



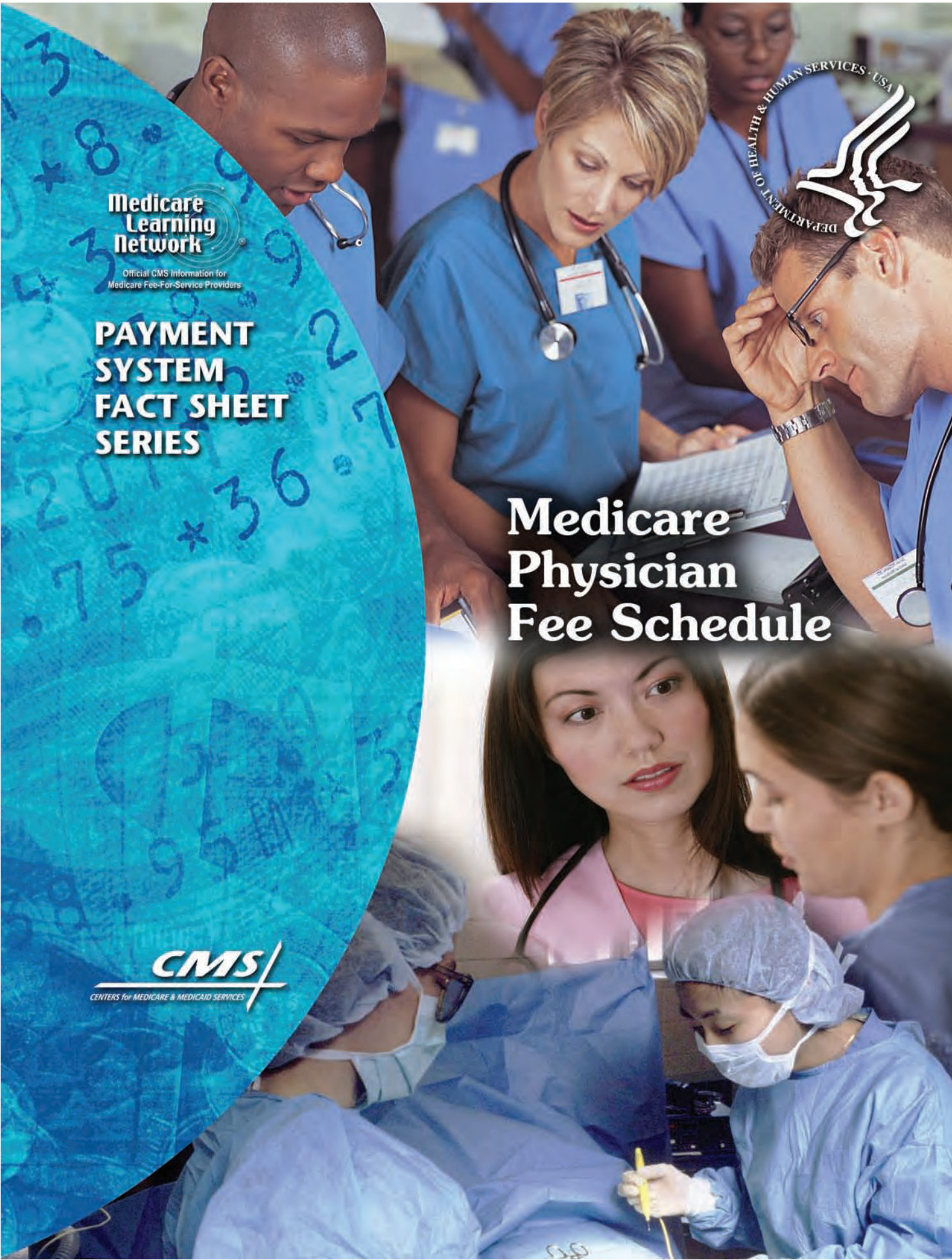
Medicare Learning Network

Official CMS Information for Medicare Fee-For-Service Providers

PAYMENT SYSTEM FACT SHEET SERIES

Medicare Physician Fee Schedule

CMS
CENTERS for MEDICARE & MEDICAID SERVICES



Medicare Part B pays for physician services based on the Medicare Physician Fee Schedule (PFS), which lists the more than 7,400 unique covered services and their payment rates. Physicians' services include the following:

- Office visits;
- Surgical procedures; and
- A range of other diagnostic and therapeutic services.

Physicians' services are furnished in all settings including:

- Physicians' offices;
- Hospitals;
- Ambulatory Surgical Centers;
- Skilled Nursing Facilities and other post-acute care settings;
- Hospices;
- Outpatient dialysis facilities;
- Clinical laboratories; and
- Beneficiaries' homes.

MEDICARE PHYSICIAN FEE SCHEDULE PAYMENT RATES

Payment rates for an individual service are based on three components:

1) Relative Value Units (RVU)

Three separate RVUs are associated with the calculation of a payment under the PFS:

- Work RVUs reflect the relative levels



of time and intensity associated with furnishing a PFS service and account for more than 50 percent of the total payment associated with a service. By statute, all work RVUs must be examined no less often than every five years. As noted in the calendar year (CY) 2010 PFS final rule, the fourth five-year review of work was initiated in 2009. Any changes to work RVUs resulting from this review will be effective beginning in 2012.

- Practice expense (PE) RVUs reflect the costs of maintaining a practice such as renting office space, buying supplies and equipment, and staff costs. For CY 2010, indirect cost data that are used in the calculation of PE RVUs for most specialties were updated using the American Medical Association's Physician Practice Information Survey (PPIS) data. The PPIS is a multispecialty, nationally representative indirect PE survey of both physicians and non-physician practitioners. Its use is being transitioned over a four-year period beginning in CY 2010.

- Malpractice RVUs represent the remaining portion of the total payment associated with a service. The second five-year review of malpractice RVUs was completed in CY 2009, resulting in updated malpractice RVUs in the CY 2010 PFS final rule.



2) Conversion Factor (CF)

To determine the payment rate for a particular service, each of the three separate RVUs, identified in 1) above, is adjusted by the corresponding geographic practice cost index as explained in 3) below. The sum of the geographically adjusted RVUs is multiplied by a dollar CF. The CF is updated on an annual basis according to a formula specified by statute. The formula specifies that the update for a year is equal to the Medicare Economic Index (MEI) adjusted up or down depending on how actual expenditures compare to a target rate called the Sustainable Growth Rate (SGR). The MEI is a measure of inflation faced by physicians with respect to their practice costs and general wage levels. The SGR is calculated based on medical inflation, the projected growth in the domestic economy, projected growth in the number of beneficiaries in

Fee-For-Service Medicare, and changes in law or regulation. Based on the criteria discussed above, the update to the CF for CY 2010 (as published in the November 25, 2009 PFS final rule) resulted in a -21.2 percent reduction to the CF for CY 2010. Subsequent to publication of the CY 2010 PFS final rule, several changes have affected the CF used for payment of PFS services in CY 2010:

- For the period January 1, 2010, through May 31, 2010, the PFS CF is \$36.0791. The CF was updated by a correction notice released on May 10, 2010, and due to changes resulting from the Patient Protection and Affordable Health Care Act (ACA). In addition, the PFS update for CY 2010 remained at zero as a result of:
 - Department of Defense Appropriations Act of 2010 (Pub. L. 111-118);



- Temporary Extension Act of 2010 (Pub L. 111-144); and
- Continuing Extension Act of 2010 (Pub. L. 111-157); and
- For claims with dates of service from June 1, 2010, through November 30, 2010, the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 provided a 2.2 percent update to the 2010 PFS. The CF for this time period is \$36.8729.

3) Geographic Practice Cost Indices (GPCI)

GPCIs are adjustments that are applied to each of the three relative values used in calculating a physician payment, as described in 1) above. The purpose of these adjustments is to account for geographic variations in the costs of practicing medicine in different areas within the country. The Centers for Medicare & Medicaid Services (CMS) is required to update the GPCIs every three years and to phase in any changes over two years. The ACA also included several GPCI provisions for CY 2010:

- Continuation of the 1.0 work GPCI floor through CY 2010;

- Limited recognition of locality differences in comparison to the national average in the rent and employee compensation components of the PE GPCIs, associated with a hold harmless provision; and
- The 1.5 work GPCI floor for Alaska will remain in place.

MEDICARE PHYSICIAN FEE SCHEDULE PAYMENT RATES FORMULA

$$[(\text{Work RVU} \times \text{Work GPCI}) + (\text{PE RVU} \times \text{PE GPCI}) + (\text{MP RVU} \times \text{MP GPCI})] \times \text{CF}$$

RESOURCES

Pricing amounts; various payment policy indicators; RVUs; and GPCIs by a single procedure code, a range, and a list of procedure codes can be accessed via the Physician Fee Schedule Look-Up located at <http://www.cms.gov/Pfslookup> on the CMS website. Additional information about the PFS can be accessed at http://www.cms.gov/PhysicianFeeSched/01_overview.asp on the CMS website.

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