



Medicare
Learning
Network

**PAYMENT
SYSTEM
FACT SHEET
SERIES**

**Medicare
Physician
Fee Schedule**

CMS
CENTERS for MEDICARE & MEDICAID SERVICES



Medicare Part B pays for physician services based on the Medicare Physician Fee Schedule (MPFS), which lists the more than 7,000 covered services and their payment rates. Physician services include the following:

- Office visits;
- Surgical procedures; and
- A range of other diagnostic and therapeutic services.

Physician services are furnished in all settings including:

- Physicians' offices;
- Hospitals;
- Ambulatory Surgical Centers;
- Skilled Nursing Facilities and other post-acute care settings;
- Hospices;
- Outpatient dialysis facilities;
- Clinical laboratories; and
- Beneficiaries' homes.

MEDICARE PHYSICIAN FEE SCHEDULE PAYMENT RATES

Payment rates for an individual service are based on three components:

1) Relative Value Units (RVU)

The three separate RVUs that are associated with the calculation of a payment under the MPFS are:

- Work RVUs reflect the relative levels



of time and intensity associated with furnishing a physician fee schedule service and account for more than 50 percent of the total payment associated with a service. By statute, all work RVUs must be examined no less often than every five years. The fourth five-year review of work is being initiated, with the resulting changes being effective beginning in 2012, as noted in the Physician Fee Schedule Final Rule that was published on November 25, 2009.

- Practice expense (PE) RVUs reflect the costs of maintaining a practice such as renting office space, buying supplies and equipment, and staff costs. PE RVUs account for approximately 45 percent of the total payment associated with a given service. Effective January 1, 2010, survey data used in developing PE RVUs will begin being replaced by new data from the American Medical Association's Physician Practice Information Survey. The new data will be phased in over four years.
- Malpractice RVUs represent the remaining portion of the total

payment associated with a service. The second five-year review of malpractice RVUs was completed in 2009 resulting



in updated malpractice RVUs in the calendar (CY) 2010 Physician Fee Schedule Final Rule.

2) Conversion Factor (CF)

To determine the payment rate for a particular service, each of the three separate RVUs is adjusted by the corresponding geographic practice cost index (as explained below). The sum of the geographically adjusted RVUs is multiplied by a dollar CF. The CF is updated on an annual basis according to a formula specified by statute. The formula specifies that the update for a year is equal to the Medicare Economic Index (MEI) adjusted up or down depending on how actual expenditures compare to a target rate called the Sustainable Growth Rate (SGR). The MEI is a measure of inflation faced by physicians with respect to their practice costs and general wage levels. The SGR is calculated based on medical inflation, the projected growth in the domestic economy, projected growth in the number of beneficiaries in fee-for-service Medicare, and changes in law or regulation. Based on the criteria discussed above, the update to the

CF for CY 2010, as published in the November 25, 2009 Physician Fee Schedule Final Rule, results in a -21.2 percent reduction to the CF for CY 2010. Section 133(b) of the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) required that the Secretary of the Department of Health and Human Services apply the required budget neutrality (BN) adjustment to the CF beginning January 1, 2009 instead of continuing to apply the BN adjustment to the work RVUs required as a result of the Five Year Review of Work. This required a BN adjustment



to the CF of 0.103 percent. The final 2010 CF is \$28.3895, which is outlined in the Physician Fee Schedule Correction Notice published on December 10, 2009.

3) Geographic Practice Cost Indices (GPCI)

GPCIs are adjustments that are applied to each of the three relative values used in calculating a physician payment. The purpose of these adjustments is to account for geographic variations in the costs of practicing medicine in different areas within the country. Effective January 1, 2010, as required by the MIPPA, the 1.0 work GPCI floor is removed. However, the 1.5 work GPCI floor for Alaska will remain in place.



MEDICARE PHYSICIAN FEE SCHEDULE PAYMENT RATES FORMULA

$$[(\text{Work RVU} \times \text{Work GPCI}) + (\text{PE RVU} \times \text{PE GPCI}) + (\text{MP RVU} \times \text{MP GPCI})] \times \text{CF}$$

To find additional information about the MPFS, visit http://www.cms.hhs.gov/PhysicianFeeSched/01_overview.asp on the Centers for Medicare & Medicaid Services (CMS) website.

This fact sheet was prepared as a service to the public and is not intended to grant rights or impose obligations. This fact sheet may contain references or links to statutes, regulations, or other policy materials. The information provided is only intended to be a general summary. It is not intended to take the place of either the written law or regulations. We encourage readers to review the specific statutes, regulations, and other interpretive materials for a full and accurate statement of their contents.

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