

The Employment Cost Index and the Impact on Medicare Reimbursements

October 2017

Since the mid-1980's, the Bureau of Labor Statistics Employment Cost Index (ECI) has been a major source of data used by the Centers for Medicare and Medicaid Services (CMS) to determine the annual adjustment to Medicare reimbursements for health care service providers. CMS issues reimbursement guidelines under Medicare's Prospective Payment Systems (PPS), determining reimbursement rates (subject to approval by Congress) for Medicare-covered products and services to over one million health care providers annually. The PPS designates the level of payment for Medicare-covered products and services, adjusted annually, based on a number of factors including labor cost changes. The ECI estimates are used prominently in measuring changes in costs in 9 payment provider categories (7 of 9 categories with over 70 percent of increases attributed to ECI) to determine Medicare reimbursements to health care providers, resulting in an estimated \$4.9 billion dollar reimbursement increase for 2016.¹ (See Table 1.)

Table 1. Approximate increases in Medicare payments, in millions of dollars, based on December 2016 ECI

Medicare payment provider category	2016 CMS Medicare reimbursements (1)	Percent of update based on ECI (2)	Percent change in Medicare payments due to ECI	Increase resulting from change in ECI
Home healthcare	19,129	88.8%	2.10%	\$401.6
Inpatient psychiatric facilities	4,465	77.0%	1.74%	\$77.7
Hospital inpatient and acute care	140,213	74.5%	1.73%	\$2,418.6
Hospital outpatient care	51,251	74.5%	1.73%	\$884.1
Hospice	18,154	74.5%	1.73%	\$313.2
Inpatient rehabilitation facilities	7,867	73.1%	1.71%	\$134.6
Skilled nursing facilities	30,637	71.3%	1.65%	\$505.6
Long term care facilities	4,891	68.7%	1.62%	\$79.1
End stage renal disease	9,308	43.1%	1.06%	\$98.3
Total (3)	285,915	N/A	N/A	\$4,912.7

Footnotes:

- (1) Source: Centers for Medicare and Medicaid Services, Office of the Actuary reimbursement estimates provided for President's 2018 budget.
- (2) Table ordered by percent of update based on ECI.
- (3) Estimates may not add to total due to rounding.

The PPS Hospital Price Index is a "market basket"² used for three payment provider components (hospital inpatient and acute care, hospital outpatient care, and hospice), resulting in an increase in reimbursements of over 3.6 billion dollars based on ECI. The remaining six payment provider categories accounted for an approximate 1.3 billion dollars in reimbursement increases based on the ECI.



The example below provides information on how increases in a specific payment provider category are estimated using various ECI components.

Estimated Payment Example (using December 2016 ECI)

The PPS Hospital 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 \$140.2 billion, according to 2016 CMS data. Approximately 74.5 percent of the Medicare update for the payment provider category is based on the ECI. Thus, a 1-percent increase in the ECI would result in a 0.745-percent increase in hospital payments. (See Table 2.)

Applying the total ECI-related weight (74.5 percent) to the calculated percent change using the December 2016 ECI (1.73%), would result in a \$2.4 billion increase in Medicare payments for hospital inpatient and acute care.

Table 2. Impact of ECI on Medicare reimbursements, hospital inpatient and acute care, December 2016

ECI Component	Weight	12-month percent change	Percent change in Medicare payments due to ECI
Civilian, hospital, wages	47.2%	2.5%	1.18%
Civilian, hospital, benefits (1)	13.1%	2.0%	0.26%
Private, professional and related occupations, compensation	9.2%	1.4%	0.13%
Private, service occupations, compensation	3.1%	3.2%	0.10%
Private, financial activities occupations, compensation	1.2%	2.9%	0.04%
Private, office and administration support occupations, compensation	0.6%	2.8%	0.02%
Total (2)	74.5%	N/A	1.73%

Footnotes:

- (1) The 12-month percent change is an unpublished estimate from the Bureau of Labor Statistics, National Compensation Survey.
- (2) Estimates may not add to total due to rounding.

END NOTES

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

(2) [Medicare Program Rates & Statistics: Market Basket Data](#) provide quarterly index levels and 4-quarter moving average percent changes for the market baskets.

See the articles *Using the Employment Cost Index to adjust Medicare payments* ([PDF](#)) by Albert Schwenk and William Wiatrowski, October 2002, Monthly Labor Review, and *The Employment Cost Index and the Impact on Medical Reimbursements* ([PDF](#)) by Jeffrey Schildkraut, October 26, 2009, Compensation and Working Conditions for data and information on how Medicare adjustment calculations are made.

NOTE: The initial version of this document included the impact to physicians of \$992.6 million dollars based on ECI usage in the CMS Medicare Economic Index. Current physician Medicare reimbursements are based on the [Medicare Access and CHIP Reauthorization Act of 2015 \(MACRA\)](#).

