Press Release

Medicare and Geographic Adjustments: A Primer

PAULINA ENCK | SEPTEMBER 8, 2021

With hospital finances in flux due to the COVID-19 pandemic, a new AAF primer reviews how Medicare — a major source of provider funding — adjusts payments for hospitals and doctors based on geographic variation. Health Care Policy Analyst Jackson Hammond outlines the background, structure, and criticisms of the two primary adjustment mechanisms, noting that these systems rely on partial and outdated data.

Hammond concludes:

> *Both the Hospital Wage Index and Geographic Practice Cost Index geographic adjustments suffer from limited data and decades-old assumptions. There are no simple solutions for this flaw – and any solution would require massive data collection and sorting that could take years. Given the budget neutrality requirements for most changes in Medicare payments, payment recalculation will result in winners and losers, adding a political challenge to the budgetary and equity challenges. Nevertheless, some of these adjustment methods appear due for an update.*

Read the analysis