Health Care Futures Direct: 2021 Proposed Medicare Physician Fee Schedule – Provider Compensation Implications – Part 2, October 2020

A few weeks ago, a Health Care Futures Direct highlighted the disruptive impact on health system financial sustainability that could result from implementation of the Centers for Medicare and Medicaid Services (CMS) CY 2021 Medicare Physician Fee Schedule (PFS) Proposed Rule. In short, the majority of health systems that continue to pay the same rate (compensation per wRVU) on an inflated number of 2021 wRVUs (as a consequence of CMS' proposal to increase wRVUs for office/outpatient E/M visits) will face substantive declines in enterprise-wide operating performance.

Health Care Futures has been working with clients to quantify the impact of proposed fee schedule changes on net patient service revenue and to identify factors that inform the degree of management urgency required. An illustrative case study (shown to the right) on client-provided CPT data frames the magnitude of the wRVU and revenue impact across specialty categories.

	wRVUs	Net Revenue
Specialty	2020 to 2021P Change	2020 to 2021P Change
Surgical	5.2%	-5.1%
Medical	12.4%	-0.2%
Primary Care	22.3%	7.2%
Total	13.3%	0.7%

The case study supports a conclusion that the actual impact of the 2021 PFS proposed rule on a given organization depends on several variables, and the specific contractual provisions of physician employment and professional services arrangements (PSAs) will inform the issues and options unique to each organization. We encourage health systems to examine their contractual arrangements to understand the level of organizational risk related to implementation of the 2021 PFS.

Below, we have outlined several factors that should be examined, including important implications:

Key Contractual and Other Variances that Influence Implications and Options

- Compensation methodology and structure
- Medical group composition
- Source (CMS weight year) used in calculating wRVUs
- Options for conversion factor modification
- Payer mix and risk of commercial payer shadowing

- **Compensation methodology.** The extent to which the compensation program utilizes wRVUs to determine provider remuneration will greatly influence the need for immediate health system intervention. Absent amending existing contracts, organizations relying on wRVU-dependent methodologies may see compensation for select specialties increase by upwards of 20+ percent without a commensurate change in patient volume. This degree of year-over-year compensation change is not sustainable or reasonable. Organizations that are more dependent on shift-based or salary-based compensation programs will have minimal disruption from a compensation standpoint but will need to understand the revenue implications.

- **Medical group composition.** The long-term impact of the proposed 2021 PFS changes will be heavily influenced by medical group composition. Health systems that employ or have professional services arrangements with a larger proportion of primary care and medical based specialists are likely to experience modest revenue growth, but will experience a materially larger increase in wRVUs. From a compensation planning standpoint, quick action is required for primary care and medical specialty dependent groups to avoid an unexpected increase in overall remuneration (absent a defined plan to support this increase). Groups heavy with proceduralists will be negatively impacted by revenue changes and will need to consider how to optimize operating performance.

- **Compensation structure, including tiering/bonus thresholds.** Some productivity-based models are tiered or include a bonus structure, involving applying a higher conversion factor to the number of wRVUs above one or more specified thresholds. These models are designed to incentivize and reward higher levels of productivity. In 2021, physicians that bill more E/M services will be able to achieve contractually-identified thresholds easier and bonuses faster because of the increase in wRVUs under the 2021 proposed PFS. Overall rates per wRVU will increase as more wRVUs are multiplied by higher conversion factors and physicians, in effect, will receive compensation and bonuses for which they would have been ineligible in the prior year.

- **PFS Year.** Contractual arrangements that identify a prior calendar year PFS in calculating wRVUs will be largely insulated from compensation changes in the short term; however, the revenue impact remains. Conversely, organizations with provider agreements that tie compensation to the "current" PFS need to act swiftly to avoid a potentially significant increase in physician compensation expense.

- **Terms allowing for conversion factor modification.** Some compensation arrangements include clear language allowing for conversion factor modification in certain instances, such as in the form of usual annual reviews or in the event of certain material adverse events. Organizations with compensation arrangements that include clear language allowing for conversion factor modification in certain instances, such as in the event that CMS makes a material change in payment structure, should consider implementation.
    - A major challenge in conversion factor modification is that benchmark surveys lag the PFS. For example, 2020 benchmark survey data will be based on 2019 responses, so it may be 2023 (based on 2022 data) before benchmark survey data has stabilized and dollar per wRVU amounts have been modified to reflect 2021 PFS changes. Reducing conversion factors is extremely politically challenging as well and organizations that pursue this should expect to face considerable pushback from employed physicians. Health systems will likely require external, independent support to successfully navigate and maintain credibility through a conversion factor modification process.

- **Organizational payer mix and risk of commercial payer shadowing.** In general, health systems with larger proportions of Medicare business have more risk related to the 2021 PFS proposed rule than organizations with more significant mixes of commercial and Medicaid business. Health systems with commercial contracts with reimbursement terms based on a percentage of Medicare will experience a compounding impact of reduced Medicare and commercial revenue. In addition, in some markets, commercial payers may adopt similar reimbursement approaches over time, further impacting health system revenue.

Moreover, CMS' 2021 PFS proposal will cause health system physician compensation expense to increase materially without any offsetting revenue, which not only will be unaffordable and unsustainable to many health systems, but may also result in compensation arrangements that require additional compliance review. The 2021 PFS has the potential to be the catalyst for many organizations to revisit existing wRVU-based compensation arrangements and to advance the next generation of compensation plans.

For more information, please contact your Health Care Futures advisor, with select contact information below.

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