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2021 Physician Fee Schedule Changes

What it Means to Your Physician Practice

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The Centers for Medicare and Medicaid Services has made significant changes to Evaluation and Management CPT codes effective January 1, 2021. These changes are expected to have a significant impact on both physician practice revenue as well as physician compensation. The impact will vary based on specialty, payer mix, and other factors, but practice administrators and health systems that employ physicians should begin planning now to ensure they are prepared for the changes on the horizon.

Background

Each year, the Centers for Medicare and Medicaid Services ("CMS") reviews the listing of Current Procedural Terminology ("CPT") codes that are used for billing professional medical services. Often, new codes are added to reflect new or modified services, or codes may be removed from the list if they are no longer deemed necessary. As part of this review process, CMS considers whether any changes should be made with regard to the Relative Value Units ("RVU") associated with each CPT code, including the Work RVU ("wRVU") component, which is intended to reflect the time and complexity to perform the service.

In 2017, CMS launched the "Patients over Paperwork" initiative, with the goal of eliminating unnecessary or burdensome regulations. The overarching objective of this initiative was to encourage innovation and allow providers to focus their efforts on meeting the needs of their patients. One component of this initiative was to study the appropriateness of the RVU values associated with new and established office visit CPT codes. This involved, among other things, a time study that indicated that providers are spending more time on each patient visit than they did a few years ago. The increase reflects a combination of increased time with the patient, time associated with required documentation in electronic medical record ("EMR") systems, and time associated with coordinating care with other providers and/or managing chronic conditions.

Given the high frequency of office evaluation and management ("E&M") visits, which CMS indicates account for around 20% of total allowed charges for physician services, any changes to wRVU values associated with these codes will have a significant impact on reimbursement for these professional services and potentially physician compensation, if all or part is based on productivity.

2021 E&M Changes

As a result of its in-depth assessment, CMS proposed significant changes to the office/outpatient E&M codes, which were finalized in the Calendar Year 2019 Physician Fee Schedule ("PFS") Final Rule[1] with an effective date of January 1, 2021. In connection with the increased wRVU values for each CPT code, CMS increased the total time attributed to each visit. The changes are summarized below:

CPT		Description	Current Minimum Minutes Per Visit	Current wRVU	2021 Minimum Minutes Per Visit	2021 wRVU	% Variance in wRVUs
99201	New Patients	Level 1	17	0.48	N/A - Code Eliminated		
99202	New Patients	Level 2	22	0.93	22	0.93	0.0%
99203	New Patients	Level 3	29	1.42	40	1.60	12.7%
99204	New Patients	Level 4	45	2.43	60	2.60	7.0%
99205	New Patients	Level 5	67	3.17	85	3.50	10.4%
99211	Established Patients	Level 1	7	0.18	7	0.18	0.0%
99212	Established Patients	Level 2	16	0.48	18	0.70	45.8%
99213	Established Patients	Level 3	23	0.97	30	1.30	34.0%
99214	Established Patients	Level 4	40	1.50	49	1.92	28.0%
99215	Established Patients	Level 5	55	2.11	70	2.80	32.7%
99XXX		Prolonged Visit	N/A	N/A	15	0.61	N/A
GPC1X		Visit Complexity Add-On	N/A	N/A	11	0.33	N/A

As noted in the table above, CPT Code 99201 for a Level 1 new patient visit will be eliminated. Providers will select the appropriate CPT code based on either time or medical decision making, at the discretion of

[1] 84 FR 62468

the provider. Additionally, a new code for prolonged visits (99XXX) will be added, which will be billed as an add-on to 99215 for extra 15-minute increments beyond the standard time for a 99215 visit. Finally, another new code (GPC1X) will be used to bill for visit complexity in applicable circumstances.

While the above codes have already been finalized by CMS for implementation in 2021, the 2021 PFS Proposed Rule[2] released on August 4, 2020, includes additional proposed revisions to certain global CPT codes that include an expected number of office visits. Notably, this includes codes relating to maternity care, end-stage renal disease, and certain codes related to assessment and care planning for patients with cognitive impairment. Additionally, to retain alignment with outpatient E&M wRVU values, the 2021 PFS Proposed Rule includes recommended increases to Emergency Department E&M codes as well as therapy evaluation codes. These proposals must go through the comment period before being approved by CMS. The comment period closed October 5, 2020, and final determination regarding proposed changes to wRVU values for these services will be made in the 2021 PFS Final Rule, which is expected to be released in November or December prior to the January 1, 2021 effective date.

2021 Conversion Factor Changes

Medicare reimbursement for professional services is generally determined by multiplying the applicable RVU amounts for billed services by the conversion factor in place on the date the service was rendered (adjusted for the specific locality). In response to the significant increases to E&M wRVUs, the 2021 PFS Proposed Rule recommends reductions in both the Conversion Factor and the Anesthesia Conversion Factor, based on budget neutrality requirements. As a result, the proposed rates for 2021 are as follows:

	CPT	2021	% Change
Conversion Factor	$36.09	$32.26	(10.6%)
Anesthesia Conversion Factor	$22.20	$19.96	(10.1%)

This reduction will have a dramatic impact on all medical practices, though some specialties will be impacted more than others. For primary care and other specialties with a high number of office visits (such as endocrinology and rheumatology), the increase in E&M wRVUs may substantially offset the decreased Conversion Factor, depending upon practice patterns and payer mix. However, specialties that have a higher percentage of activity in procedural codes and fewer office visits will likely experience a significant decline in Medicare reimbursement, as the Conversion Factor will apply to all services billed, not just E&Ms.

Physician Compensation Considerations

Many employed physicians are compensated at least in part based on wRVU production. Given the substantial changes in wRVUs that will be effective in 2021, physician compensation will be directly impacted. For those specialties with high-volume office visits, volumes consistent with prior years will result in increased wRVUs, which could then substantially increase physician compensation depending on the structure of the compensation arrangement. Even without factoring in the decreased Conversion Factor, practices must consider whether the level of increase in compensation resulting from the revised wRVUs is warranted, and whether such amounts would be considered commercially reasonable in comparison to historical compensation levels and market benchmarks. Again, this issue is exacerbated by the reduced

[2] 85 FR 50074

conversion factor that is expected to result in overall lower reimbursement for many specialties. Therefore, practices may be faced with increased compensation at the same time they experience reduced revenue for the same volume and mix of services as prior years. Unchecked, this could result in significant practice losses.

Consider the following example for a primary care physician:

	Current	Impact Based on Proposed 2021 CMS Changes
wRVUs	5,000	5,750
Fee for Service Revenue	$ 475,000	$ 463,125
Other Revenue	15,000	15,000
Revenue	**$ 490,000**	**$ 478,125**
Non-Provider OpEx	**$ 275,000**	**$ 275,000**
Provider Compensation	$ 240,000	$ 276,000
Provider Benefits	25,000	25,000
Other Provider Expense	30,000	30,000
Net Income (Loss)	**$ (80,000)**	**$ (127,875)**

Increase in wRVUs due to E&M Changes

Decrease in revenue due to reduced Conversion Factor

Increase in physician comp due to wRVUs

60% incremental increase in Net Loss

As illustrated, the combination of decreased revenue and increased physician compensation can more than double the net loss for the practice. This dynamic is amplified even more for a specialty with a lower volume of office visits, as reflected in this example for orthopedic surgery:

	Current	Impact Based on Proposed 2021 CMS Changes
wRVUs	8,200	8,610
Fee for Service Revenue	$ 800,000	$ 756,000
Other Revenue	20,000	20,000
Revenue	**$ 820,000**	**$ 776,000**
Non-Provider OpEx	**$ 225,000**	**$ 225,000**
Provider Compensation	$ 600,000	$ 630,000
Provider Benefits	35,000	35,000
Other Provider Expense	35,000	35,000
Net Income (Loss)	**$ (75,000)**	**$ (149,000)**

Increase in wRVUs due to E&M Changes

Decrease in revenue due to reduced Conversion Factor

Increase in physician comp due to wRVUs

60% incremental increase in Net Loss

In this case, the net loss is almost doubled from the prior year due to the combined impact of reduced revenue and increased physician compensation.

Historical reliance on market survey data was once the norm in determining compensation terms for physicians and evaluating fair market value. However, survey data is expected to be much less meaningful

for the next several years. Surveys related to 2020 physician compensation and production will be impacted by changes in volume and service mix related to COVID-19 circumstances, such as the temporary closure of offices for some specialties, elimination of elective procedures for periods of time in many areas, and patients' general reluctance to seek medical care for non-emergent issues during the pandemic for risk of exposure to the virus. In 2021, the data will be impacted by changes to the Medicare Physician Fee Schedule as wRVUs for such year will reflect the increases to the office E&M codes while collections will be impacted by the reduced Conversion Factor. In many cases, physician compensation will continue to reflect old compensation structures that do not fully contemplate the financial impact of the PFS changes as practices transition to new compensation structures over a period of time, perhaps as employment contracts come up for renewal. Accordingly, practices will need to use alternate methods of determining compensation terms that are fair market value and commercially reasonable until the market data stabilizes.

Recommendations

Physician practice organizations should create a task force to study the impact of wRVU and proposed Conversion Factor changes on the practice. This task force should likely include the following:

- Physician Organization Director;
- Chief Medical Officer or other physician leader; and
- Hospital and/or Practice Chief Financial Officer.

The task force should engage either internal or external resources to perform the following:

1. Discretely calculate the expected wRVUs for each provider;
2. Model the expected revenue impact, by provider, of the proposed changes;
3. Model the expected physician compensation impact, based on current contract terms applicable to 2021; and
4. Determine potential revisions to provider contracts that might be required to maintain commercial reasonability and/or financial feasibility for the practice.

It will be important to collaborate with legal counsel regarding any contemplated changes to physician compensation terms to ensure regulatory compliance. Organizations will need to develop a plan for communicating with providers and rolling out any necessary changes. Options may include:

- Immediate communication with providers regarding CMS changes and potential changes to provider compensation plans to be rolled out in 2021; or
- Communication with providers and associated changes to provider compensation terms as each contract comes up for renewal.

In addition to considering necessary changes to physician compensation terms, practices should also determine the potential impact for managed care payers. It will be important to identify which payer fee schedules are based on Medicare and develop a strategy for renegotiating contracts as deemed necessary to optimize the revenue stream for the practice.

JTaylor has a team of professionals dedicated to helping practices analyze the impact of these proposed changes. We can help you develop an effective strategy to mitigate the impact and ensure that your organization is positioned to be financially viable once the CMS changes are implemented.

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As a partner in the Consulting division, Anna leverages strong analytical and financial analysis skills in the areas of physician compensation, transaction support, valuations, due diligence, joint venture development, and strategic business plans. Her clients include physician practices, ambulatory surgery centers, community hospitals, multi-hospital systems, academic medical centers, and healthcare investors. Anna also serves as the Director of Professional Development, focusing on recruiting and training.

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Courtney is a founding member of JTaylor in 1999. She has expertise in physician compensation valuation and plan design, business enterprise valuations, and litigation support and damage assessments. Courtney has helped clients with strategic planning, including joint venturing, business acquisition, buy/sell agreements, and due diligence services. Courtney also serves as the Director of Quality, working with all divisions of the firm to emphasize high quality services and ensure compliance with industry standards.

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Since joining JTaylor in 2007, Haley has gained experience in a breadth of practice areas allowing her to provide quality service and work products to her clients. Her fields of expertise include physician practice valuations, physician compensation plans, fair market value assessments, due diligence related to mergers and acquisitions, and managed care contract negotiation support. Haley also has extensive knowledge related to fair market value cost allocations for services provided by and between large health systems and their affiliated joint venture hospitals.