

The Employment Cost Index and the Impact on Medicare Reimbursements

Since the mid-1980s, the Bureau of Labor Statistics's 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. 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 measures the change in labor costs which CMS uses (in part) to determine annual adjustments to Medicare reimbursements made to health care providers in nine payment categories, resulting in an over \$9 billion reimbursement increase for 2024.¹ (See Table 1.)

Table 1. Approximate increases in Medicare payments based on December 2024 ECI

Provider category	CMS Medicare reimbursements (in millions) [1]	Percent of update based on ECI [2]	Percent change in Medicare payments due to ECI	Increase resulting from change in ECI (in millions)
Home healthcare	\$17,243	85.94%	3.48%	\$600.42
Inpatient psychiatric facilities [3]	\$2,561	80.46%	3.23%	\$82.74
Inpatient rehabilitation facilities [3]	\$10,919	76.38%	3.22%	\$351.60
Long term care facilities [3]	\$3,195	75.31%	3.18%	\$101.59
Hospital inpatient and acute care	\$159,918	74.85%	3.10%	\$4,959.31
Hospital outpatient care	\$75,963	74.85%	3.10%	\$2,355.73
Hospice	\$31,270	74.85%	3.10%	\$969.73
Skilled nursing facilities	\$30,947	69.96%	2.17%	\$670.08
End stage renal disease	\$6,735	50.43%	2.11%	\$142.21
Total [4]	\$322,076	N/A	N/A	\$9,697.49
Footnotes:				
[1] Source: Centers for Medicare and Medicaid Services, Office of the Actuary reimbursement estimates provided for 2025 Medicare Trustees Report.				
[2] Table ordered by percent of update based on ECI.				
[3] Included in the hospital inpatient spending.				
[4] Estimates may not add to total due to rounding.				

The PPS Hospital Price Index is a "market basket"² used for three payment provider categories (hospital inpatient and acute care, hospital outpatient care, and hospice), resulting in an increase in reimbursements of over \$8.2 billion based on ECI. The remaining payment provider categories accounted for over \$1.4 billion 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 2024 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 \$159 billion. Approximately 74.9 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 0.749-percent increase in hospital payments. (See Table 2.)

Applying the total ECI-related weight (74.9 percent) to the calculated percent change using the December 2024 ECI (3.10%), would result in an approximate \$3.6 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 2024

ECI Component	Weight	12-month percent change	Percent change in Medicare payments due to ECI
Civilian, hospital, wages	40.6%	4.3%	1.75%
Civilian, hospital, benefits [1]	10.5%	4.6%	0.48%
Private, professional and related occupations, compensation	17.0%	3.6%	0.61%
Private, financial activities, compensation	1.8%	3.4%	0.06%
Civilian, installation, maintenance, and repair occupations, compensation	1.5%	3.9%	0.06%
Private, service occupations, compensation	2.6%	4.2%	0.11%
Private, office and administration support occupations, compensation	0.8%	3.7%	0.03%
Total [2]	74.8%	N/A	3.10%
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.			

More Information

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.

The [webpage version](#) of this factsheet is also available. For 'The Employment Cost Index and the Impact on Medicare Reimbursements' in previous years, see: [2023 \(PDF\)](#), [2022 \(PDF\)](#), [2021 \(PDF\)](#), [2020 \(PDF\)](#), [2018 \(PDF\)](#), [2017 \(PDF\)](#), [\(2016 PDF\)](#), [\(2012 PDF\)](#), [\(2009 PDF\)](#), and [\(2008 PDF\)](#).

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.