

Payment for Physicians' Services Under Medicare

Carol Bazell, M.D., M.P.H.
Medical Officer
Hospital and Ambulatory Policy
Group
Center for Medicare Management
Centers for Medicare and Medicaid
Services

Historical Medicare Payment for Physicians' Services

- Based on charging patterns of physicians
- Inflationary, with large differences among types of services, geographic areas, physician specialties
- OBRA 1989 enacted Medicare Physician Fee Schedule (PFS), effective 1-1-92
- Gradual transition from reasonable charge to resource based; fee schedule fully effective 1-1-96
- Recent changes due to Medicare Modernization Act, passed 12-03

Components of the PFS

- Over 7,000 services, paid divided into 3 components:
 - Physician work
 - Practice expenses (rent, supplies, employee wages, etc.)
 - Malpractice insurance
- Uniform national resource-based relative value units (RVUs) established for each component
 - Physician work (WRVU)
 - Practice expense (PERVU)
 - Malpractice expenses (MRVU)
- Payments vary among 92 localities based on geographic practice cost indices (GPCIs), reflecting different resource costs of providing services

Physician Fee Schedule Payment

Payment =

$[(WRVU) \times (WGPCI) + (PERVU) \times (PEGPCI)]$

$+ (MRVU) \times (MGPCI)] \times [\$CF]$

AMA CPT Editorial Panel

- Revises and updates the CPT code set, which forms basis for PFS payments
- 11 AMA-nominated representatives from specialty societies and 6 additional representatives (including 1 from CMS)
- Provides annual updates to CPT, reflecting current medical practice

AMA Relative Value Update Committee (RUC)

- Voting representatives from 23 specialty societies, AMA, CPT Editorial Panel, APA, HCPAC, and PAC
- Provides recommendations to CMS regarding WRVUs and PERVUs, through process of code-level presentations and evaluations by RUC members
- Contributes to maintenance of the RBRVS
- CMS acceptance rate for RUC recommendations over 90%

AMA Practice Expense Review Committee (PERC)

- Subcommittee of the RUC
- Composition mirrors RUC, and includes an added representative from nursing
- Provides direct expense input (clinical labor, medical supplies and equipment) recommendations for new CPT codes
- Data concerning coding levels are reviewed
- RUC forwards PERC recommendations to CMS

Establishment of Resource-Based Relative Values for Physician Work

- Initially based on a Harvard study of physician work; set out through rulemaking
- Values for new and revised codes established each year through public notice and comment
- CMS considers recommendations of the AMA Specialty Society Relative Value Update Committee (RUC) for valuing new and revised codes
- CMS may convene a refinement panel to address WRVUs for new services

Establishment of Relative Values for Practice Expenses

- Based on statutory formula from 1992 to 1998
- Resource-based PERVUs began in 1999, based on AMA data on physician practice expense, physician time per service, and expert panel review of practice expense of individual services. Practice Expense Review Committee (PERC), a subcommittee of RUC, provides recommendations. Full implementation in 2002.
- CMS continues to refine practice expenses inputs, including regularly repricing medical equipment

Establishment of Relative Values for Malpractice

- Resource-based MRVUs first implemented in 2000, based on actual malpractice premium data
- Reviewed every 5 years; methodology combines:
 - Malpractice insurance premium data
 - Specialty risk factors
 - Medicare utilization
- Account for 3.9% of total RVUs – higher for some specialties

Geographic Practice Cost Indices

- Updated every 3 years; revisions phased-in over 2 years
- Malpractice GPCI updated for 2004
- Physician work and practice expense GPCI updated for 2005 to incorporate data from most recent census

Changes to the PFS

- Carried out through regulatory process, with final PFS usual publication date of on or about November 1 each year
- Statutory formula adjusts physician rates to make actual spending equal a target, generally made through reductions in the PFS conversion factor
- Exceptions:
 - If spending higher than target, statutory maximum reduction equals 7% in a year
 - MMA set update at no less than +1.5% for 2004 and 2005
- MMA replaced 4.4% reduction with 1.5% increase for 2004 and 3.3% reduction with 1.5% increase for 2005

Medicare PFS Conversion Factor

- Conversion Factor
 - 2004: \$36.3374
 - 2005: \$37.895
- Anesthesia Conversion Factor
 - 2004: \$17.4969
 - 2005: \$17.7594

Sources of Information Regarding the PFS

- Physicians' Information Resources for Medicare
 - <http://www.cms.hhs.gov/physicians/>
- Open Door Forums
 - Special conference calls to talk directly with senior CMS officials
 - <http://www.dms.hhs.gov/opendoor/> for more information

PFS Data Files

- PFS Look Up Application
 - Contains codes, descriptors, RVUs, GPCIs, and other components to calculate payments
- PFS Payment Amount File, National/Carrier
 - Contains CPT code and Medicare price for all services under the PFS for (a) the entire country or (b) a selected carrier
- Zip code to Carrier Locality File
 - Maps zip codes to CMS carrier and localities

Carol Bazell
Medical Officer, CMS
410-786-6960
CBazell@cms.hhs.gov