

# The Employment Cost Index and the Impact on Medicare Reimbursements

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 Systems (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 \$5.1 billion dollar reimbursement increase for 2007.<sup>1</sup>

## Estimated Payment Example (using December 2007 ECI)

The PPS Hospital Input Price Index uses several ECI components to make annual adjustments to payments for three Medicare hospital-related payment provider categories. For example, Medicare reimbursements for hospital inpatient and acute care were approximately \$125.4 billion, according to the Centers for Medicare & Medicaid Services (CMS) data from 2006. About 70 percent of the Medicare update is based on the ECI. Applying the total ECI-related weight (69.7%) to the calculated percent change using the December 2007 ECI (2.40%), would result in a \$3.0 billion increase in Medicare payments for hospital inpatient and acute care.

Index component	Weight	2007 ECI 12-month percent change	Percent change in Medicare payments due to ECI
ECI civilian hospital wage index	48.2%	3.5%	1.69%
ECI civilian hospital benefit index <sup>2</sup>	11.8%	3.1%	0.37%
ECI private industry compensation for professional and related occupations	5.5%	3.3%	0.18%
ECI private industry compensation for service occupations	4.2%	3.8%	0.16%
<b>Total ECI-related</b>	<b>69.7%</b>		<b>2.40%</b>

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

## **Estimated increases in Medicare reimbursements resulting from the December 2007 ECI**

Medicare payment provider category	2006 CMS Medicare reimbursement (in millions of dollars) <sup>3</sup>	Percent of update based on ECI	Percent change in Medicare payments due to ECI	Increase resulting from change in ECI (in millions of dollars) <sup>4</sup>
Hospital inpatient and acute care	\$125,399	69.7%	2.40%	\$3,010
Hospital outpatient	18,712	69.7	2.40	449
Hospice	9,208	69.7	2.40	221
Skilled nursing facilities	21,012	67.6 <sup>4</sup>	2.23 <sup>4</sup>	469
Home healthcare	14,164	85.2 <sup>4</sup>	3.02 <sup>4</sup>	428
Physicians	58,531	28.4 <sup>4</sup>	0.84 <sup>4</sup>	492
<b>Total</b>	<b>\$247,026</b>			<b>\$5,069</b>

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

<sup>2</sup> Estimate derived by the Centers for Medicare & Medicaid Services and Global Insight, Inc. from published BLS data. See the PPS Hospital Input Price Index at <http://www.cms.hhs.gov/MedicareProgramRatesStats/downloads/mktbskt-pps-hospital-2002.pdf> for additional information on market basket weights.

<sup>3</sup> Source: Centers for Medicare & Medicaid Services, Office of the Actuary reimbursement estimates provided for President's 2009 budget.

<sup>4</sup> The Skilled Nursing Facility Input Price Index, Home Health Input Price Index, and Medicare Economic Index market basket weights, located at [http://www.cms.hhs.gov/MedicareProgramRatesStats/04\\_MarketBasketData.asp](http://www.cms.hhs.gov/MedicareProgramRatesStats/04_MarketBasketData.asp), 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.