

APPENDIX E: SUMMARY OF HEALTH CARE INFLATION INDICES

There is not one single source that can be used to estimate cost increases for all providers across all types of services. There are, however, measures of inflation and cost data that other health care programs use to evaluate providers' cost increases and develop inflation factors for purposes of annual rate updates. The Centers for Medicare and Medicaid Services (CMS) uses forecasted market baskets and other inflation indices to update various types of Medicare payments.¹

CMS Market Baskets

A market basket is “a fixed-weight index... [that] answers the question of how much more or less it would cost, at a later time, to purchase the same mix of goods and services that was purchased in a base period.”² The CMS market baskets include the quantity, intensity and prices of inputs that comprise a service. Only the prices are updated; the other factors are held constant. Thus, the market baskets provide a good measure of the changes in input prices faced by health care providers.

The CMS market baskets consist of updates to the various data components (e.g., wages and benefits, utilities, prescription drugs) that make up an individual health care service. Each component may have a different data source used to calculate its update factor; ultimately, these factors are aggregated to produce one composite factor. The market baskets, including their individual component data sources, are available to the public on the CMS website. The main sources include the:

- *Producer Price Index (PPI)*: Measures the average change of the selling prices that producers receive for their goods and services. The PPI includes thousands of indices, including indices for industry prices, commodity prices, and “stage-of-processing” indices (finished goods, intermediate materials, supplies and components and crude materials).³

The PPI indices are preferred over many other indices when measuring expected health care service costs because they measure actual input costs rather than a final selling price for a good or service.⁴ PPI is the preferred index to consumer price index (CPI) since providers are typically wholesale consumers rather than retail consumers.

¹ The CMS market basket forecasts are developed by an economic forecasting firm contracted by CMS and are released quarterly.

² Centers for Medicare and Medicaid Services, *Market Basket Definitions and General Information*. Available online: <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MedicareProgramRatesStats/downloads/info.pdf>

³ Bureau of Labor Statistics, *Producer Price Index*. Available online: <http://www.bls.gov/ppi/>

⁴ Centers for Medicare and Medicaid Services, *Market Basket Definitions and General Information*. Available online: <http://www.cms.hhs.gov/MedicareProgramRatesStats/downloads/info.pdf>

- *Consumer Price Index (CPI)*: Measures the average change in prices paid by urban consumers for certain goods and services. The CPI is *consumer-based*, as opposed to the *producer-based* PPI.⁵ If the expenditure made by a health care provider is retail, rather than wholesale, then the CPI may be an appropriate index to consider. In addition, if there is not an existing PPI for a specific service, the CPI may be the preferable index.
- *Employment Cost Index (ECI)*: Measures quarterly changes in labor costs such as wages, salaries, benefits, and total compensation. The ECI details these costs by industry, occupation, and other factors.⁶

Each type of service is comprised of different inputs. For example, facility-based services may require components such as capital, utilities, and food, which are not required for other services. Thus, CMS develops a separate market basket for each of the following types of service:

- Hospital – inpatient and outpatient
- Hospital capital
- Skilled nursing facility
- Home health agency
- Inpatient rehabilitation facility
- Long-term care hospital, inpatient rehabilitation facility and inpatient psychiatric facility
- Physician

Table E.1 displays the annual increases in the CMS market baskets from State Fiscal Year (SFY) 2017 to SFY 2022.

⁵ Bureau of Labor Statistics, Consumer Price Index. Available online: <http://www.bls.gov/cpi/home.htm>

⁶ Bureau of Labor Statistics, Employment Cost Index Summary. Available online: <http://www.bls.gov/ncs/summary.htm#ect>

Table E.1: Six-Year History of Medicare Input Price Indices, SFY 2017 to SFY 2022^{7,8}

Service	SFY 2017	SFY 2018	SFY 2019	SFY 2020	SFY 2021	SFY 2022	Average SFY 2017 - 2022
Hospital – Inpatient	2.6	2.5	2.4	2.0	3.0	5.7	3.03
Hospital Capital – Inpatient	1.0	1.1	1.3	1.2	1.0	2.0	1.27
Skilled Nursing Facility	2.5	2.6	2.4	2.1	3.6	6.3	3.25
Home Health Agency	2.3	2.6	2.7	2.3	3.3	6.3	3.25
Long Term Care Hospital	2.4	2.4	2.3	2.0	2.8	5.5	2.90
Inpatient Rehabilitation Facility	2.4	2.3	2.3	2.1	2.7	5.3	2.85
Inpatient Psychiatric Facility	2.4	2.6	2.5	2.2	2.9	5.3	2.98
Medicare Economic Index (Physician Services)	1.4	1.8	1.7	1.6	2.5	4.0	2.17

Consumer Price Index

CMS uses the CPI to update Medicare reimbursement for several services that are not updated using the CMS market baskets: ambulance, clinical laboratories and durable medical equipment, prosthetics, and orthotics (DMEPOS). Table E.2 details the percent changes in the CPI (all items) from June 2016 to June 2022.

Table E.2: Twelve-Month Change in CPI, 2016 to 2022⁹

	Twelve Month Change from Prior Year (percent)
June 2016	1.0
June 2017	1.6
June 2018	2.9
June 2019	1.6
June 2020	0.6
June 2021	5.4
June 2022	9.1

⁷ All SFY data is using Quarter 3 of the Calendar Year 4 Quarter Rolling Average, because this corresponds to the SFY. The figures in Table E.1 represent the actual market basket data; the Medicare updates were based on the most recent forecast available at the time (March 2022) and may include other factors (e.g., a volume adjustment for physician services) and therefore may not correspond to the figures in Table F.1.

⁸ Centers for Medicare and Medicaid Services, Market Basket Data. Accessed June 22, 2023. Available online: <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MedicareProgramRatesStats/MarketBasketData.html>

⁹ Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers. Available online : <http://www.bls.gov/data/>