

Press Release



Medicare Geographic Adjustment: Challenges and Proposed Solutions

PAULINA ENCK | FEBRUARY 2, 2022

The vast majority of Medicare's more than \$925 billion in annual spending is payment to providers through the Fee-for-Service system for individual hospital and physician services. In a new insight, Health Care Policy Analyst Jackson Hammond reviews the reimbursement disparities that result from the formulas used to adjust Medicare payments by geography, and considers proposed solutions. This paper follows up on an AAF primer on how Medicare adjusts payments for hospitals and doctors based on geographic variation.

Key points:

- To calculate appropriate, accurate, and sufficient reimbursement, Medicare takes the regional price of labor into account using the Hospital Wage Index (HWI) and the Geographic Practice Cost Indices (GPCI).
- There are many problems with the sourcing and occupational mix of HWI and GPCI data, resulting in unbalanced payment rates between nearby regions and inaccurate reimbursements, among other issues, ultimately undermining the purpose of using the HWI and GPCIs for geographic adjustment.
- To address these discrepancies, the Centers for Medicare and Medicaid Services could change the data source for the HWI, align the payment regions between the two adjustment factors, alter the physician work GPCI formula, and adjust the occupational mix in both adjustment factors to better represent the true cost of labor in a given geographic region.
- Yet while an improvement on the current system, even these alterations would not adequately address reimbursement disparities; therefore, considerable further study is needed.

[Read the analysis](#)