Advising the Congress on Medicare issues

Mandated report: geographic adjustment of payments for the work of physicians and other health professionals

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Commission's mandate

- Should the physician fee schedule have a geographic payment adjustment for the work effort of physicians and other health professionals?
- If so, how should it be applied?
- What are the impacts of the current adjustment, including its impacts on access to care?

Today's presentation

- Background on the current geographic adjustment for work effort
- Arguments for and against the adjustment
- Next steps

GPCIs adjust payments depending on an area's input prices

Service: Mid-level office visit, established patient

Locality: Los Angeles, 2012

Input	Unadjusted RVU		GPCI		Adjusted RVU
Work	0.97	X	1.04	=	1.00
Practice expense	1.03	X	1.15	=	1.19
PLI	0.07	X	0.64	=	0.04
	2.07				2.24
			Conversion factor	X	34.04
			Payment rate	$	76.19

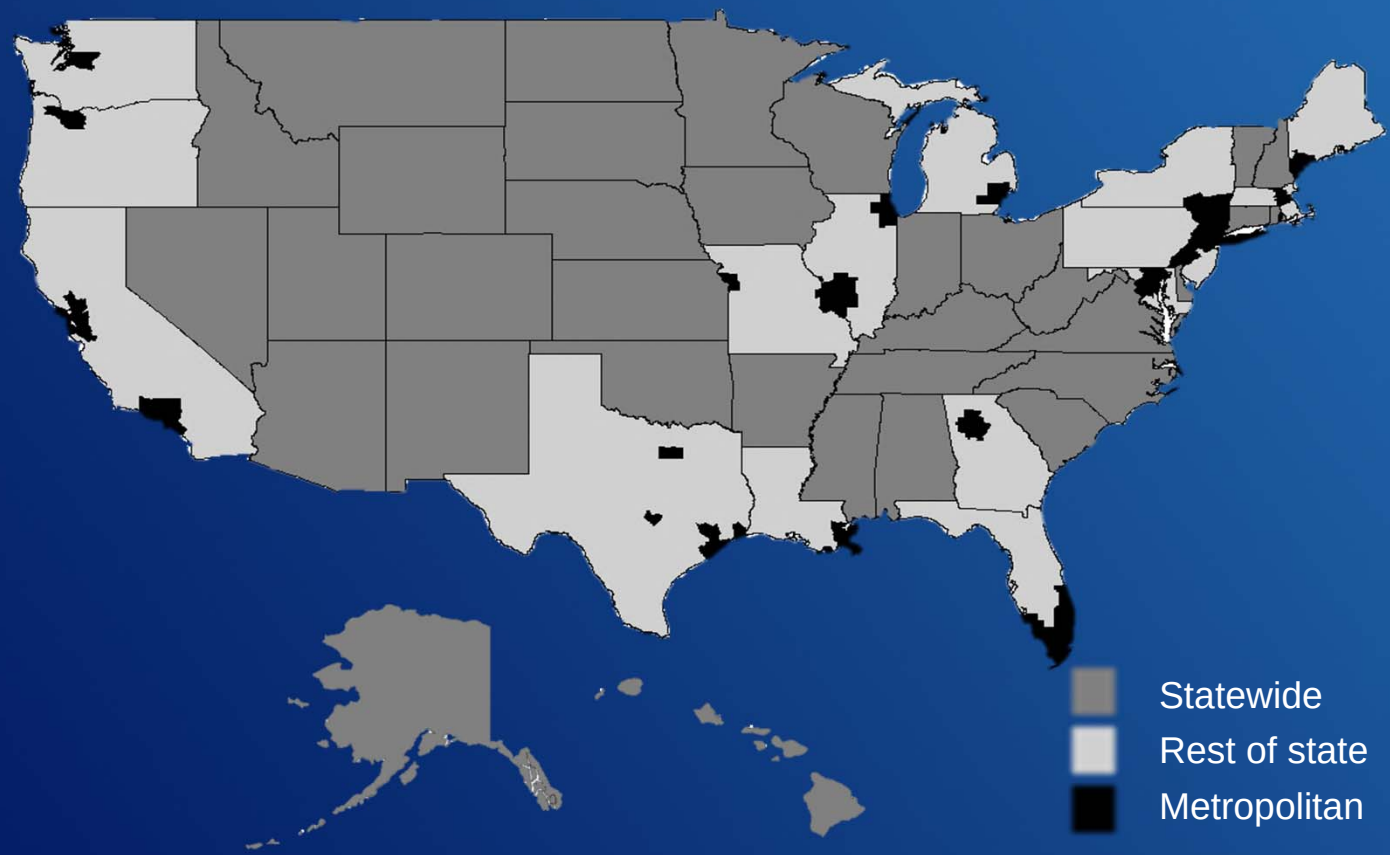
Note: RVU (relative value unit), GPCI (geographic practice cost index), PLI (professional liability insurance). Arithmetic operations may not produce results shown due to rounding.

Source: 2012 CMS GPCI file (released before extension of temporary floor) and RVU file.

Work GPCI

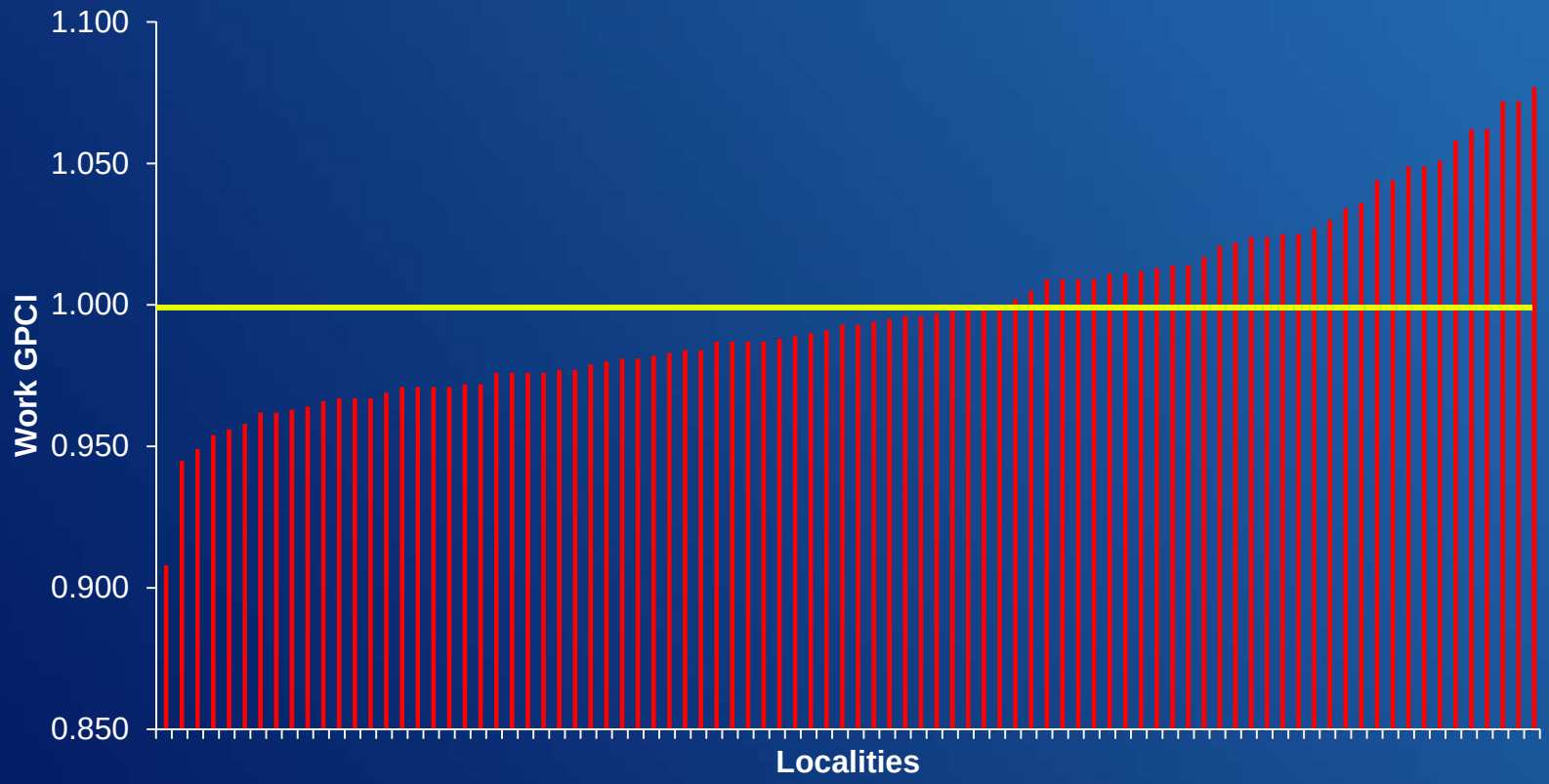
- As a geographic payment adjustment, it adjusts payments for costs beyond providers' control
- What are those costs?
  - Cost of living
  - Amenities (may offset cost of living)
    - Professional factors
    - Personal factors

Fee schedule's payment localities



Note: Some metropolitan areas include more than one locality.
Source: CY 2012 final GPCI county data file from CMS.

Work GPCI's range of values



Note: GPCI (geographic practice cost index). The Alaska locality is not shown. Its work GPCI (established in the Medicare Improvements for Patients and Providers Act of 2008) is 1.5.

Source: 2012 GPCI file (released before extension of the temporary floor).

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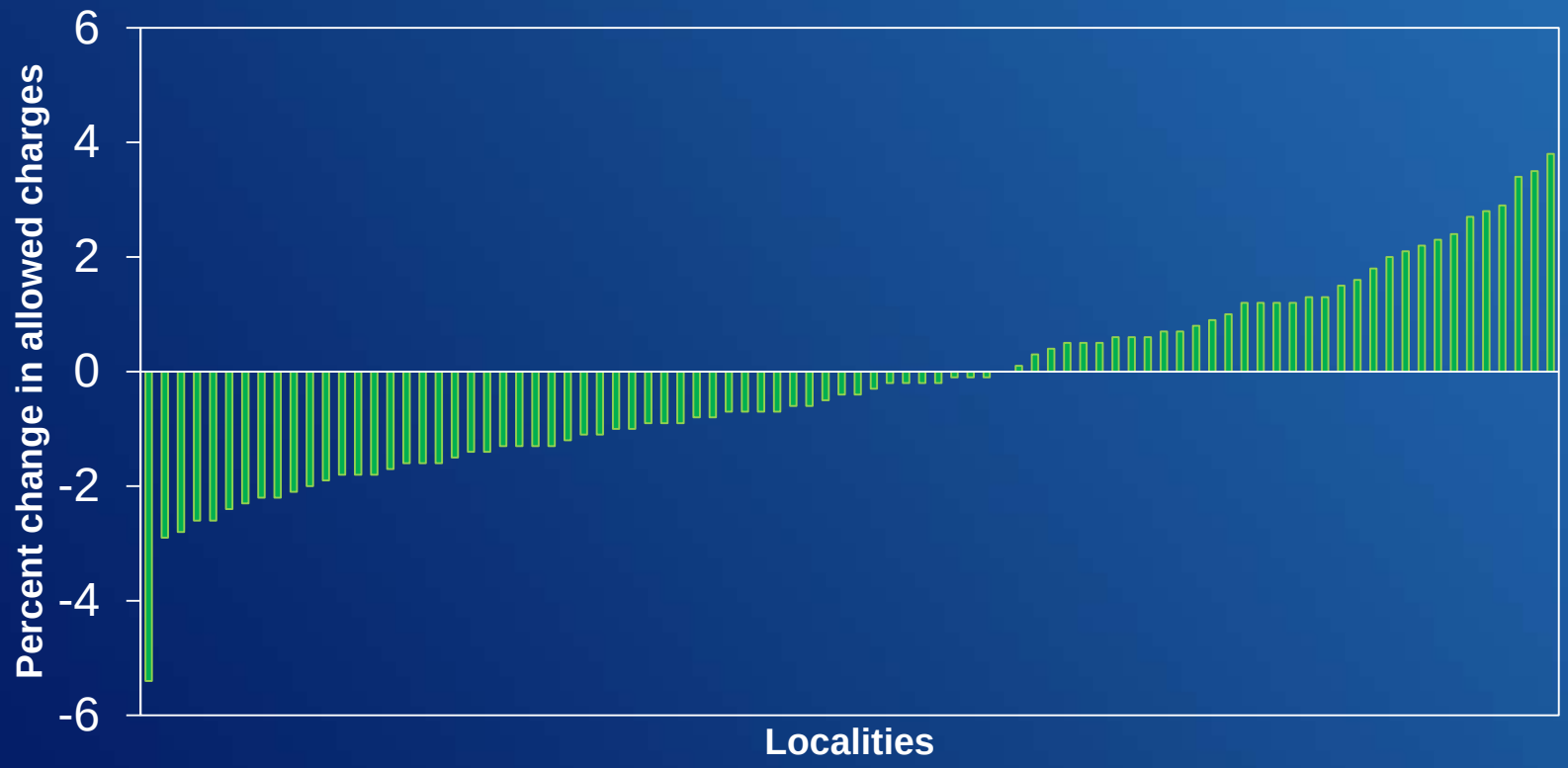
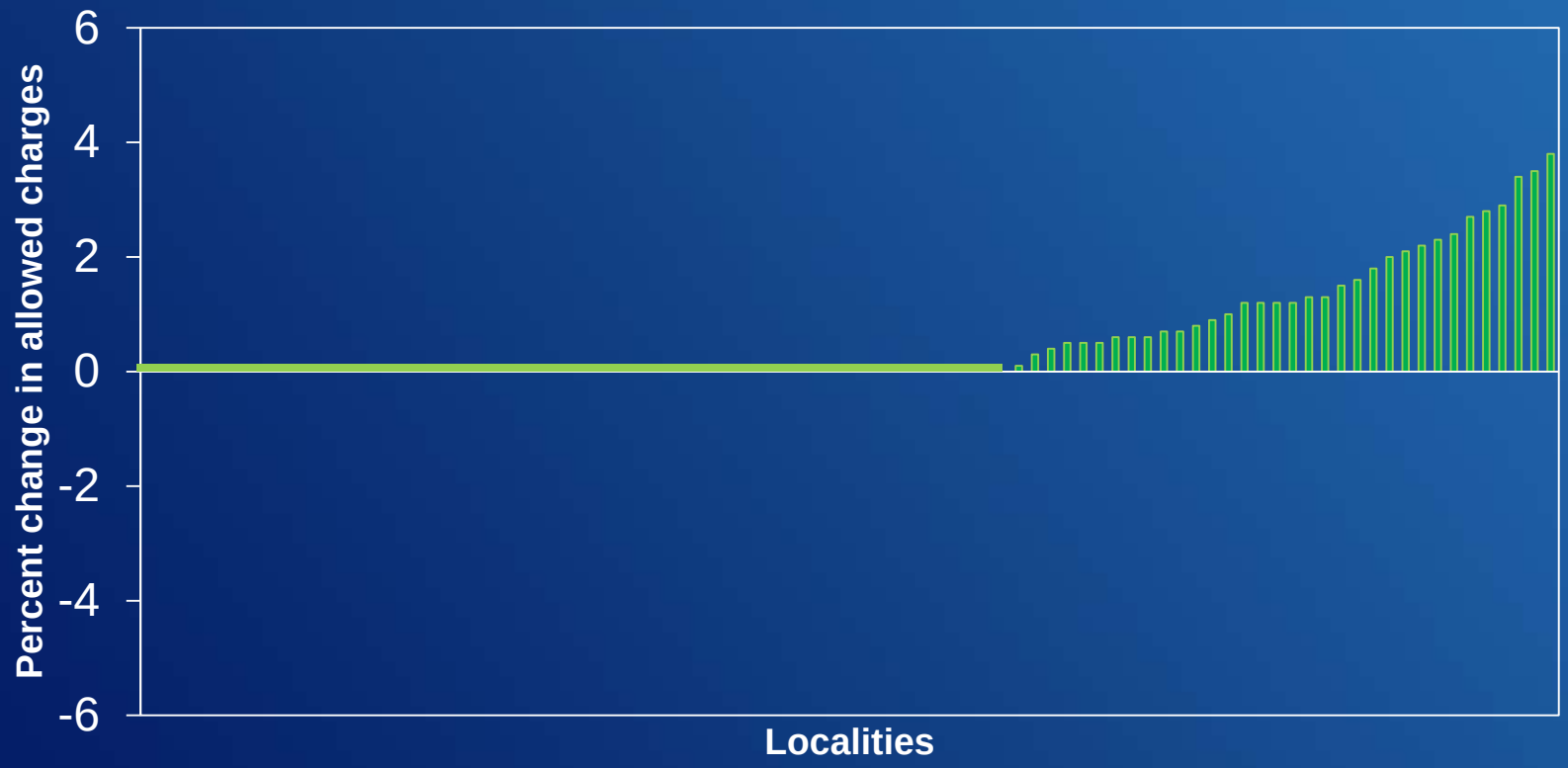
Work GPCI's impacts on spending (without floor)



Note: GPCI (geographic practice cost index). Impacts were calculated—holding the volume of services constant—as allowed charges with the work GPCI (and no floor) compared to allowed charges without the work GPCI.

Source: CY 2012 final GPCI county data file from CMS and 2012 GPCI file (released before extension of the temporary floor).

Work GPCI's impacts on spending (with floor)



Note: GPCI (geographic practice cost index). Impacts were calculated—holding the volume of services constant—as allowed charges with the work GPCI (and the floor) compared to allowed charges without the work GPCI.

Source: CY 2012 final GPCI county data file from CMS and 2012 GPCI file (released before extension of the temporary floor).

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Work GPCI based on earnings of professionals in reference occupations

- Work GPCI constructed with BLS data for seven reference occupations
  - architecture and engineering
  - computer, mathematical, life, physical science
  - five others
- If GPCI based on earnings of physicians and other health professionals:
  - Circularity
  - Return on investment
  - Volume of services
  - Market factors

Limits on the work GPCI

- Longstanding concerns about whether to adjust work RVUs geographically
- Fee schedule legislation passed in 1989
  - Work GPCI limited to ¼ of locality's relative cost compared to national average
  - Example
    - 1.20: work GPCI without ¼ limit
    - 1.05: work GPCI with ¼ limit
- Medicare Modernization Act of 2003
  - Floor on work GPCI of 1.00
  - Current extension expires December 31, 2012

Fulfilling the mandate

- Economic theory: compensating wage differentials
  - Cost of living and amenities affect area wages
  - These factors can offset each other
- Labor market for physicians and other health professionals
  - Self-employment and return on investment
  - Market factors
- Arguments for and against the work GPCI

Fulfilling the mandate: arguments in favor of a work GPCI

- Compensation for cost of living
- Beneficiary access in high-cost areas
- Work as input to production of services
- Consistency with Medicare's other geographic payment adjustments

Fulfilling the mandate: arguments against a work GPCI

- Work is work/equity
- National labor market
- Characteristics of rural practice
- Inadequacy of earnings data
- Social Security and certain other payments not adjusted geographically
- Research suggests that rural physicians have higher earnings than urban physicians

Policy options

- Retain (without floor) ¼ work GPCI?
  - GPCI consistent with theory
  - Data may not support full adjustment
- Eliminate (budget neutral) work GPCI?
  - Labor market has unique characteristics
  - Data may not support construction of an accurate index

Discussion

- This meeting
  - Mandate
  - Arguments for and against the work GPCI
  - Policy options
- Subsequent meetings
  - Empirical analysis of geographic variation in physician compensation
  - Impacts of the work GPCI, including impact on access to care