

The Employment Cost Index and the Impact on Medicare Reimbursements



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Since the mid-1980's, the Bureau of Labor Statistics Employment Cost Index (ECI) has been used as part of an annual process to update payments to various healthcare providers under Medicare's Prospective Payment System (PPS). The PPS designates the level of payment for Medicare-covered services and products, adjusted annually, based on a number of factors including price changes in compensation for personnel. ECI data are used as a major factor in determining Medicare payment adjustments in six provider categories, resulting in an estimated \$3.4 billion dollar reimbursement increase for 2009.¹

Estimated Payment Example (using December 2009 ECI)

The PPS Hospital Input Price Index uses several ECI components to make annual adjustments to payments for various Medicare hospital-related payment provider categories. For example, Medicare reimbursements for hospital inpatient and acute care were approximately \$132.5 billion, according to the Centers for Medicare & Medicaid Services (CMS) data from 2009. Over 74 percent of the Medicare update is based on the ECI. Applying the total ECI-related weight (74.2%) to the calculated percent change using the December 2009 ECI (1.51%), would result in a \$2.0 billion dollar increase¹ in Medicare payments for hospital inpatient and acute care.

ECI Component	Weight	2009 ECI 12-month percent change	Percent change in Medicare payments due to ECI
Civilian, hospital, wages	47.2%	2.1%	0.99%
Civilian, hospital, benefits ²	12.4%	2.7%	0.34%
Private, professional and related occupations, compensation	9.4%	1.0%	0.09%
Private, service occupations, compensation	3.2%	1.8%	0.06%
Private, financial activities occupations, compensation	1.3%	1.4%	0.02%
Private, office and administrative support occupations, compensation	0.6%	1.8%	0.01%
Total	74.2%		1.51%

The following table provides approximate annual updates in Medicare payments due to increases in the ECI

Medicare payment provider category	2009 CMS Medicare reimbursement (in millions of dollars) ³	Percent of update based on ECI	Percent change in Medicare payments due to ECI	Increase resulting from change in ECI (in millions of dollars) ¹
Hospital inpatient and acute care	\$132,496	74.2%	1.51%	\$2,001
Hospital outpatient	25,267	74.2%	1.51%	382
Hospice	12,210	74.2%	1.51%	184
Skilled nursing facilities	26,281	67.6% ⁴	1.30%	342
Home healthcare	18,820	85.2% ⁴	1.39%	262
Physicians	61,893	27.1% ⁴	0.36%	223
Total	\$276,967			\$3,394

See footnotes on back.

¹The estimated reimbursement is a hypothetical example and does not factor in any changes to payments based on other patient or provider specific characteristics.

²Estimate derived by the Centers for Medicare & Medicaid Services and Global Insight, Inc. from published BLS data. See the PPS Hospital Input Price Index for additional information on market basket weights at <http://www.cms.hhs.gov/MedicareProgramRatesStats/downloads/mktbskt-pps-hospital-2006.pdf>.

³Source: Centers for Medicare and Medicaid Services, Office of the Actuary reimbursement estimates provided for President's 2012 budget.

⁴The Skilled Nursing Facility Input Price Index, Home Health Input Price Index, and Medicare Economic Index market basket weights, located at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MedicareProgramRatesStats/MarketBasketData.html> determine adjustments for skilled nursing facilities, home healthcare providers, and physicians, respectively, and use different weights than the PPS Hospital Input Price Index.

See the article "Using the Employment Cost Index to adjust Medicare payments" by Al Schwenk and Bill Wiatrowski, October 2002, Monthly Labor Review, at <http://www.bls.gov/opub/mlr/2002/10/art3full.pdf> for 1999 data and information on how Medicare adjustment calculations are made.