



**Association of  
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**Darrell G. Kirch, M.D.**  
President

August 21, 2006

Mark McClellan, M.D., Ph.D.  
Administrator  
Center for Medicare and Medicaid Services  
Department of Health and Human Services  
Attention: CMS-1512-PN  
P.O. Box 8014  
Baltimore, MD 21244-8014

RE: Medicare Program; Five-Year Review of Work Relative Value Units Under the Physician Fee Schedule and Proposed Changes to the Practice Expense Methodology

Dear Dr. McClellan:

I am writing on behalf of the Association of American Medical Colleges (AAMC) to comment on CMS-1512-PN, Medicare Program; Five-Year Review of Work Relative Value Units Under the Physician Fee Schedule and Proposed Changes to the Practice Expense Methodology, as published in the Federal Register on June 29, 2006. The AAMC represents approximately 400 major teaching hospitals and health systems, 126 U. S. allopathic medical schools, 96 academic societies and 90,000 clinical faculty, residents and students.

As you know, since 1992, the payment amounts for most services paid under the Medicare Physician Fee Schedule have been calculated using relative value units for physician work (WRVU), practice expense (PE-RVU), and professional liability insurance expenses (PLI-RVU). Each weight is adjusted by geographic practice cost indices (GPCIs). The sum of the adjusted RVUs is multiplied by a conversion factor (CF) to calculate the specific payment for each service.

Physician WRVUs, which measure the relative time and intensity of physician work for each of more than 7,000 clinical service codes, account for approximately half of Medicare's payments to physicians. Practice expense RVUs measure physician/practitioner expenses for providing a service, such as office rent, supplies, and wages of personnel, excluding professional liability insurance. PE-RVUs account for approximately 45% of fee schedule payments. The remaining portion of the fee schedule payment covers professional liability insurance expenses.

As a result of the required five-year review of WRVUs, CMS has made several recommendations for changes to WRVU values and has also proposed changes to the PERVU calculation methodology and values.

## **Proposed Work RVU Changes**

The estimated impact of the proposed changes in work RVUs is four billion dollars. By law, proposed payment changes over \$20 million must be budget neutral. To meet budget neutrality requirements, CMS considered either applying a 10% reduction to WRVUs or a 5% reduction to the overall conversion factor.<sup>[1]</sup> Because not all services in the physician fee schedule have WRVUs, and because the proposed practice expense methodology adjusts for budget neutrality, CMS proposed applying a separate 10% deflation adjustment to the work RVU component.

One major outcome of the review of WRVUs is that evaluation and management (E&M) WRVUs increased substantially. However, CMS estimates the impact to vary across specialties, ranging from an 8% decrease (nurse anesthetist) to an 8% increase (infectious disease). Other specialties that are expected to receive at least a 5% increase due to the WRVU proposal are emergency medicine (7%), endocrinology (6%), family practice (5%), and pulmonary disease (5%). Similarly, specialties whose payments are estimated to decrease by at least 5% include anesthesiology, nuclear medicine, pathology, and physical/occupational therapy.

An analysis of Medicare services provided by 66 faculty practice plans associated with U.S. medical schools indicates an even wider impact for specialties at academic health centers. Results of the analysis indicate the range to be from negative 15.7% (nuclear medicine) to positive 12.7% (family medicine without obstetrics). However, the aggregated impact at the practice plan level is less dramatic: from negative 2.6% to positive 5.9%. On average, faculty practice plans will receive a decrease of 0.2% due to proposed changes in WRVUs. (See attachments 1 and 2).

Prior to 1998, CMS applied budget neutrality adjustments to work relative values from 1993 – 1995 and again in 1997. This approach resulted in several unintended consequences, including: challenges to valuing and implementing work relative value units for new and revised CPT codes; impacting payments to physicians by private payers who rely upon the RBRVS system; and altering the relative weights of work relative values units, a foundation of the RBRVS system.

Since 1998, CMS has implemented work neutrality adjustments by adjusting the conversion factor. During this time period private payers have continued to rely upon the RBRVS system for establishing payment rates to physicians. Faculty practice plans report that, increasingly, contracts with payers are based upon the RBRVS system. Finally, faculty practice plans have evolved and established internal productivity standards and compensation systems for clinical work based upon the RBRVS system. Modifications to work relative value units will impact these systems and physician compensation.

Given the prior CMS experience with applying the budget neutrality factor to both the work values and the conversion factor, and the need to once again apply an adjustment factor, AAMC strongly supports applying the adjustment directly to the conversion factor, rather than as a separate adjustment to the work RVUs. This is consistent with the most recent methodology used by CMS.

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The American Medical Association (AMA) and other major medical specialty societies also support this position.

### **Proposed Practice Expense RVU Changes**

The PERVUs are comprised of direct and indirect costs. The specific calculations for these values are fairly complex, but key points related to changes proposed by CMS include:

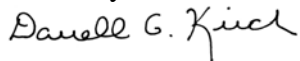
CMS previously determined direct practice expense costs by summing all direct costs for a specialty and then re-distributing the costs across services provided by the specialty. This is known as the “top-down” approach. CMS now proposes using a “bottom-up” approach wherein it identifies the direct costs specifically associated with a service. CMS contends that the direct cost input database, which has been refined over the past several years, is now accurate enough for such a methodology.

Indirect expenses are based on a practice expense/hour (PE/HR) calculation derived from survey data. CMS has been using data from the AMA Socioeconomic Monitoring Survey (SMS). Because SMS data are now several years old (SMS was discontinued in 1999), specialty societies were given the opportunity to submit supplemental survey data which, if accepted, would be used to calculate the PE/HR ratio. Eight specialties have had their survey data accepted by CMS. Full implementation of the PE-RVU methodology will result in economic shifts between specialties; therefore, CMS proposes transitioning to the new methodology over four years.

AAMC supports the 4-year transition to the new practice expense RVUs. A transitional approach will decrease the potential burden of the impact to institutions and/or specific specialties and allow those entities to develop financial plans that accommodate the adjustments. AAMC strongly encourages CMS to pursue updated multi-specialty practice expense data to ensure equitable distribution of practice expense payments.

Thank you for the opportunity to comment on the proposed rule, Five-Year Review of Work Relative Value Units Under the Physician Fee Schedule and Proposed Changes to the Practice Expense Methodology. Please direct any comments or questions about our letter to Mr. Robert Dickler or Ms. Denise Doderer at (202) 828-0490. The AAMC looks forward to the final rule and stands ready to work with CMS as appropriate.

Sincerely,



Darrell G. Kirch, M.D.

cc: Mr. Robert Dickler, Senior Vice President  
Ms. Denise Doderer, Associate Vice President

**Attachment 1**  
**2007 Medicare Physician Proposed Rule Analysis**  
**Impact of Work RVU Changes Across Faculty Practice Plans**  
**Number of Faculty Practice Plans Analyzed: 66**

Mean Impact	-0.2%
Median Impact	-0.4%
# of practice plans with a positive impact	22 (33%)
Mean increase	1.3%
Median increase	0.5%
Maximum increase	5.9%
# of practice plans with a negative impact	44 (66%)
Mean decrease	-0.9%
Median decrease	-0.8%
Maximum decrease	-2.6%

**Attachment 2**  
**2007 Medicare Physician Proposed Rule Analysis**  
**Impact of Work RVU Changes by Specialty**

**Number of Faculty Practice Plans Analyzed: 66**

<b>Specialty</b>	<b># of Faculty Practice Plans</b>	<b>2006 Work RVUs (After GPCI Adjustment)</b>	<b>2007 Work RVUs (After GPCI and Budget Neutrality Adjustment)</b>	<b>% Difference</b>
Family Medicine (without OB)	35	200,951.90	226,569.50	12.7%
General Internal Medicine	65	1,397,256.00	1,564,804.00	12.0%
Hospitalists	37	348,563.60	386,764.00	11.0%
Infectious Disease	63	200,729.70	222,584.50	10.9%
Medical Oncology	55	389,763.10	430,213.50	10.4%
Hematology	55	199,207.80	219,704.60	10.3%
Bone Marrow Transplant	23	34,005.60	37,439.90	10.1%
Geriatrics	50	259,335.30	285,497.20	10.1%
Emergency Medicine	54	1,014,294.00	1,114,484.00	9.9%
Family Medicine (with OB)	48	495,177.30	542,825.70	9.6%
Rheumatology	62	155,185.80	169,824.00	9.4%
Endocrinology / Metabolism	65	205,363.50	223,853.70	9.0%
Hematology / Oncology	20	51,998.88	56,610.58	8.9%
Physical Medicine	45	270,599.20	293,116.70	8.3%
Transplant Surgery: Liver	23	76,177.92	81,831.23	7.4%
Surgery: Cardiac	48	567,911.60	608,699.00	7.2%
Transplant Surgery: General	21	105,294.40	112,459.60	6.8%
Allergy / Immunology	43	22,562.44	24,037.05	6.5%
Pulmonary Disease	64	760,625.10	801,115.60	5.3%
Neurology: Alzheimers / Dementia	23	24,040.51	25,264.63	5.1%
Transplant Surgery: Kidney	32	132,463.60	139,027.80	5.0%
Occupational Medicine	13	1,924.06	2,011.48	4.5%
Surgery: Thoracic	40	264,401.50	275,681.90	4.3%
Critical Care	28	165,419.00	172,436.40	4.2%
Surgery: Trauma	34	136,164.60	141,571.70	4.0%
Neurology: General	64	597,603.80	619,247.00	3.6%
Hepatology	26	63,496.09	65,473.81	3.1%
Gynecological Oncology	56	172,668.00	177,576.30	2.8%
Uro-Gynecology	28	47,538.93	48,799.44	2.7%
Surgical Oncology	40	177,464.40	181,580.60	2.3%
Ambulatory Gynecology	14	7,881.40	8,037.89	2.0%
Surgery: General	64	773,710.60	785,734.70	1.6%
Obstetrics / Gynecology	66	134,585.00	135,625.00	0.8%
Psychiatry	62	453,578.20	456,466.40	0.6%
Ophthalmology: Neuro	35	47,878.06	48,139.26	0.5%
Surgery: Colon and Rectal	29	73,589.14	73,871.65	0.4%
Neurology: Neuromuscular	33	69,322.07	69,073.62	-0.4%
Midlevel Providers	32	816,488.20	813,434.60	-0.4%
Urology	60	598,758.60	595,774.60	-0.5%
Otorhinolaryngology	58	459,844.10	457,065.80	-0.6%

<b>Specialty</b>	<b># of Faculty Practice Plans</b>	<b>2006 Work RVUs (After GPCI Adjustment)</b>	<b>2007 Work RVUs (After GPCI and Budget Neutrality Adjustment)</b>	<b>% Difference</b>
Cardiology: Noninvasive	63	1,246,561.00	1,237,184.00	-0.8%
Nephrology	65	990,745.70	981,187.70	-1.0%
Physical Therapy	18	18,937.72	18,719.34	-1.2%
Surgery: Burn	15	24,248.71	23,874.25	-1.5%
Neurology: Sleep Medicine	10	8,623.14	8,468.15	-1.8%
Reproductive Endocrinology	50	4,752.33	4,650.40	-2.1%
Surgery: Vascular / Thoracic	21	143,246.40	140,087.20	-2.2%
Maternal and Fetal Medicine	61	16,673.43	16,293.92	-2.3%
Podiatry	6	14,202.34	13,868.18	-2.4%
Pain Management	29	81,615.71	79,648.46	-2.4%
Other Physician Specialty	52	978,149.30	954,551.90	-2.4%
Human Genetics	15	3,035.84	2,961.26	-2.5%
Surgery: Vascular	52	524,716.80	511,477.00	-2.5%
Surgery: Oral	24	13,446.27	13,087.40	-2.7%
Surgery: Neurological	62	706,631.30	686,948.30	-2.8%
Orthopedic Surgery: Foot / Ankle	39	62,828.83	61,064.38	-2.8%
Orthopedic Surgery: Oncology	26	27,529.82	26,634.19	-3.3%
Orthopedic Surgery: Hand	52	89,216.96	86,312.18	-3.3%
Neurology: Epilepsy / EEG	38	92,738.84	89,538.38	-3.5%
Ophthalmology: Optometry	35	19,864.48	19,167.59	-3.5%
Orthopedic Surgery: Shoulder / Elbow	27	45,495.71	43,790.99	-3.7%
Ophthalmology: Glaucoma	40	232,740.40	223,989.90	-3.8%
Surgery: Plastic	59	190,517.30	183,155.40	-3.9%
Orthopedic Surgery: Trauma	45	82,889.00	79,685.01	-3.9%
Orthopedic Surgery: Sports Medicine	51	95,960.59	92,220.60	-3.9%
Orthopedic Surgery: Spine	46	248,964.80	239,153.30	-3.9%
Orthopedic Surgery: General	54	191,291.30	183,232.20	-4.2%
Cardiology: Invasive	49	594,406.20	568,144.50	-4.4%
Ophthalmology: Corneal / Refractive Surgery	44	226,440.90	216,047.90	-4.6%
Gastroenterology	64	801,146.90	763,513.10	-4.7%
Ophthalmology: Retinal	45	425,555.30	404,902.00	-4.9%
Ophthalmology: General / Comprehensive	51	343,086.40	324,731.30	-5.3%
Cardiology: Electrophysiology	35	310,849.00	294,040.30	-5.4%
Cardiology: Invasive Interventional	34	496,138.20	467,843.50	-5.7%
Dermatology	61	524,526.60	485,380.20	-7.5%
Ophthalmology: Oculoplastic / Reconstructive Surge	36	87,860.90	80,948.62	-7.9%
Pathology: Surgical	30	303,324.30	279,148.70	-8.0%
Pathology: Anatomic	44	542,291.90	498,960.00	-8.0%
Genetics	21	10,022.81	9,211.29	-8.1%
Radiation Oncology	55	815,604.00	749,453.10	-8.1%
MOHS Surgery	29	258,719.40	237,295.70	-8.3%

<b>Specialty</b>	<b># of Faculty Practice Plans</b>	<b>2006 Work RVUs (After GPCI Adjustment)</b>	<b>2007 Work RVUs (After GPCI and Budget Neutrality Adjustment)</b>	<b>% Difference</b>
Orthopedic Surgery: Joint	47	263,399.10	241,323.40	-8.4%
Pathology: Clinical	55	219,598.50	201,160.10	-8.4%
Radiology: Interventional	48	492,484.00	445,982.80	-9.4%
Psychology	37	20,591.55	18,550.78	-9.9%
Radiology: Diagnostic	58	2,092,456.00	1,881,914.00	-10.1%
Radiology: Nuclear Medicine	45	154,821.30	130,550.00	-15.7%
<b>All Medicare Services Across all Plans</b>	<b>66</b>	<b>27,112,770.28</b>	<b>27,014,381.81</b>	<b>-0.4%</b>

Source: Faculty Practice Solution Center analysis using most recent 12 months of data available for practice plan (data ranged from July 2004 to December 2005). Pediatric specialists and anesthesiologists were excluded from the Medicare analysis.