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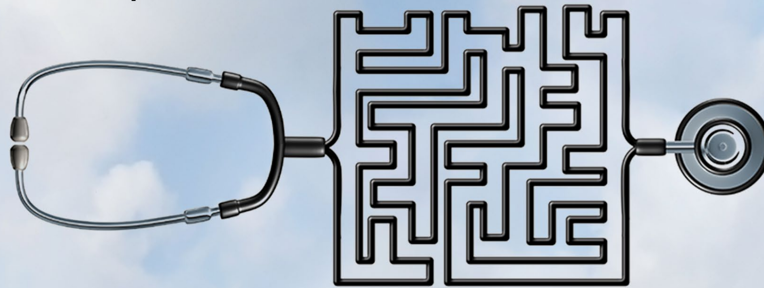
2021 Physician Fee Schedule Impact on Physician Practices

Part 4: Hospital-Based Specialties



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. Part 3 focused on surgical specialties. This final part in the series addresses hospital-based physicians, who tend to experience the most significant unfavorable impact from the PFS changes.

The dynamic for hospital-based 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. The wRVUs for these visits increased as much as almost 46%, with the highly utilized 99213 increasing by 34%. However, since hospital-based specialties do not utilize these office E&M codes, they do not receive any of the upside associated with the PFS changes. However, the wRVUs for emergency department ("ED") visits were increased, though to a lesser degree than office E&M codes:

CPT	Description	2020 wRVU	2021 wRVU	% Variance in wRVUs
99283	ED visit, moderate severity	1.42	1.60	12.7%
99284	ED visit, high severity but not immediate significant threat to life	2.60	2.74	5.4%
99285	ED visit, high severity, immediate significant threat to life	3.80	4.00	5.3%

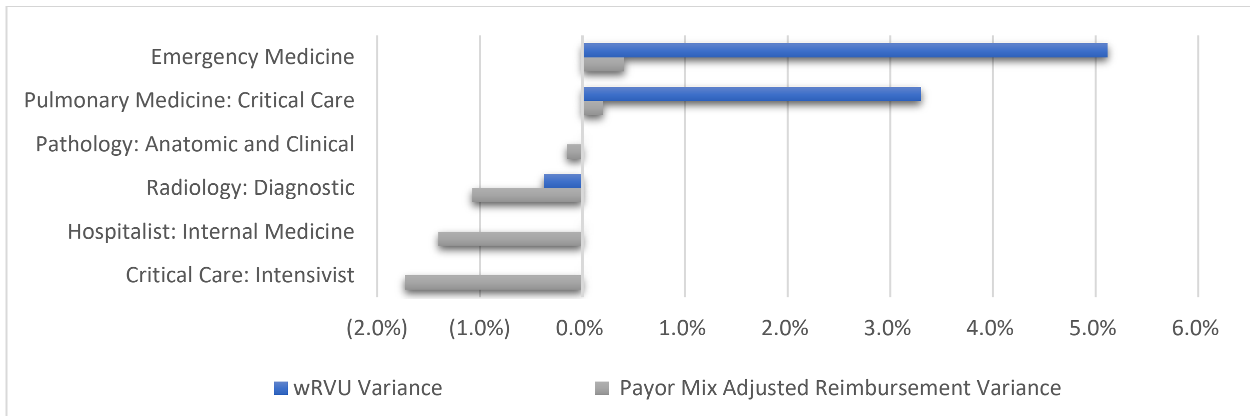
Utilizing representative billing data aggregating a large number of multispecialty groups, we analyzed the wRVU increase, Medicare allowable increase, and resulting payor mix adjusted reimbursement increase for a variety of hospital-based specialties. Our analysis[1] showed that emergency medicine and pulmonary critical care experience wRVU increases under the 2021 PFS as compared to 2020, while other hospital-based specialties experience little to no change in aggregate wRVUs. Radiology actually experiences a slight decline, given that the wRVUs attributed to the most commonly used codes decreased by as much as 10%. Without an uptick in wRVUs to offset the 3.3% across-the-board decrease in the conversion factor, most hospital-based specialties in our analysis experienced a decrease in Medicare allowable. Because of the wRVU increase for emergency medicine and pulmonary critical care, the aggregate Medicare allowable for those specialties sees a slight increase. The actual amount of revenue change for these specialties is dependent on their payer mix since the PFS only impacts reimbursement for services rendered to Medicare patients. For hospital-based specialties, Medicare tends to make up 40-60% of the payer mix. If we assume that reimbursement for all other payers remains unchanged[2] (i.e., 0% increase), this mitigates the impact of the Medicare conversion factor decrease.

Variance Analysis: 2020 to 2021			
Specialty	wRVU	Medicare Allowable	Payor Mix Adjusted Reimbursement
Emergency Medicine	5.1%	1.0%	0.4%
Pulmonary Medicine: Critical Care	3.3%	0.3%	0.2%
Pathology: Anatomic and Clinical	0.0%	(0.4%)	(0.1%)
Radiology: Diagnostic	(0.4%)	(2.7%)	(1.1%)
Hospitalist: Internal Medicine	0.0%	(3.0%)	(1.4%)
Critical Care: Intensivist	0.0%	(3.1%)	(1.7%)

Another way to illustrate the impact is as follows:

[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.



You can see that while emergency medicine and pulmonary critical care experience a reasonable increase in wRVUs, they are close to break-even from a revenue perspective. Meanwhile, without a wRVU increase to mitigate the conversion factor decrease (and, in the case of radiology, an actual decline in wRVUs), the remainder of the hospital-based specialties experience a reduction in revenue of up to almost 2%.

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). Since these hospital-based specialties don't receive an increase in wRVUs, there is not a concern that production-based compensation models would result in an unwarranted increase in compensation. Rather, these examples illustrate the potential impact to the bottom line when wRVUs stay approximately the same and revenue declines.

We'll start with ***emergency medicine***. As previously noted, this specialty sees an increase of over 5% in wRVUs due to the wRVU bump assigned to ED visit codes, which mitigates the impact of the conversion factor decrease to result in almost break-even revenue.

EMERGENCY MEDICINE	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	7,100	7,463	363	5.1%	7,463	363	5.1%
Revenue	**$ 350,000**	**$ 351,418**	**$ 1,418**	0.4%	**$ 351,418**	**$ 1,418**	0.4%
Provider Compensation	**$ 375,000**	**$ 394,180**	**$ 19,180**	5.1%	**$ 376,418**	**$ 1,418**	0.4%
Compensation per wRVU	*$ 52.82*	*$ 52.82*	*$ -*	0.0%	*$ 50.44*	*$ (2.38)*	(4.5%)
Available for Operating Expenses and Provider Benefits	**$ (25,000)**	**$ (42,762)**	**$ (17,762)**	71.0%	**$ (25,000)**	**$ -**	0.0%

Without any adjustments to the compensation per wRVU factor, a physician would receive over $19,000 in additional compensation while the practice receives only $1,400 in additional revenue, thereby increasing the practice loss. Alternatively, reducing the compensation per wRVU would allow the practice to effectively pass the increased revenue through to the physician but keep the practice loss consistent with historical levels.

Next, we'll examine the impact for a ***hospitalist***. As previously noted, our analysis indicated this specialty sees no increase in wRVUs and a 1.4% decrease in payer mix-adjusted revenue:

HOSPITALIST - INTERNAL MEDICINE	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	4,400	4,400	0	0.0%	4,400	0	0.0%
Revenue	**$ 220,000**	**$ 216,919**	**$ (3,081)**	(1.4%)	**$ 216,919**	**$ (3,081)**	(1.4%)
Provider Compensation	**$ 310,000**	**$ 310,000**	**$ -**	0.0%	**$ 306,919**	**$ (3,081)**	(1.0%)
Compensation per wRVU	*$ 70.45*	*$ 70.45*	*$ -*	0.0%	*$ 69.75*	*$ (0.70)*	(1.0%)
Available for Operating Expenses and Provider Benefits	**$ (90,000)**	**$ (93,081)**	**$ (3,081)**	3.4%	**$ (90,000)**	**$ -**	0.0%

The decreased reimbursement is around $3,000, so if physician compensation remained the same, the practice would have $3,000 less to cover other operating expenses (or increase the net loss of the practice). The practice may decide that no changes in compensation terms are warranted in this circumstance, depending on other market factors including the demand for hospitalists. However, the size of the group would impact the overall magnitude of the lost revenue.

For ***pathology***, our analysis indicated that both wRVUs and revenue remain close to break-even. Accordingly, even if no changes are made to the physician compensation terms, the practice would experience only a minor loss (less than $1,000) from the PFS changes:

PATHOLOGY	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	6,300	6,300	0	0.0%	6,300	0	0.0%
Revenue	**$ 460,000**	**$ 459,316**	**$ (684)**	(0.1%)	**$ 459,316**	**$ (684)**	(0.1%)
Provider Compensation	**$ 370,000**	**$ 370,000**	**$ -**	0.0%	**$ 369,316**	**$ (684)**	(0.2%)
Compensation per wRVU	*$ 58.73*	*$ 58.73*	*$ -*	0.0%	*$ 58.62*	*$ (0.11)*	(0.2%)
Available for Operating Expenses and Provider Benefits	**$ 90,000**	**$ 89,316**	**$ (684)**	(0.8%)	**$ 90,000**	**$ -**	0.0%

The specialty in our analysis that experienced the most unfavorable impact from the 2021 PFS changes from a wRVU perspective was ***radiology***. In this case, our analysis indicates that wRVUs decrease slightly (.4%) while revenue decreases by over 1%. Given the wRVU decline, the physician would experience a reduction in compensation of around $2,000 with no change in compensation terms. However, that makes up only a portion of the $7,300 decrease in revenue, which would result in approximately $5,300 less to cover other practice operating expenses.

RADIOLOGY	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	9,700	9,661	(39)	(0.4%)	9,661	(39)	(0.4%)
Revenue	**$ 685,000**	**$ 677,655**	**$ (7,345)**	(1.1%)	**$ 677,655**	**$ (7,345)**	(1.1%)
Provider Compensation	**$ 515,000**	**$ 512,940**	**$ (2,060)**	(0.4%)	**$ 507,655**	**$ (7,345)**	(1.4%)
Compensation per wRVU	*$ 53.09*	*$ 53.09*	*$ -*	0.0%	*$ 52.55*	*$ (0.55)*	(1.0%)
Available for Operating Expenses and Provider Benefits	**$ 170,000**	**$ 164,715**	**$ (5,285)**	(3.1%)	**$ 170,000**	**$ -**	0.0%

Ironically, one of the physician specialties that has been in the most demand during the COVID-19 pandemic experiences the most significant revenue reduction of all the specialties in our analysis. ***Critical care: intensivist*** physicians do not generally bill any of the CPT codes that were assigned higher wRVUs in the 2021 PFS as compared to 2020. On top of that, this specialty has one of the highest Medicare payer mixes at around 60%, which means it is more directly impacted by the conversion factor reduction than most specialties. As a result, the revenue reduction must be either absorbed by the practice, or passed through as a reduction to physician compensation:

CRITICAL CARE: INTENSIVIST	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	4,600	4,600	-	0.0%	4,600	-	0.0%
Revenue	**$ 425,000**	**$ 417,651**	**$ (7,349)**	(1.7%)	**$ 417,651**	**$ (7,349)**	(1.7%)
Provider Compensation	**$ 260,000**	**$ 260,000**	**$ -**	0.0%	**$ 252,651**	**$ (7,349)**	(2.8%)
Compensation per wRVU	*$ 56.52*	*$ 56.52*	*$ -*	0.0%	*$ 54.92*	*$ (1.60)*	(2.8%)
Available for Operating Expenses and Provider Benefits	**$ 165,000**	**$ 157,651**	**$ (7,349)**	(4.5%)	**$ 165,000**	**$ -**	0.0%

In practice, many hospital-based specialties do not utilize production-based compensation models. Rather, these physicians are often compensated under fixed salary or shift-based compensation in order to meet a hospital's coverage needs. Accordingly, there are unlikely to be significant swings in physician compensation resulting directly from the PFS changes. Still, it is important to understand the economic impact of the changes – in particular, the magnitude of the revenue reductions – to determine whether any changes in compensation terms are warranted to ensure the practice remains economically sustainable.

Anesthesiology Implications

Medicare reimbursement for anesthesia services is calculated differently from other physician specialties. Instead of using RVUs, anesthesia services are reimbursed using ASA units, a combination of base units and time units (1 unit for each 15-minute increment of time), multiplied by a conversion factor. The base units did not change for 2021; accordingly, anesthesiology was not directly impacted by the 2021 PFS changes. However, the anesthesia conversion factor did decrease in 2021:

	2020	2021	% Change
Anesthesia Conversion Factor	$22.20	$21.56	(2.9%)

Accordingly, while productivity measures would not change for anesthesiologists due to 2021 PFS changes, Medicare allowable amounts would decrease by close to 3%. Therefore, it is important to determine the expected revenue impact to a particular practice to determine whether any changes in physician compensation terms are needed in response to the revenue reduction.

Now What?

Each medical practice offers a unique mix of services provided to a unique patient population. 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 factors. **As of this writing, the proposed conversion factors for FY 2022 reflect additional decreases:**

	2021	Proposed 2022	% Change
Conversion Factor	$34.89	$33.58	(3.7%)
Anesthesia Conversion Factor	$21.56	$21.04	(2.4%)

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.

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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