. The wage increase is not included in the additional hospice cost figure of \$7,322,000.

Out of 450 employees of Hospicio La Paz, Inc. there will be impacted 250 employees due to increase in the minimum wage. It is estimated that salary and wage cost would increase by \$80,000 per month and \$960,000 per year due to the change in minimum wage.

If the experience of Hospicio la Paz is extended to the total industry, it may be noted that the cost could increase by \$4,229,075 ($\$960,000 \div 22.7 \times 100$) due to the contemplated increase in minimum wage.

Another item which should increase hospice operating costs in Puerto Rico is the CMS required electronic transmission of hospice reports. This requirement is costly. Hospicio la Paz, Inc. has already implemented 80 percent of what needs to be done in this regard and it has cost La Paz \$1,000,000. Full implementation cost will be \$1,250,000. This is an add-on cost.

CMS required electronic transmission of hospice reports is eventually going to cost \$1,250,000 to Hospicio La Paz, which constitutes 22.7 percent of the hospice industry. This means that CMS required transmission of hospice reports will cost the industry \$5,506,608 ($\$1,250,000 \div 22.7 \times 100$). This is another add on operating cost for the hospice industry in Puerto Rico.

LONG-TERM CARE HOSPITALS

It must be pointed out that hospice care is like long-term hospital care. CMS is increasing payment to long-term hospital care. CMS should also increase payments to hospices. CMS issued a press release on May 1, 2007 which said as follows:

“The Center for Medicare & Medicaid Services (CMS) today issued a final rule designed to assure appropriate payment for services by long-term care hospitals (LTCHs) to treat severely ill or medically complex patients, while providing incentives for more efficient care for Medicare beneficiaries. Under this final rule, Medicare total payments to LTCHs are expected to exceed \$4 billion for rate year (RY) 2008.

“The final rule assures appropriate payment for services furnished to severely ill patients and patients with medically complex conditions while providing incentives to long-term care hospitals to furnish more efficient care to Medicare beneficiaries,” said CMS Acting Administrator Leslie V. Norwalk, Esq.

The Medicare statute generally defines long-term care hospitals as hospitals that have an average Medicare inpatient length of stay of greater than 25 days. These hospitals usually provide extended medical and rehabilitative care for patients who are clinically complex and may suffer from multiple acute or chronic conditions. Services typically include comprehensive rehabilitation, respiratory therapy, head trauma treatment and pain management.

“CMS is updating the LTCH PPS federal rate by 0.71 percent to \$38,356.45 for RY 2008. This update reflects the Rehabilitation, Psychiatric, and Long-Term Care (RPL) market basket of 3.2 percent and an adjustment of 2.49 percent to account for coding practices. CMS analysis of the latest available LTCH claims data indicates that a significant portion of the estimated 3.49 percent increase in observed case mix between FY 2004 and FY 2005 is due to changes in coding practices and documentation rather than to the treatment of more resource intensive patients. Therefore the standard Federal rate for RY 2008 has been adjusted by (1) the most recent estimate of the market basket for RY 2008 (3.2 percent) and (2) -2.49 percent, the difference between the observed case mix increase in FY 2005 (3.49 percent) and the real case mix increase (1 percent) due to increases in patient severity.”

**IMPACT ON CMS IF HOSPICIO LA PAZ INC.
DISCONTINUES SERVICES**

Hospicio La Paz Inc. can continue to provide services if its revenues exceed expenditures. Unless CMS increases payments to hospices in Puerto Rico, Hospicio La Paz, Inc. and other hospices could enter into very grave financial situation. It should be understood that a private company can continue providing services if it generates surplus.

In the event Hospicio La Paz and other hospices in Puerto Rico can not continue giving services, CMS will have to provide services to some 7,200 patients in hospitals where cost of providing services to a terminally ill patient can be \$250,000 in a period of two months (maximum allowed period) and total cost can reach \$1,800,000,000.

When hospices in Puerto Rico are providing services to terminally ill patients at home, the estimated cost per patient over a period of 6 months is \$18,000. For 7,200 patients, the total potential cost in hospices can be \$129,600,000.

Should hospices in Puerto Rico be unable to provide services to terminally ill patients at home, CMS will have to provide such services through hospitals and the additional cost to CMS will be \$1,670,400,000. This is a tremendous cost for CMS to bear.

It will be very economical for CMS to provide increment in payments to hospices in Puerto Rico. Hospices can provide service if the requested payment increment can be granted and their revenues exceed expenditures.