



The Daily Dish

Medicare and the Map

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Eakinomics: Medicare and the Map

Medicare is an entitlement program, and the traditional Medicare program guarantees access to health services by seniors. But, in the end, providing those services is a business. And as it turns out, the cost of doing business varies considerably across the country. As Jackson Hammond puts it in his new research [Primer: Geographic Adjustment of Medicare Rates](#), “The cost of providing the treatment is itself influenced by multiple variables: the amount of labor and the mix of labor used in providing the treatment (potentially involving physicians, nurse practitioners, orderlies, or other providers); and the capital costs of the provider, including rent and taxes. Cost of living directly impacts the price of labor, so personnel costs vary substantially based on location. Similarly, rent and taxes vary substantially between different communities.”

So, in order to provide the same therapies and treatments to all beneficiaries, Medicare must adjust the reimbursement amounts to compensate for these differences in the cost of providing services. As explained in *much* detail by Hammond, there are two main geographical adjustments: (1) the Hospital Wage Index (HWI) and (2) the Geographic Practice Cost Index (GPCI). The former is intended to directly address differences in the wages of medical personnel in Medicare Part A, while the latter is designed to capture a broader array of costs of doing medical business in Medicare Part B.

So, no problem, right? Not quite. Consider the graph (below) reproduced from Hammond’s primer. It shows the Medicare margins (the percent of costs that Medicare payments cover) for short-term care hospitals in high-cost areas versus the national average. As the data show, Medicare on average does not fully cover costs, but does a much poorer job in high-cost areas such as Seattle (-27.7 percent) and San Francisco (-41.2 percent).