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In December 2020, the Centers for Medicare and Medicaid Services ("CMS") issued the 2021 Medicare Physician Fee Schedule ("PFS") final rule that implemented the most substantial changes in many years. Health systems that employ physicians were left scrambling to understand how the changes would impact both revenue and physician compensation. Part 1 of this series recapped the core issues and the scope of the impact. Part 2 explored the specialties that benefitted the most from the PFS changes – primary care and office-based medical specialties. This issue, Part 3, focuses on surgical specialties, and finally Part 4 will address hospital-based physicians.

The dynamic for surgical specialties

As discussed in previous parts of this series, the 2021 PFS significantly increased Work RVUs ("wRVUs") attributed to office evaluation and management ("E&M") codes. As illustrated in the table below, the wRVUs for these visits increased as much as almost 46%, with the highly utilized 99213 increasing by 34%.

CPT		Description	2020 wRVU	2021 wRVU	% Variance in wRVUs
99201	New Patients	Level 1	0.48	N/A - Code Eliminated	
99202		Level 2	0.93	0.93	0.0%
99203		Level 3	1.42	1.60	12.7%
99204		Level 4	2.43	2.60	7.0%
99205		Level 5	3.17	3.50	10.4%
99211	Established Patients	Level 1	0.18	0.18	0.0%
99212		Level 2	0.48	0.70	45.8%
99213		Level 3	0.97	1.30	34.0%
99214		Level 4	1.50	1.92	28.0%
99215		Level 5	2.11	2.80	32.7%
G2212		Prolonged Visit	N/A	0.61	N/A

However, the impact of the E&M wRVU increases is diluted for surgical specialists, since those services make up a much smaller percentage of overall practice activity.

Utilizing representative billing data aggregating a large number of multispecialty groups, we analyzed the WRVU increase, Medicare fee schedule reimbursement increase, and resulting payor mix adjusted reimbursement increase. Our analysis[1] showed that surgical specialties do experience a small increase in aggregate wRVUs, ranging from 2% to 9%, under the 2021 PFS as compared to 2020. However, the 3.3% across-the-board decrease in the conversion factor means that the change in Medicare allowable does not keep pace with wRVU increases. In fact, for a couple of the surgical specialties in our analysis, the result is a reduction in aggregate Medicare allowable since the wRVU increase was less than the conversion factor decrease. However, the actual amount of revenue increase for these specialties is dependent on their payer mix since the PFS only impacts reimbursement for services rendered to Medicare patients. If we assume that reimbursement for all other payers remains unchanged[2] (i.e., 0% increase), the revenue impact of the wRVU increases is further diluted.

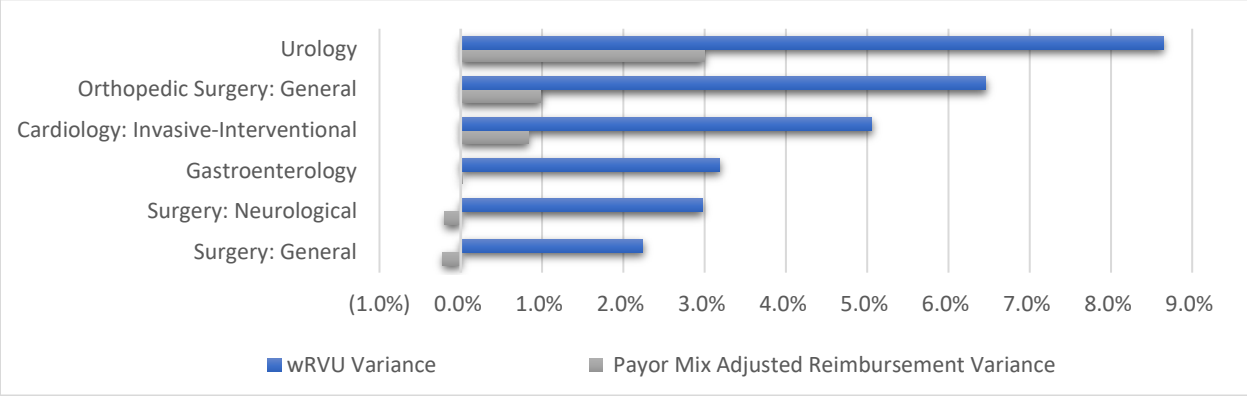
Variance Analysis: 2020 to 2021			
Specialty	wRVU	Medicare Allowable	Payor Mix Adjusted Reimbursement
Urology	8.6%	5.6%	3.0%
Orthopedic Surgery: General	6.5%	2.6%	1.0%
Cardiology: Invasive-Interventional	5.1%	1.6%	0.8%
Gastroenterology	3.2%	0.1%	0.0%
Surgery: Neurological	3.0%	(0.5%)	(0.2%)
Surgery: General	2.2%	(0.7%)	(0.2%)

For those specialties that showed a decrease in Medicare allowable, the payer mix adjusted reimbursement actually results in less of a decrease. This is because the analysis assumes no decrease in reimbursement from payers other than Medicare.

[1] Our analysis calculated 2020 and 2021 wRVUs and corresponding Medicare allowable to historical utilization from physician practices of various sizes in various locations in the United States. The analysis utilizes payer mix benchmarks obtained from the 2020 MGMA DataDive Cost and Revenue, used with permission from MGMA, 104 Inverness Terrace East, Englewood, Colorado 80112. 877.275.6462. www.mgma.com. © 2020. The analysis is intended to provide general insight into the potential impact for various specialties; however, every practice circumstance will be different and may yield different results.

[2] Some commercial payers tie their reimbursement rates to the Medicare fee schedule (e.g., X% of the PFS rates). However, in our experiences, these often lag by at least a year and sometimes more. For simplicity, this analysis assumes no change in reimbursement rates for payers other than Medicare, since every market and every set of payer contract terms will be different.

Another way to illustrate the impact is as follows:



You can see that gastroenterology is right at break-even from a revenue perspective, while neurosurgery and general surgery experience a reduction in revenue. Urology, orthopedic surgery, and invasive/interventional cardiology come out a little better, with revenue increasing from 1% to 3%. Still, this is far less favorable than the wRVU increases. Accordingly, if physicians continue to receive the same fixed compensation rate per wRVU, the revenue increase (if any) will be more than offset by the increase in physician compensation. Since these specialties can have much greater variation in results based on their specific service and payer mix, we recommend performing an analysis of practice utilization and payor mix to first determine the estimated impact of the fee schedule changes, then determine a wRVU-based compensation rate that keeps the compensation metrics reasonably aligned with the revenue impact so the arrangement is reflective of fair market value.

Physician Compensation Impact

To illustrate, let's look at a few examples of how the dynamics described above play out as it relates to physician compensation. For the sake of simplicity, these examples assume the physicians are on a pure productivity compensation plan (i.e., no base salary or additional compensation components).

We'll start with ***urology***. As previously noted, our analysis indicated this specialty sees around a 9% increase in wRVUs, but only a 3% increase in revenue. If compensation terms were left unchanged, the physician would receive a compensation increase of almost $42,000, which is $21,000 more than the increase in revenue:

UROLOGY	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	8,000	8,691	691	8.6%	8,691	691	8.6%
Revenue	**$ 700,000**	**$ 720,964**	**$ 20,964**	3.0%	**$ 720,964**	**$ 20,964**	3.0%
Provider Compensation	**$ 485,000**	**$ 526,910**	**$ 41,910**	8.6%	**$ 505,964**	**$ 20,964**	4.3%
Compensation per wRVU	*$ 60.63*	*$ 60.63*	*$ -*	0.0%	*$ 58.21*	*$ (2.41)*	(4.0%)
Available for Operating Expenses and Provider Benefits	**$ 215,000**	**$ 194,054**	**$ (20,946)**	(9.7%)	**$ 215,000**	**$ -**	0.0%

In order to remain at a break-even level, the compensation rate per wRVU would need to ***decrease*** from almost $61 to around $58. This would yield a compensation ***increase*** of $21,000, effectively allowing the full expected revenue increase to flow to the physician. However, this approach would still leave the practice

the same amount left over to cover operating expenses.

Next, we'll look at ***gastroenterology***. As noted above, our analysis indicated that this specialty remains breakeven from a revenue perspective (no increase or decrease). Accordingly, if the compensation terms are not adjusted to contemplate the 3% wRVU increase, the practice would pay an additional $17,000 in compensation without any additional revenue to fund the increase. Alternatively, ***reducing*** the compensation rate by 3% would allow the physician to maintain a consistent level of total compensation.

GASTROENTEROLOGY	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	8,000	8,255	255	3.2%	8,255	255	3.2%
Revenue	**$ 700,000**	**$ 700,000**	**$ -**	0.0%	**$ 700,000**	**$ -**	0.0%
Provider Compensation	**$ 530,000**	**$ 546,875**	**$ 16,875**	3.2%	**$ 530,000**	**$ -**	0.0%
Compensation per wRVU	*$ 66.25*	*$ 66.25*	*$ -*	0.0%	*$ 64.21*	*$ (2.04)*	(3.1%)
Available for Operating Expenses and Provider Benefits	**$ 170,000**	**$ 153,125**	**$ (16,875)**	(9.9%)	**$ 170,000**	**$ -**	0.0%

Finally, let's consider one of the specialties that actually experiences a revenue reduction as a result of the from the 2021 PFS changes – ***general surgery***. In this case, our analysis indicates that wRVUs increase 2% while revenue decreases slightly. Applying the 2020 compensation per wRVU rate would yield a $10,000 increase in compensation, while the practice would actually see a decline in revenue of $1,100. This could be mitigated by reducing the compensation per wRVU rate to effectively have physician compensation reduced by an amount commensurate to the revenue decrease, such that the practice has adequate funds to cover operating expenses.

GENERAL SURGERY	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	6,800	6,952	152	2.2%	6,952	152	2.2%
Revenue	**$ 510,000**	**$ 508,863**	**$ (1,137)**	(0.2%)	**$ 508,863**	**$ (1,137)**	(0.2%)
Provider Compensation	**$ 445,000**	**$ 454,959**	**$ 9,959**	2.2%	**$ 443,863**	**$ (1,137)**	(0.3%)
Compensation per wRVU	*$ 65.44*	*$ 65.44*	*$ -*	0.0%	*$ 63.85*	*$ (1.60)*	(2.4%)
Available for Operating Expenses and Provider Benefits	**$ 65,000**	**$ 53,904**	**$ (11,096)**	(17.1%)	**$ 65,000**	**$ -**	0.0%

In practice, if the economic impact were expected to be this minor it may be acceptable to leave the compensation terms unchanged in this scenario. However, this emphasizes the importance of gaining a solid understanding of the specific dynamics of the practice and the implications of the changes on both revenue and physician compensation, in order to make educated decisions on what makes sense for the practice from an economic perspective as well as from a physician relations perspective.

Now What?

Each medical practice offers a unique mix of services provided to a unique patient population, and this is especially true of the surgical specialties. Service mix and payer mix both play a role in the ultimate impact of the 2021 PFS changes. Further, the impact reflected in our analysis utilizes the 2021 Medicare conversion factor. **As of this writing, the proposed conversion factor for FY 2022 reflects an additional**

3.75% decrease. Additionally, the 2% Medicare sequester is currently expected to begin again in 2022. Accordingly, in determining the financial impact to your physician practice you must ensure that the compensation terms you enact will allow the practice to be sustainable in light of the future revenue stream. The convergence of the wRVU increases, conversion factor decreases, and COVID-related utilization impact make it extremely complicated to estimate future activity. Because of these dynamics, it's critical that you understand the historical practice patterns of your physician group, the estimated revenue impact, and what changes to compensation terms may be necessary from both a financial feasibility and regulatory compliance perspective. The JTaylor team has deep experience in performing the analytics required to support your evaluation of these complex issues.

Our final article in this series, Part 4, will address the impact of the FY 2021 PFS on hospital-based specialties.

If you need assistance analyzing your physician employment arrangements or developing a strategy for responding to the 2021 PFS changes, JTaylor's dedicated physician compensation team can help.

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