

Benefits Insights

Consumer Price Index: Medical Care



The consumer price index (CPI) is an economic indicator widely used to gauge inflation and inform policymaking, investment decisions and cost-of-living adjustments. The CPI's medical care index, one of eight major groups in the CPI, measures the change in prices paid by consumers for medical goods and services.

The latest West Health-Gallup research revealed that 11% of U.S. adults—nearly 29 million people—can't afford or access quality health care, the highest level since 2021. Furthermore, more than one-third of Americans feel they're paying too much for the quality of care they receive and that their most recent experience was not worth the cost.

The medical care index was at 3% in May 2025, exceeding general inflation. Despite this figure, keep in mind that employers are reporting closer to an increase of 7%-8% due to other key drivers (e.g., increased spend, rising demand for services and inflationary pressures) factored in.

As such, understanding medical inflation is essential for staying up to date with changing market conditions while managing health care costs and planning employee benefits. This article explains the CPI and its medical care index and outlines reasons why it's crucial for employers to understand this economic measure.

Overview of the CPI

The CPI is calculated by the U.S. Bureau of Labor Statistics (BLS) and reflects the cost of goods and services purchased by urban consumers nationwide. This includes categories such as food, transportation, housing and medical care.

The CPI shows how much consumers are spending and is a key measure of inflation used to guide economic decisions by the government, businesses and individuals. It adjusts other economic data for inflation, helping to show real changes in series like wages and retail sales. The CPI also affects millions of Americans by adjusting Social Security payments, tax brackets and eligibility for government programs. Lastly, it's used in wage contracts to ensure cost-of-living adjustments.

Visit the BLS' [website](#) to learn more about the CPI or to check the latest reading.

The Medical Care Index

The medical care index represents trends in medical care prices based on specific indicators of hospital, medical and drug prices. It's divided into the following categories and subsections:

- **Medical care services**
 - **Professional services** (e.g., physicians' services, dental services, eyeglasses and eye care and services by other medical professionals)
 - **Hospital and related services** (e.g., inpatient and outpatient hospital services, nursing home and adult day care services and at-home care)
 - **Health insurance**
- **Medical care commodities**
 - **Medicinal drugs** (e.g., prescription and nonprescription drugs)

- **Medical equipment and supplies**

Of these two main components, medical care services account for the larger CPI weight.

In terms of the medical care index methodology, the BLS conducts the Consumer Expenditure Survey on behalf of the Census Bureau, collecting the information and tracking medical care spending. According to the BLS, the weights are based on consumer out-of-pocket spending, including direct payments and consumer-paid insurance premiums (e.g., Medicare Parts B, C and D). Employer-paid premiums and tax-funded care (e.g., Medicare Part A and Medicaid) are excluded. However, price changes in the index reflect total provider reimbursements, including insurer and Medicare payments. The BLS' [website](#) includes additional information about the medical care index.

Employer Considerations

Understanding the medical care index of the CPI can assist employers with the following:

- **Managing health care costs**—The CPI's medical care index provides insights into trends in health care costs, which can help employers anticipate changes in expenses related to employee health benefits. By monitoring these trends, organizations can make informed decisions about health care plans and budget allocations.
- **Strategizing employee benefits and plan design**—Employers can use the CPI data to adjust employee benefits packages to ensure they remain competitive and attractive to workers. For example, if the CPI indicates rising medical care costs, employers might consider enhancing health insurance coverage or offering wellness programs to mitigate the financial impact on employees.
- **Negotiating with health care providers**—Knowledge of the CPI and medical inflation can help employers negotiate better rates with health care providers and insurers. Understanding the factors driving cost increases allows for more educated and effective discussions, which have the potential to result in cost-saving agreements.
- **Educating employees**—Understanding CPI trends allows employers to educate their workers about why premiums or out-of-pocket costs may be increasing. In turn, this can foster transparency and trust. Furthermore, education can equip the workforce to be more health care literate and overall better consumers of health care, which can help lower costs and improve health care outcomes.

Conclusion

The CPI, particularly the medical care index, is valuable for organizations offering employer-sponsored benefits. Staying informed about CPI data and trends enables employers to make strategic decisions that benefit both the company and its employees.

Contact us today for more employee benefits resources.

This Benefits Insights is not intended to be exhaustive nor should any discussion or opinions be construed as professional advice. © 2025 Zywave, Inc. All rights reserved.