

# The Employment Cost Index and the Impact on Medicare Reimbursements

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*The Employment Cost Index (ECI) is a major source of data used by the Centers for Medicare and Medicaid Services to determine the annual adjustment to Medicare reimbursements for health care service providers. This article provides a measurement of the impact that recent ECI data had on Medicare payment adjustments.*

Since the mid-1980s, the Bureau of Labor Statistics [Employment Cost Index \(ECI\)](#), a measure of the rate of change in employer costs for wages and benefits, has been a major factor in determining the annual adjustment to Medicare reimbursements for health care service providers. ECI data are used in determining Medicare payment adjustments for six provider categories, which, as table 1 shows, resulted in an estimated \$4.8 billion reimbursement increase for 2008.

**Table 1. Estimated increase in payment resulting from ECI based adjustments, 1999 and 2008**

Payment provider category	CMS Price Index	Millions of dollars	
		1999	2008
Hospital inpatient and acute care	PPS Hospital Input Index	\$2,100	\$2,835
Hospital outpatient	PPS Hospital Input Index	211	465
Hospice	PPS Hospital Input Index	62	237
Skilled nursing facility	Skilled Nursing Facility Input Index	290	460
Home healthcare	Home Health Input Price Index	273	393
Physicians	Medicare Economic Index	310	414
<b>Total</b>		<b>\$3,246</b>	<b>\$4,804</b>

The U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS), administers the Medicare program, which establishes health care coverage for approximately 45 million beneficiaries.<sup>1</sup> CMS issues reimbursement guidelines and, under Medicare's Prospective Payment Systems (PPS), determines reimbursement rates, subject to approval by Congress, for Medicare-covered goods and services to approximately 1.4 million health care providers annually.<sup>2</sup>

While the ECI is one of several data sources used to determine reimbursement rates, CMS does not report to what extent the ECI ultimately affects the annual reimbursement rate adjustment. In the October 2002 issue of the [Monthly Labor Review](#), Bureau economists Albert E. Schwenk and William J. Wiatrowski estimated the ECIs impact on the annual adjustment to Medicare reimbursement rates for 1999 and discussed the relationship between the two programs.<sup>3</sup> This article is an update of the Schwenk-Wiatrowski article, providing a measurement of the impact that recent ECI data have on Medicare payment adjustments.

ECI data are used in the process to determine the allowable increase in payments in 6 of 16 Medicare payment provider categories under Medicare's Prospective Payment Systems (PPS). The six categories are hospital inpatient and acute care; hospital outpatient; skilled nursing facilities; hospice; home health care organizations; and physicians. In total, these 6 components accounted for about 59 percent of Medicare expenditures.<sup>4</sup>

To estimate the impact of the ECI on the resulting CMS reimbursement rate adjustments for each provider category, start with the CMS projected reimbursement levels, and then multiply the ECI related price index component weights by the calculated 12-month percent change. Then sum these changes over all components to get the percent change in Medicare payments due to the ECI. (For more information on the use of ECI components, see ["The Employment Cost Index and the](#)

**Impact on Medicare Reimbursements.**<sup>5</sup> ) The percent change in Medicare payments due to the ECI is then multiplied by the annual CMS Medicare reimbursement estimate for that payment provider category to determine the increase resulting from the change in the ECI. For example, the estimated ECI impact on the hospital inpatient and acute care category is based on CMS Medicare reimbursement level of \$126 billion<sup>6</sup>; applying the ECI related PPS Hospital Input Index weight of 69.7 percent to the various December 2008 ECI 12-month component changes determines a total payment provider category change of 2.25 percent. Overall, the total estimated increase in hospital inpatient and acute care payments based on the December 2008 ECI is approximately \$2.8 billion (2.25 percent of \$126 billion).<sup>7</sup>

The PPS designates the level of payment for Medicare-covered services on the basis of the diagnosis and geographic location of care. Changes in reimbursement rates are primarily based on CMS estimates of changes in expenditure levels for a set of goods and services, also known as a “market basket.” Increases are based on input price indexes for each component of the market basket and are developed to estimate cost changes for various Medicare provider categories. CMS price indexes typically encompass numerous inputs, including changes in compensation costs for various industries, such as hospitals. ECI data are used for many of these compensation changes, including, for example, the following:

- ECI data account for about 70 percent of the PPS Hospital Price Index, which is used to determine allowable increases in payments for hospital charges. Thus, a 1-percent increase in the ECI would result in a 0.7-percent increase in hospital payments. In 2007, Medicare hospital inpatient and acute care payment reimbursements totaled nearly \$126 billion.<sup>8</sup> The estimated 2.25-percent change in Medicare payments due to ECI (based on the December 2008 ECI) would result in over \$2.8 billion in increases in annual hospital payment reimbursements.
- ECI data account for about 68 percent of the Skilled Nursing Facility Input Index, which is used to determine allowable increases in payments for charges for skilled nursing facilities. Medicare reimbursed skilled nursing facilities more than \$22 billion in skilled nursing charges in 2007. The estimated 2.02-percent change in Medicare payments due to ECI (based on December 2008 ECI) would result in a \$460 million increase in annual skilled nursing payment reimbursements.
- ECI data account for about 85 percent of the Home Health Input Price Index, which is used to determine allowable increases in reimbursements for charges for home health care. Medicare reimbursed home health care providers more than \$15 billion in home health care charges in 2007. The estimated 2.50-percent change in Medicare payments due to ECI (based on December 2008 ECI) would result in a \$393 million increase in annual home health care payment reimbursements.
- ECI data account for over 28 percent of the Medicare Economic Index, which is used to determine allowable increases in payments for physician services. Medicare reimbursed physicians more than \$58 billion in physician services in 2007. The estimated 0.71-percent change in Medicare payments due to ECI (based on December 2008 ECI) would result in a \$414 million increase in physician payment reimbursements.

Table 1 indicates that the approximate annual adjustment in Medicare reimbursements in 2008 due to increases in the ECI totaled about \$4.8 billion. Annual adjustments attributable to ECI increases in 1999 Medicare payments totaled \$3.2 billion. Estimated payments in hospital inpatient and acute care attributable to the ECI increased from \$2.1 billion in 1999 to over \$2.8 billion in 2008, based on December 2008 ECI data. Note that estimates of the annual ECI impact can vary from year to year. For example, using December 2007 ECI data, the hospital inpatient and acute care category would have estimated reimbursement increases of approximately \$3.0 billion.

The [National Compensation Survey \(NCS\)](#) provides annual updates on the impact of the ECI on Medicare reimbursements.<sup>9</sup> CMS reimbursement estimates are based on the Presidents budget and current CMS market basket components and weights. CMS may make adjustments to components in the six input indexes that could alter the ECI overall impact on one or more payment provider categories. NCS will provide additional details on the annual ECI impact summary to identify important changes resulting from market basket updates.

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## Notes

1 See The Henry J. Kaiser Family Foundation, [statehealthfacts.org](http://www.statehealthfacts.org/comparemaptable.jsp?ind=290&cat=6&sub=74&yr=63&typ=1&sort=a), on the Internet at <http://www.statehealthfacts.org/comparemaptable.jsp?ind=290&cat=6&sub=74&yr=63&typ=1&sort=a>.

2 Medicare Payment Advisory Commission, *A Data Book: Healthcare Spending and the Medicare Program, June 2008*, chart 1-14, p. 16.

3 Albert E. Schwenk and William J. Wiatrowski, "Using the Employment Cost Index to adjust Medicare payments," *Monthly Labor Review*, October 2002, pp. 20-27, on the Internet at <http://www.bls.gov/opub/mlr/2002/10/art3full.pdf>.

4 See Medicare Payment Advisory Commission, *A Data Book: Healthcare Spending and the Medicare Program, June 2008*, chart 1-9, p. 11. An estimate of 59 percent is determined by dividing the total 2007 CMS Medicare reimbursements of all 6 categories by the total of all Medicare spending in 2007, and then multiplying the result by 100 to express in terms of a percentage. The total for 2007 CMS Medicare reimbursements for the 6 categories is \$254 billion; total 2007 Medicare spending is \$428 Billion; multiplied by 100 equals 59 percent. Note that the total Medicare spending in 2007 (\$428 Billion) includes about \$51 Billion (or 12 percent of total) in reimbursements for Medicare Part D, which is a prescription drug plan. For more information, see the [Medicare](http://www.medicare.gov/pdphome.asp) Web site at <http://www.medicare.gov/pdphome.asp>.

5 "The Employment Cost Index and the Impact on Medicare Reimbursements" is available on the BLS Web site at <http://www.bls.gov/ncs/ect/>.

6 Centers for Medicare and Medicaid Services, Office of the Actuary, unpublished reimbursement estimates for 2007.

7 ECI data can be found on the [Employment Cost Trends](http://www.bls.gov/ncs/ect/) page of the BLS Web site at <http://www.bls.gov/ncs/ect/>.

8 Centers for Medicare and Medicaid Services, Office of the Actuary, unpublished reimbursement estimates for 2007.

9 "The Employment Cost Index and the Impact on Medicare Reimbursements" was first published in 2008. The latest version is available on the BLS Web site at <http://www.bls.gov/ncs/ect/>.