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Healthcare Consulting | Valuation

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 explores the specialties that benefitted the most from the PFS changes. The final two parts of the series will focus on surgical specialties and hospital-based physicians – those who do not receive a benefit from the new fee schedule.

Who are the "winners"?

Generally speaking, physicians who predominately provide office visits come out ahead under the 2021 PFS given the significant increase in 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

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. Our analysis[1], as expected, showed that primary care and non-surgical office-based specialties experience an increase in aggregate wRVUs of 9% to over 29% under the 2021 PFS as compared to 2020. As a result of the significant increase in RVUs, these specialties also see an increase in Medicare reimbursement, though to a lesser degree than the wRVU increase due to the across-the-board decrease in the conversion factor. 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 diluted. In fact, for some specialties that have little to no Medicare volume, such as pediatrics and OB/GYN, there is no change at all to revenue.

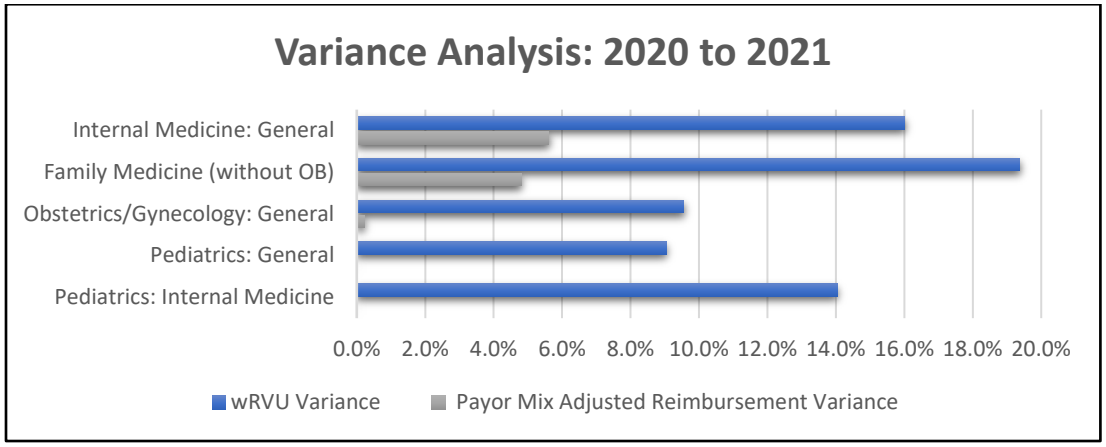
Variance Analysis: 2020 to 2021			
Specialty	wRVU	Medicare Allowable	Payor Mix Adjusted Reimbursement
Urgent Care	29.2%	24.7%	4.4%
Rheumatology	22.4%	15.9%	8.2%
Endocrinology/Metabolism	21.7%	16.5%	6.7%
Hematology/Oncology	20.8%	10.2%	5.6%
Family Medicine (without OB)	19.4%	13.8%	4.8%
Nephrology	15.7%	11.7%	8.0%
Internal Medicine: General	16.0%	12.1%	5.6%
Hyperbaric Medicine/Wound Care	16.3%	12.3%	7.9%
Pediatrics: Internal Medicine	14.0%	8.7%	0.0%
Neurology	12.4%	8.0%	3.4%
Dermatology	10.2%	5.4%	2.4%
Obstetrics/Gynecology: General	9.6%	6.8%	0.2%
Pediatrics: General	9.0%	7.8%	0.0%

[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.

Primary Care

Since an underlying goal of implementing the changes to the E&M services was to shift value to primary care in an attempt to reduce the compensation gap between primary care physicians and specialists, it is not surprising that we tend to see primary care physicians generally benefitting from the 2021 PFS. These physicians typically have a high volume of office E&M services that receive a boost in wRVUs. However, pediatric specialties do not serve Medicare patients, so even though they see a significant increase in wRVUs, they are not expected to see any immediate revenue impact. Similarly, OB/GYN physicians have a very small segment of Medicare patients, so they also see almost no increase in revenue regardles of the increase in wRVUs. Internal Medicine and Family Medicine fare better since they serve a larger Medicare population, though the expected revenue lift is still only about one-third of the wRVU increase, as illustrated below:



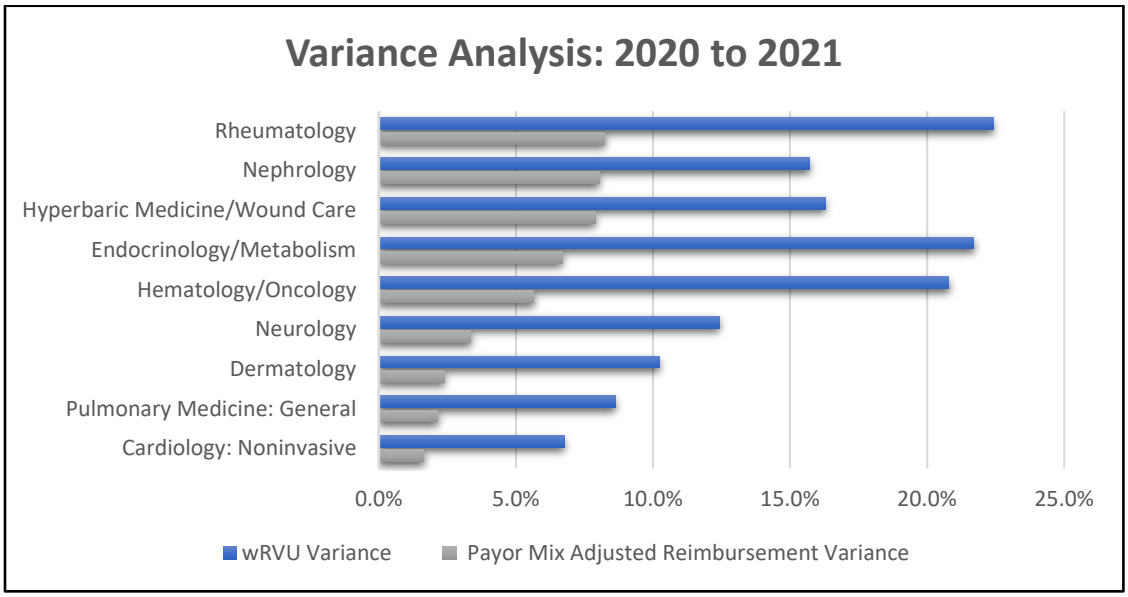
Accordingly, if physicians continue to receive the same fixed compensation rate per wRVU, the revenue increase will be more than offset by the increase in physician compensation. Even if practices want to provide a compensation increase to primary care physicians, which would be aligned with the goals of the PFS changes, practices must ensure that the rates are reasonable both from a practice economic standpoint and a fair market value standpoint in order to remain compliant with Stark Law and the Anti-Kickback Statute. A ***decrease*** in the compensation rate per wRVU may actually yield an ***increase*** in aggregate compensation for a physician due to the significant increase in wRVUs for primary care physicians. 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 achieves the desired results from an aggregate compensation perspective while keeping the metrics reasonably aligned so the arrangement is reflective of fair market value.

Medical Specialties

Office-based medical specialties who perform a high volume of E&M services see a similar impact as primary care. Since so much of their practice involves E&M activity, they receive the benefit of the higher wRVU values for those visits. Accordingly, our analysis indicated that these specialties receive a 7% to 22% boost in wRVUs under the 2021 PFS, as compared to 2020. As we saw for primary care, Medicare allowable reimbursement also increases, but at a lower rate than wRVUs due to the conversion factor decrease. It should be noted that the disparity between the wRVU increase and Medicare allowable increase is greatest for Hematology/Oncology. This relates to the high volume of drugs utilized in this specialty (chemo infusions, etc.). Administration of these drugs does not yield an increase in wRVUs; rather, the drugs are priced based on Average Wholesale Price ("AWP"). The uptick in reimbursement for E&M activities is, therefore, diluted by the large amount of drug reimbursement that is not implicitly linked

to RVUs.

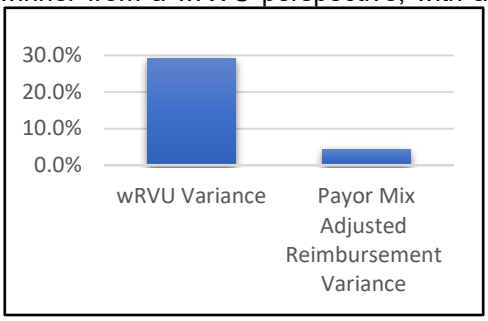
These medical specialties have varying levels of Medicare activity, and those with the highest proportion of Medicare activity (Hyperbaric Medicine/Wound Care and Nephrology, which have Medicare comprising about 64% to 69% of the practice) are among the biggest winners, with an expected revenue increase of around 8%. Rheumatology also experiences around an 8% revenue lift, aided by a relatively high Medicare payer mix (over 50%) and the highest wRVU increase in this group of specialties (22%). However, as shown in the chart below, the payer mix adjusted revenue increase for most of these specialties is only about one-fourth of the increase in wRVUs:



Given that aggregate revenue is expected to increase for these specialties, it may be appropriate to provide corresponding compensation increases for physicians to align with the intent of the wRVU changes. However, it may still be necessary to reduce the compensation per wRVU rate to accomplish the desired level of total compensation. Otherwise, if left unchecked the compensation will likely outpace the revenue increase and result in a loss for the practice. Just like for primary care, we recommend performing an analysis of practice utilization and payor mix for medical subspecialties to determine the estimated impact of the fee schedule changes, then determining a wRVU-based compensation rate that achieves the desired results from an aggregate compensation perspective while keeping the metrics reasonably aligned so the arrangement is reflective of fair market value and economically sustainable.

Urgent Care

Based on our analysis, urgent care appears to be the biggest winner from a wRVU perspective, with a 29% increase in wRVUs and an almost 25% increase in Medicare allowable. This is because the vast majority of services provided in an urgent care setting involve E&M visits. However, Medicare comprises a relatively small component of a typical urgent care practice (less than 20%). Therefore, the aggregate revenue lift is very small – less than 5%. This huge disparity makes it critical to determine what adjustments may be necessary to prevent compensation increases that are not supported by the economic reality. If a physician is on a production-based compensation plan and the compensation per wRVU rate remains unchanged, the physician would



receive almost a 30% increase in compensation for doing exactly the same amount of work as the prior year, while revenue remains almost flat. It is doubtful an increase of that magnitude would be considered fair market value. Instead, the compensation rate should be modified to achieve a reasonable increase in compensation while keeping metrics reasonably aligned.

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).

First, we'll address the impact on ***pediatrics***. As previously noted, our analysis indicated this specialty sees around a 9% increase in wRVUs even though they don't serve Medicare patients. If compensation terms were left unchanged, the physician would receive a compensation increase commensurate with the wRVU increase, even though the revenue doesn't increase at all:

PEDIATRICS	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	5,000	5,452	452	9.0%	5,452	452	9.0%
Revenue	**$ 530,000**	**$ 530,000**	**$ -**	0.0%	**$ 530,000**	**$ -**	0.0%
Provider Compensation	**$ 250,000**	**$ 272,622**	**$ 22,622**	9.0%	**$ 250,000**	**$ -**	0.0%
Compensation per wRVU	*$ 50.00*	*$ 50.00*	*$ -*	0.0%	*$ 45.85*	*$ (4.15)*	(8.3%)
Available for Operating Expenses and Provider Benefits	**$ 280,000**	**$ 257,378**	**$ (22,622)**	(8.1%)	**$ 280,000**	**$ -**	0.0%

In order to remain at a break-even level, the compensation rate per wRVU would need to decrease from $50 to around $46. This would yield no change in aggregate compensation from what the physician received in 2020, and leaves the same amount left over to cover the rest of the practice's operating expenses.

Next, we'll consider the implications for ***internal medicine***. Assuming the 2021 PFS change results in a 16% increase in wRVUs and a 5.6% increase in revenue, as our analysis indicated, leaving the compensation per wRVU rate the same as 2020 would result in a $44,000 increase in total compensation, which exceeds the additional revenue by $19,000. Alternatively, *reducing* the compensation rate by 6% would still achieve a $25,000 (9%) *increase* in compensation, effectively allowing the full revenue increase to flow to the physician.

INTERNAL MEDICINE	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	4,800	5,569	769	16.0%	5,569	769	16.0%
Revenue	**$ 445,000**	**$ 469,988**	**$ 24,988**	5.6%	**$ 469,988**	**$ 24,988**	5.6%
Provider Compensation	**$ 275,000**	**$ 319,045**	**$ 44,045**	16.0%	**$ 299,988**	**$ 24,988**	9.1%
Compensation per wRVU	*$ 57.29*	*$ 57.29*	*$ -*	0.0%	*$ 53.87*	*$ (3.42)*	(6.0%)
Available for Operating Expenses and Provider Benefits	**$ 170,000**	**$ 150,942**	**$ (19,058)**	(11.2%)	**$ 170,000**	**$ -**	0.0%

Finally, let's consider one of the specialties that benefits the most from the 2021 PFS changes – ***rheumatology***. In this case, our analysis indicates that wRVUs increase by 22.4% while revenue grows by 8.2%. Applying the 2020 compensation per wRVU rate would yield a $60,000 increase in compensation, which is almost double the expected revenue increase. Instead, the compensation rate could be *reduced* by around 8% and still generate a $33,000 compensation *increase* for the physician, while retaining the same amount available for operating expenses and provider benefits that the practice had in 2020.

RHEUMATOLOGY	2020	Impact Based on 2021 PFS Changes	Change from 2020	% Change	Break-Even Scenario	Change from 2020	% Change
wRVUs	4,700	5,753	1,053	22.4%	5,753	1,053	22.4%
Revenue	**$ 400,000**	**$ 432,951**	**$ 32,951**	8.2%	**$ 432,951**	**$ 32,951**	8.2%
Provider Compensation	**$ 270,000**	**$ 330,503**	**$ 60,503**	22.4%	**$ 302,951**	**$ 32,951**	12.2%
Compensation per wRVU	*$ 57.45*	*$ 57.45*	*$ -*	0.0%	*$ 52.66*	*$ (4.79)*	(8.3%)
Available for Operating Expenses and Provider Benefits	**$ 130,000**	**$ 102,448**	**$ (27,552)**	(21.2%)	**$ 130,000**	**$ -**	0.0%

These dynamics lead to some difficult conversations with physicians. Employers need to be prepared to educate impacted physicians to help them understand that even an intended ***increase*** in compensation requires a ***decrease*** in the compensation per wRVU factor.

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 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.

We will address the impact of the FY 2021 PFS on other specialties in upcoming articles in this series:

- ***Part 3*** – Surgical Specialties
- ***Part 4*** – 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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