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Relative Value Units

The Building Blocks of The Medicare Physician Fee Schedule

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Financial Disclosures

- Sara Rapuano is an independent practice management consultant.
- Robert Wiggins has no financial disclosures.

Now More Than Ever!

- It is important to understand how the physician fee schedule is set and updated by Medicare
- In a declining revenue environment, such as the COVID pandemic has created, understanding what drives your revenue is critical to creating action plans which aim to improve your practice revenue.
- Given the proposed reduction in the Medicare Conversion factor in 2021, it is even more important.
- Revenue analysis is also the first step in understanding how to match your costs with your revenue stream to help you target areas where you can hopefully reduce costs.

Learning Goals

- Learn WHAT are the components of the RVUs
- Learn WHY you want to understand RVUs.
- Learn HOW to use RVU analysis in your practice.

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WHAT are the Components of RVU?

Definition of Terms

Relative Value Units

- Work RVU
- Practice Expense RVU
- Malpractice RVU

Work RVU - wRVU

- Represents the relative time and intensity associated with furnishing a Medicare physician service.
- This is the portion that is meant to compensate the doctor. For that reason it can be used in compensation agreements.
- It considers time, technical skill, mental effort and judgement and stress due to the potential risk to the patient.
- wRVU averages 50.9% of the Total RVU, although the actual percentage varies, often significantly, by service type, and by procedure.

Practice Expense RVU – PE RVU

- Represents the practice expenses typically associated with providing a physician service, such as space, equipment, supplies and staff expenses.
- There are both direct and indirect expenses used in providing a service.
  - Direct would be clinical (non-physician) labor, medical supplies and medical equipment.
  - Indirect - administrative staff, office expense and other costs.
- This is effectively a theoretical practice overhead.
- PE represents 44.8% on average of the total RVU, although it too varies by type of service and actual procedure.

Malpractice RVU

- Proportional cost of malpractice insurance associated with providing a service.
- Also a form of overhead of a practice.
- Averages 4.3% of the total RVU.

Geographic Practice Cost Indices (GPCI)

- Each component of RVU has a multiplier to adjust for geographical cost differences for each component of RVU.
- This is meant to adjust for cost of living differentials as well as variance in professional liability environments throughout the country.

Place of Service (POS)

- In the Medicare Physician Fee Schedule (MPFS) there are different practice expense RVUs assigned to a service performed in a facility versus one performed in a non-facility or office setting.
- The PE RVU in a facility is lower than the PE RVU in a non-facility or office setting.
- While the overall cost of providing most services in a facility may be higher, the burden of the expense is shifted to the facility, so the practice expense is lower.
- This difference is often called the “site of service differential.”

Conversion Factor (CF)

- Represents the national amount Medicare allows for each RVU.
- In 2019, the CF was $36.0391.
- In 2020, the CF is $36.0896

Medicare Physician Fee Schedule

[(wRVU x wGPCI) + (PE RVU x PE GPCI) + (MP RVU x MP GPCI)] x CF

This is how each Medicare payment is calculated for each locality each year.

MPFS Example

- Cataract surgery – CPT 66984
  - wRVU = 7.35
  - PE RVU = 7.57
  - Malpractice RVU = 0.53
  - Total RVU = 15.45
  - National Reimbursement = 15.45 x $36.0896 = $557.58
- South Jersey Based Reimbursement
  - ((7.35 x 1.03)+(7.57 x 1.132)+(0.53 x 0.949)) x $36.0896 = $600.63

Cataract - Components of Change

	wRVU	PE RVU	MP RVU	Total RVU
2019	8.52	9.04	0.60	18.16
2020	7.35	7.57	0.53	15.45
Reduction	1.17	1.47	0.07	2.71
$$ Reduction*	$41.79	$52.60	$2.50	$96.89

* National Medicare Rates – Your actual reimbursement will be different depending upon your GPCI

Part B Fee Schedule Calculator

https://www.cms.gov/apps/physician-fee-schedule/overview.aspx

Visit Code RVU Detail 2020

CPT[1]/ HCPCS	Description	Work RVUs[2]	Non-Facility PE RVUs[2]	Facility PE RVUs[2]	Mal-Practice RVUs[2]	Total Non-Facility RVUs[2]	Total Facility RVUs[2]	Nationsl Non Facility Payment	National Facility Payment	Local Non Facility Payment	Local Facility Payment
92002	Eye exam new patient	0.88	1.47	0.44	0.02	2.37	1.34	$85.53	$48.36	$93.45	$50.69
92004	Eye exam new patient	1.82	2.36	0.90	0.05	4.23	2.77	$152.66	$99.97	$165.78	$104.42
92012	Eye exam establish patient	0.92	1.54	0.52	0.03	2.49	1.47	$89.86	$53.05	$98.14	$55.44
92014	Eye exam&tx estab pt 1/>vst	1.42	2.08	0.76	0.05	3.55	2.23	$128.12	$80.48	$139.47	$83.83
99201	Office/outpatient visit new	0.48	0.76	0.22	0.05	1.29	0.75	$46.56	$27.07	$50.60	$26.83
99202	Office/outpatient visit new	0.93	1.12	0.41	0.09	2.14	1.43	$77.23	$51.61	$83.41	$51.32
99203	Office/outpatient visit new	1.42	1.48	0.59	0.13	3.03	2.14	$109.35	$77.23	$117.70	$76.89
99204	Office/outpatient visit new	2.43	1.98	1.01	0.22	4.63	3.66	$167.09	$132.09	$178.75	$131.59
99205	Office/outpatient visit new	3.17	2.40	1.33	0.28	5.85	4.78	$211.12	$172.51	$225.47	$172.17
99211	Office/outpatient visit est	0.18	0.46	0.07	0.01	0.65	0.26	$23.46	$9.38	$25.83	$9.55
99212	Office/outpatient visit est	0.48	0.75	0.20	0.05	1.28	0.73	$46.19	$26.35	$50.20	$26.01
99213	Office/outpatient visit est	0.97	1.06	0.40	0.08	2.11	1.45	$76.15	$52.33	$82.10	$52.40
99214	Office/outpatient visit est	1.50	1.45	0.62	0.11	3.06	2.23	$110.43	$80.48	$118.76	$81.09
99215	Office/outpatient visit est	2.11	1.85	0.89	0.15	4.11	3.15	$148.33	$113.68	$159.15	$114.79

In your analysis you will want to use your locality GPCI adjusted rates. South Jersey Rates are shown in the "local" column here. You can recreate this by downloading the entire fee schedule found at https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/PhysicianFeeSched/PFS-Federal-Regulation-Notices-Items/CMS-1693-F *You can then create a pivot table in excel for each category of service.*

Eye visit codes vs E&M codes (2020 rates)

	99213	92012
Physician Work Units	0.97	0.92
Practice Expense Units	1.06	1.54
Med Malpractice Units	0.08	0.03
Total Unit Value	2.11	2.49
Conversion Factor – 2017	36.0896	36.0896
National CMS Allowable	$76.15	$89.86

While documentation may differ, many physicians use both the intermediate eye visit code or the level 3 E&M code for follow up visits.

Diagnostic Code RVU Detail 2020

CPT[1]/ HCPCS	Mod	Description	Work RVUs[2]	Non-Facility PE RVUs[2]	Facility PE RVUs[2]	Mal-Practice RVUs[2]	Total Non-Facility RVUs[2]	Nationsl Non Facility Payment
92020		Special eye evaluation	0.37	0.40	0.21	0.01	0.78	$28.15
92025		Corneal topography	0.35	0.67	NA	0.02	1.04	$37.53

Diagnostic testing services also have low wRVU as a percentage of total RVUs. Again, this is because the practice expense component represents a high cost for ophthalmology diagnostic testing services. For example, compare the RVU components for gonioscopy and a corneal topography. We can see that the work value for the physician is similar, however, since a topographer is a more expensive piece of equipment than a gonioscopy lens, the total reimbursement for the topography is $37.53 whereas the gonioscopy only reimburses $28.15.

Who Maintains This System?

- The Medicare physicians fee schedule changes each year based upon the recommendations of the RVS Update Committee (RUC) of the American Medical Association (AMA).
- The RUC is comprised of representatives from all specialties in medicine. They review the work value and practice expense values.
- The AAO provides feedback on proposed changes as well.
- Theoretically, if there are technological advances that make a procedure or service easier or less time consuming, then the wRVU will decrease.
- If costs related to providing a service increase, then the PE RVU will increase.
- To read more about the functions of the RUC committee, visit the AMA website.

WHY You Need to Understand RVUs

Why?

- To understand how you can anticipate and adapt to changes in Medicare (and commercial carrier) revenue each year.
- To use RVU analysis to evaluate commercial contracts.
- To measure physician work value to help analyze the incentives and/or disincentives that may be hidden in your current reimbursement method.

Anticipate Changes in Revenue

- Given the update to E&M documentation requirements for 2021, an RVU analysis, once the 2021 fee schedule is released, could help you anticipate the revenue impact of changing from coding with predominantly Eye visit codes to perhaps considering a mixture of Eye visit codes and E&M codes.
- In the CMS proposed fee schedule, there is an increase in the RVU for E&M codes, while there is not a proposed increase in the Eye visit codes.

Medicare Revenue Analysis

	A	B	C	D	E	F	G
1	CPT CODE	DESCRIPTION	Budgeted Annual Volume	Total 2018 MPFS	Total 2019 MPFS	Change in Reimbursement	Projected Change in Revenue
2	92002	Eye exam new patient	30.00	$84.96	$85.41	$0.45	$13.50
3	92004	Eye exam new patient	1800.00	$153.72	$153.53	($0.19)	($342.00)
4	92012	Eye exam establish patient	9396.00	$89.28	$89.74	$0.46	$4,322.16
5	92014	Eye exam&tx estab pt 1/>vst	1626.00	$128.52	$128.66	$0.14	$227.64
6	99201	Office/outpatient visit new	30.00	$45.36	$46.49	$1.13	$33.90
7	99202	Office/outpatient visit new	300.00	$76.32	$77.48	$1.16	$348.00
8	99203	Office/outpatient visit new	600.00	$109.80	$109.92	$0.12	$72.00
9	99204	Office/outpatient visit new	2400.00	$167.40	$166.86	($0.54)	($1,296.00)
10	99205	Office/outpatient visit new	20.00	$210.60	$209.75	($0.85)	($17.00)
11	99211	Office/outpatient visit est	10.00	$21.96	$23.07	$1.11	$11.10
12	99212	Office/outpatient visit est	300.00	$44.64	$45.77	$1.13	$339.00
13	99213	Office/outpatient visit est	3000.00	$74.16	$75.32	$1.16	$3,480.00
14	99214	Office/outpatient visit est	750.00	$109.44	$110.28	$0.84	$630.00
15	99215	Office/outpatient visit est	20.00	$147.60	$147.76	$0.16	$3.20
16					Projected Change in Revenue		$7,825.50
17							

Evaluating Commercial Contracts

Understanding the contract’s inherent conversion factor

Evaluate Existing Contract Rates

	A	E	O	Q	R	S	T
1	CPT[1]/ HCPCS	Description	National Non Facility Payment	Insurance 1	Insurance 2	Insurance 3	Insurance 4
2	92002	Eye exam new patient	$85.41	80	50	50	35
3	92004	Eye exam new patient	$153.53	200	120	120	80
4	92012	Eye exam establish patient	$89.74	110	40	50	35
5	92014	Eye exam&tx estab pt 1/>vst	$128.66	150	68	70	20
6	99201	Office/outpatient visit new	$46.49				

Commercial Contract Avg Realized CF

A hypothetical calculation would look like this:

CPT	Service	Your Fee		Total RVU 2019		Your CF
99204	New E&M, Level 4	$384	÷	4.63	=	$ 82.94
92004	New Comprehensive Eye Exam	$305	÷	4.20	=	$ 72.62
92014	Est. Comprehensive Eye Exam	$265	÷	3.57	=	$ 74.23
66984	Cataract Surgery	$1,900	÷	18.16	=	$104.63
92134	OCT - Retina	$ 60	÷	1.16	=	$ 51.72

Your worksheet should include all of the CPT codes you billed during the year including the number of times the code was used.

Evaluating New Contract Opportunities

- The CMS Conversion Factor for 2020 is 36.0896.
- All contract offerings should be reviewed relative to the 36.0896 CMS CF.
- The carriers are frequently using an RVU based system and relate their offerings relative to the CMS CF. They may actually state their payments as a % of Medicare CF or Medicare Fee Schedule.
- Your practice volume for services is an important issue.
- Contracts should be reviewed within context of Financial Class - Medicare Advantage, Medicaid, Commercial, etc.
- Check the Eye visit code CF. Some may pay a reduced CF as a vision only service.

Evaluating New Contract Opportunities

- Are RVUs static or do they adjust each year??
- Are the local GPCI factors being applied to the national RVUs?
- What is the effective Conversion Factor?
- Is it different by type of service or place of service?
- Are all providers paid the same Conversion Factor rate?
- Are there different Conversion Factors for different plans from the same carrier?
- Do you want to attempt to carve out a specific rate?

RVUs and Provider Compensation Models

Compensation Model Options

- Guaranteed Base Salary
- Straight Split Based Upon Ownership
- Straight Split Based Upon Actual Collections
- Straight Split Based Upon work RVUs
- A Combination of the above

Guaranteed Base Salary

- Most often used in an academic setting, or for part time ophthalmologists or optometrists who work a set number of hours.
- Benefits: Can anticipate salary expense and budget expenses appropriately. Allows physicians to focus on research and teaching responsibilities.
- Risks: No incentive to see more patients, so may not meet revenue budget.

Straight Split Based On Ownership

- Used in small single specialty practices comprised of physicians in the same stage of practice.
- Benefits: There is a real incentive to work as a team to raise the whole practice. Physicians share patients and call equally.
- Risks: Individual is not incented to work more as they only reap a small percentage of each additional dollar they generate. Also does not allow for individual physician personal lifestyle choices, such as reduction in hours.

Straight Split Based On Collections

- This is the eat what you kill model.
- Benefits: Incentive for each physician to work as hard as he personally chooses.
- Risks: There is no adjustment for differing resource requirements for various specialties. Physicians are helped or hurt by the billing office effectiveness.

Straight Split Based On work RVU

- Works well in larger, multi-specialty practices or as an incentive based model in an academic setting.
- Benefits: No adjustment for different payer mixes so physicians who treat the Medicaid and Charity patients are appropriately rewarded for that.
- Risks: There are no set wRVUs for cosmetic procedures and new technology/ Category II CPT codes.

Multi-Specialty Practice

Specialist	Collections	wRVU	Salary split by % Collections *	Salary Split by % wRVU*	Difference
Oculoplastic	$993,471	11,276	$496,735	$486,469	$10,265
Anterior Segment	$761,179	8,978	$380,589	$387,329	$6,739
Neuro-Ophth	$565,810	6,999	$282,905	$301,951	$19,046
Glaucoma	$595,880	6,546	$297,941	$282,420	$15,519
Total	**$2,916340**	**33,799**	**$1,458,170**	**$1,458,170**	

* *Assume 50% overhead percentage and assumes all CPTs obtain National MCR allowable rates*

Productivity of a Practice During COVID Pandemic

Month	2020 wRVUs as a % of 2019 wRVUs
January	109%
February	105%
March	82%
April	15%
May	88%
June	116%
Total	85%

What are the challenges of using RVU Work Units?

Recognizing the contribution of private pay services that do not have established work units. Such as…

- LASIK
- Lipiview/Lipiflow
- Premium IOLs
- Corneal Collagen Cross-linking

What are the challenges of using work RVU?

As with charges…

You need to consider whether Modified Services should have their work units modified for purposes of production.

- Multiple Procedure Modifier
- Co-Managed Services Modifier
- Professional Component Only

Using RVUs to Determine Procedure Costs

An Imperfect but Relative Approach

GPCI Adjusted Practice Expense as a Benchmark for Overhead

A practice could use the RVU tables to create a benchmark for overhead. Steps to do this would include:

- Listing all CPTs performed separated by place of service
- List the non-facility or facility PE as appropriate
- List volume performed per CPT per location
- Multiply the PE by the volume performed
- Compare to actual practice overhead

	A	B	C	D	E
1	CPT CODE	DESCRIPTION	Budgeted Annual Volume	Practice Expense RVU	Total PE C x D x CF
54	92083	Visual field examination(s)	2	1.29	$92.98
69	92285	Eye photography	4	0.54	$77.84
70	92286	Internal eye photography	40	0.68	$980.26
71	99201	Office/outpatient visit new	0	0.76	$0.00
72	99202	Office/outpatient visit new	0	1.14	$0.00
73	99203	Office/outpatient visit new	100	1.49	$5,369.83
74	99204	Office/outpatient visit new	300	1.99	$21,515.34
75	99205	Office/outpatient visit new	0	2.38	$0.00
76	99211	Office/outpatient visit est	0	0.45	$0.00
77	99212	Office/outpatient visit est	0	0.75	$0.00
78	99213	Office/outpatient visit est	500	1.05	$18,920.53
79	99214	Office/outpatient visit est	120	1.46	$6,314.05
109					
110			Contribution to Overhead		$256,309.72

(Projected Volume per CPT 1 x PE RVU for CPT 1 x GPCI x CF) + (Projected Volume per CPT 2 x PE RVU for CPT 2 x GPCI x CF) etc. = Overhead Budget

Action Steps

- Create a framework for your fee schedule analysis
- Determine the fee schedule impact of changes in RVUs each year.
- Review the incentives inherent in your current physician compensation package and determine if you might want to restructure your package.
- Calculate your weighted average practice expense ratio and compare to your realized overhead.

Reference Tools

- **Additional Resources**
- https://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNProducts/downloads/MedcrephysFeeSchedfctsht.pdf
- https://www.ama-assn.org/practice-management/medicare/medicare-physician-payment-schedules
- www.cms.gov/apps/physician-fee-schedule

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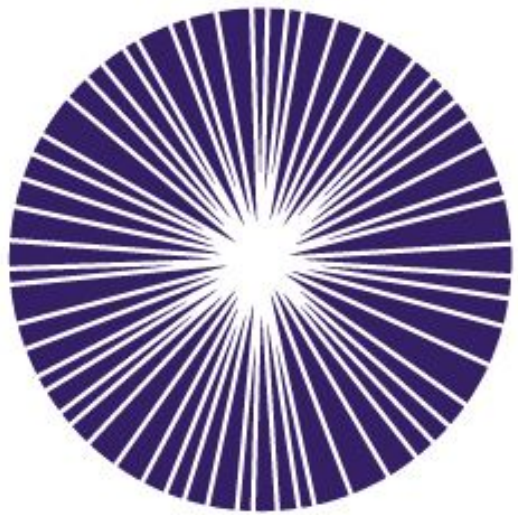

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