

History and Early Development of the Medicare Economic Index (MEI)

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Medicare Physician Payment Before 1972 Legislation

- ▶ Medicare fee is lowest of:
 - Submitted charge
 - Physician's customary charge
 - Prevailing charge of "peer physicians" in "locality", defined as 75th percentile charge
- ▶ Problem: Rapid & unchecked inflation in Medicare physician fees

Guidance from 1972 Senate Finance Committee Report

- ▶ Legislation requires development of “an appropriate economic index” to limit growth in Medicare physician prevailing charge levels
- ▶ Prevailing charges increased “only to the extent justified by indexes reflecting changes in the operating expenses of physicians and in earnings levels”
- ▶ Earnings levels should reflect “general earnings levels” in the overall economy
- ▶ Expense & earnings weights & indexes determined based on “available data” that reflect the experience of “self-employed physicians”
- ▶ Over long run, seek “the most refined indexes that can be developed”
- ▶ Limit to be applied to “aggregate increase in prevailing charges”

Initial Development of the MEI in 1973

- ▶ Tasked to Office of Research & Statistics, SSA
- ▶ Initial recommendations:
 - Earnings (60% weight):
 - Average hourly earnings of production & non-supervisory workers
 - Productivity adjustment: Output per man-hour of employed non-farm workers
 - Expenses (40% weight):

Expense Category	Measure
Salaries & wages:	Non-supervisory workers in finance, insurance & real estate
Office space:	Housing component of CPI
Auto expenses:	Private transportation component of CPI
Drugs & supplies:	Drugs & pharmaceuticals component of WPI
Other expenses:	Overall CPI

Actual MEI Implementation For FY76

- ▶ Average weekly earnings used instead of average hourly earnings of production & non-supervisory workers
- ▶ All expense categories & BLS sources as proposed
- ▶ Additional malpractice premium expense category, based on study of malpractice premiums

Actual MEI Implementation For FY76

► MEI values & annual percent change, FY 1976-1982

	1976	1977	1978	1979	1980	1981	1982
MEI*	1.18	1.28	1.36	1.43	1.53	1.66	1.79
Annual % change in MEI	5.7%	8.2%	6.3%	5.1%	7.6%	8.1%	8.0%

* From base year FY73 (7/72-6/73)

Source: B. Dutton, Jr. and P. McMenamin, The Medicare Economic Index: Its Background and Beginnings, Table 1, Health Care Financing Review, September 1981

Primary Issues in Design & Implementation of MEI

- ▶ Limited data sources
 - Medical Economics & AMA survey expense weights
 - BLS index data not directly applicable to physician practices
- ▶ Instructions & guidelines from Senate Finance Committee report
 - “Aggregate increase in prevailing charges”
 - Use of IRS physician tax return data
- ▶ Needed to work within existing Medicare payment methodology
 - Existing 1973 fee inequities related to R&C methodology retained in future fee levels
 - Concern for impact on Medicare patients: balance-billing, physicians need not accept assignment (some states, <50% claims assigned)