

Health Care Futures Direct: 2021 Proposed Medicare Physician Fee Schedule – Provider Compensation Implications, September 2020

In early August, the Centers for Medicare and Medicaid Services (CMS) released the CY 2021 Medicare Physician Fee Schedule (PFS) Proposed Rule, prompting criticism from the American Medical Association and other professional membership organizations of the proposed unsustainable reduction in Medicare reimbursement for most specialist services. Health Care Futures shares this concern and believes that implementation of the proposed rule without modification could have a grave disruptive impact on healthcare provider organizations nationwide. Put simply, a critical implication of the proposed rule is that work relative value units (wRVUs) are expected to increase while reimbursement is expected to decline, leaving organizations that employ physicians to absorb even larger practice subsidies than they have historically, threatening margins and the future sustainability of physician employment arrangements.

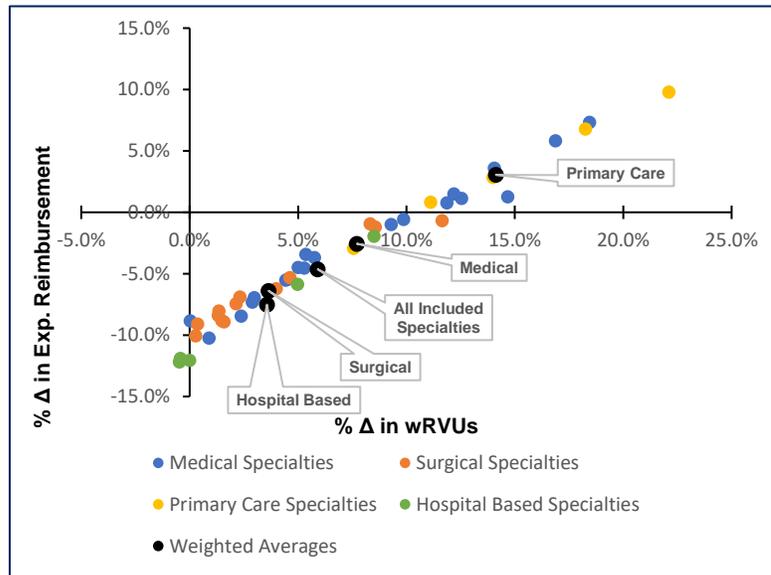
Highlights of 2021 PFS Proposed Rule

- Increase in wRVUs and payment rates for office/outpatient E/M services, which account for 20% of total PFS spending
- Increase in bundled services payment rates for services comparable to E/M visits (maternity care, etc.)
- 10.6% reduction in the Medicare conversion factor due to budget neutrality
- Impact of Medicare payment rates by specialty ranges from +17% to -11%
- Surgical specialists incur cuts in every specialty area, ranging from 3% to 9%

The crux of the issue stems from CMS’ proposed overhaul to the Evaluation and Management (E/M) coding, documentation and payment system. In particular, CMS has proposed increasing wRVUs for office/outpatient E/M visits, resulting in higher payment rates for office/outpatient E/M services (as well as for select analogous codes, such as those related to maternity care, emergency department visits and psychotherapy services), which comprise approximately 20% of total spending under the PFS.

The proposed rule includes a budget neutrality adjustment to counterbalance the wRVU increases with decreases in payments for other services. To offset payment increases, CMS has proposed an unusually large, 10.6% reduction to the Medicare conversion factor (from \$36.09 in 2020 to \$32.26 in 2021). Surgical and hospital-based specialties are expected to incur some of the larger cuts, with reductions to Medicare allowed charges in every surgical specialty, the majority ranging from a 3% to 9% decline.

Figure 1: 2020 to 2021P Change in wRVUs and Expected Reimbursement



- Notes:
- Analysis conducted on a typical procedure distribution profile for each specialty
 - Reimbursement is calculated using free standing rates and are using national GPCL adjustments (e.g. not locally adjusted)
 - Analysis compares only codes which have an expected reimbursement for 2020 and 2021P

For organizations that employ or have professional services arrangements with physicians, the proposed payment system changes will be very expensive and could have serious implications for enterprise-wide financial sustainability.

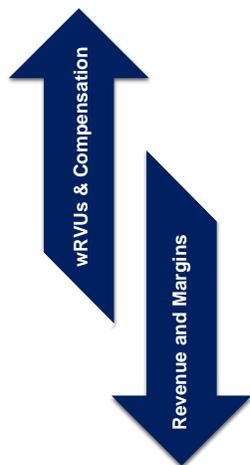


Figure 2: Estimate Annual Change in Physician Investment

Est. Annual Change in Physician Investment	
Revenue	-5% to -8%
Physician Compensation	4% to 6%
Est. Annual Change in Physician Investment	-9% to -14%

Notes:
 - Revenue assumes commercial payers follow CMS PFS changes

Today, a majority of physician compensation arrangements are productivity-based, relying wholly or partially on wRVUs that are calculated using the current version of the PFS. These contractual arrangements rely on stability in year-over-year changes to the PFS, and the 2021 proposal is anything but stable or consistent with prior years.

Under the 2021 proposed rule, for most specialists, wRVUs and in turn compensation levels are expected to increase, while Medicare reimbursement rates are expected to decline, widening the gap between revenue received and compensation paid. For primary care and certain specialists that tend to bill for more E/M services, the increase in wRVUs for E/M claims will result in wRVU-related compensation increases that we expect to far outpace the increase in related payments. While payment increases apply to Medicare claims only, the wRVU increase is not payer-specific in terms of compensation calculations and will apply to a much larger proportion of provider activity. Absent modification to the 2021 PFS proposed rule, we believe that the vast majority of organizations with physician employment or professional services arrangements are at risk of having a sizable, unexpected economic liability in 2021, placing further pressure on already strained margins in the wake of the ongoing public health emergency.

Summary of Key Implications for Health Systems

- Production-based arrangements are likely to pay out more compensation with less revenue
- Every medical group is different in its composition, but a 10% negative spread between revenue and compensation is realistic
- Every health system will have a different market/economic reality based on the mix of physicians
- Over time, commercial payors may adopt similar reimbursement approaches
- **Something similar happened in 2007...and most did not plan effectively** – start planning now, review your contracts and develop a solution

Organizations need to act rapidly to develop a plan to respond to the proposed changes to the 2021 PFS. As an initial step, we encourage our clients to quantify and understand the implications of implementation of the proposed 2021 rule absent any modification, and subsequently to consider the options for addressing physician compensation-related issues in light of the new rule. Health Care Futures has developed a sophisticated tool that calculates the provider-specific and aggregate impact of the 2021 proposed rule, streamlining this initial analysis.

For more information or to submit your volume data to rapidly understand the impact of the proposed 2021 rule as it relates to your organization, please contact your Health Care Futures advisor, with select contact information found below.

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