



ARTICLE

Aligning Physician Compensation to Achieve Financial Sustainability

After many years of near-inflationary increases in the conversion factor, the Centers for Medicare and Medicaid Services (CMS) shifted the balance of payment between medical and surgical specialties. As a result, historical compensation plans no longer provide an economic framework for physician compensation. In this article, we provide recommendations to capitalize on the impending changes to physician compensation.

CY2021 Physician Fee Schedule

The CY2021 Physician Fee Schedule (PFS) was published December 28, 2020, followed by correction notices in January and March 2021 and a correcting amendment in February.¹ A 3.3% reduction in the conversion factor (from \$36.09 to \$34.89) to calculate Medicare payments has occurred, a figure far smaller than the initially announced 10.2% reduction (to \$32.41).^{2,3} The conversion factor is used to ensure budget neutrality through an adjustment accounting for changes in Relative Value Units (RVUs) and expenditures.

Unlike the same conversion factor affecting all physicians, changes to RVUs are physician (procedure) specific. In its press release, CMS said it was “prioritizing [its] investment in primary care and chronic disease management by increasing payments to physicians and other practitioners for the additional time they spend with patients, especially those with chronic conditions.”⁴

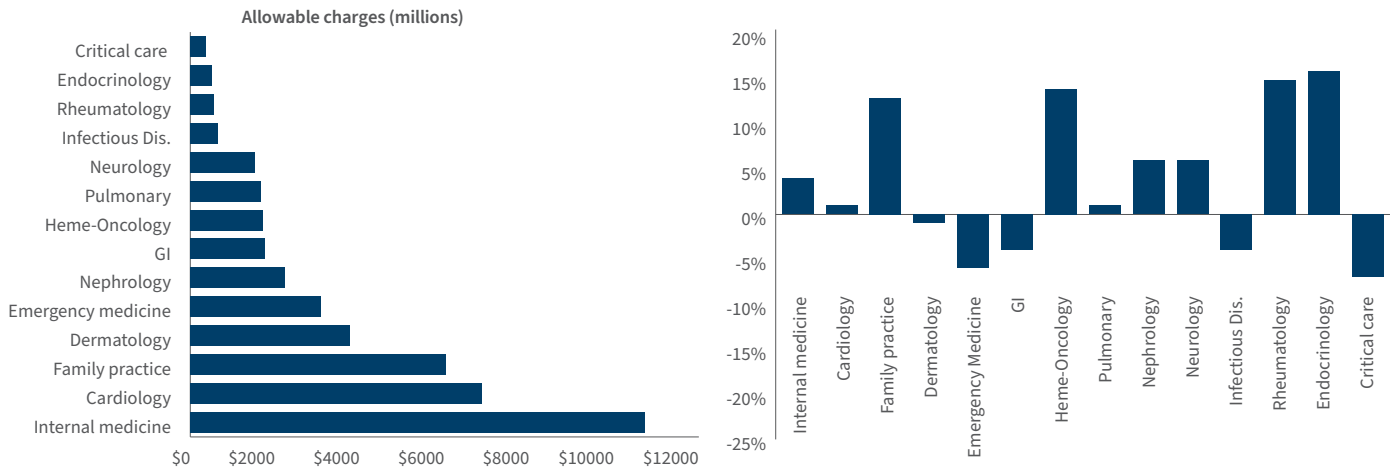
¹ CMS Physician Fee Schedule <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/PhysicianFeeSched>

² CMS.gov. Final Policy, Payment, and Quality Provisions Changes to the Medicare Physician Fee Schedule for Calendar Year 2021. Fact Sheet; December 1, 2021 <https://www.cms.gov/newsroom/fact-sheets/final-policy-payment-and-quality-provisions-changes-medicare-physician-fee-schedule-calendar-year-1>

³ New Year Brings Significant Changes to Medicare Physician Fee Schedule. Bass Berry & Sims; January 4, 2021. <https://www.bassberry.com/news/changes-to-medicare-physician-fee-schedule>

⁴ Trump Administration Finalizes Permanent Expansion of Medicare Telehealth Services and Improved Payment for Time Doctors Spend with Patients. CMS Press Release; December 1, 2021 <https://www.cms.gov/newsroom/press-releases/trump-administration-finalizes-permanent-expansion-medicare-telehealth-services-and-improved-payment>

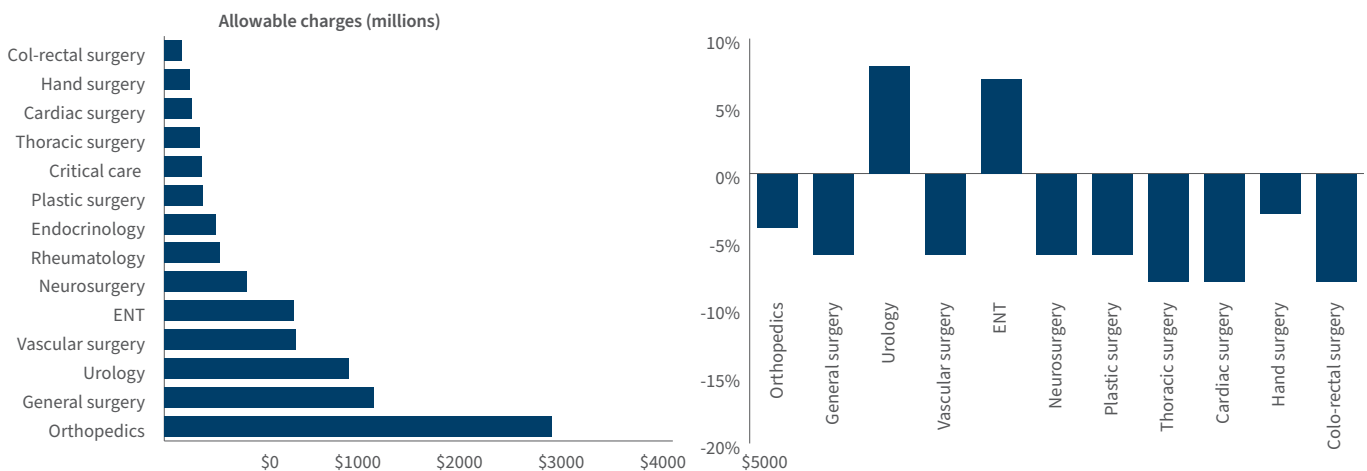
Double-digit RVU increases occur among family practice and several smaller medical specialties; i.e., hematology-oncology, rheumatology and endocrinology



<https://www.cms.gov/files/document/12120-pfs-final-rule.pdf>

The allowable charges — the Physician Fee Schedule amounts for covered services, including coinsurance and deductibles — are highest for primary care. In terms of 2021 RVU changes, there are “winners and losers.” RVU increases are highest for hematology/oncology (14%), family practice (13%) and internal medicine (4%)⁵ Conversely, RVU decreases are significant for emergency medicine (-6%), neurosurgery (-6%) and orthopedics (-4%).⁶

The majority of surgical specialties – excluding urology and ENT – have a reduction in their PFS



<https://www.cms.gov/files/document/12120-pfs-final-rule.pdf>; <https://www.medscape.com/slideshow/2020-compensation-overview-6012684#5>

Medicare accounts for 24.8% of physician and clinical services expenditures in 2021; private health insurance accounts for 42.0%, other sources 14.3%, Medicaid 10.8% and out-of-pocket 8.0%.⁷ Medicare has a disproportionate impact on physician fee schedules, as private insurers often follow its lead in terms of changes and relative payment levels.

⁵ Centers for Medicare & Medicaid Services (CMS), Health and Human Services (HHS). Medicare Program; CY 2021 Payment Policies under the Physician Fee Schedule and Other Changes to Part B Payment Policies... 85 Fed.Reg. 84472 (December 28, 2020). <https://www.federalregister.gov/d/2020-26815>

⁶ Ibid.

⁷ National Health Expenditures, Projected; Table 7 Physician and Clinical Services. <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected>



CASE STUDY:

Evaluation and Management (E&M) codes 99201-99215 are among the most affected codes; they underwent significant changes in the 2021 Physician Fee Schedule. The E&M codes vary based on whether a new or existing patient is treated, the complexity of medical decision-making (straightforward, low, medium, high) and the total time spent by the practitioner with the patient (10-74 minutes).

In our case study, a primary care physician has three visits, two from new patients and one from an existing patient; complexity is low to high. Compensation per wRVU is \$60. The conversion factor is 96.7% of the prior-year level.

CPT Code		2020 wRVU	2021wRVU	% Change
99203	Office or other outpatient visit for the evaluation and management of a <i>new patient</i> , which requires these three key components: a detailed history; a detailed examination; and medical decision-making of low complexity. When using time for code selection, 30-44 minutes of the total time is spent on the date of the encounter. ⁸	1.42	1.60	12.7%
99205	Office or other outpatient visit for the evaluation and management of a <i>new patient</i> , which requires a medically appropriate history and/or examination and a high level of medical decision-making. When using time for code selection, 60-74 minutes of the total time is spent on the date of the encounter. ⁹	3.17	3.50	10.4%
99215	Office or other outpatient visit for the evaluation and management of an <i>established patient</i> , which requires a medically appropriate history and/or examination and a high level of medical decision-making. When using time for code selection, 40-54 minutes of the total time is spent on the date of the encounter. ¹⁰	2.11	2.80	32.7%
	Total	6.70	7.90	17.9%
	Physician compensation per work RVU	\$60	\$60	
	Compensation	\$402	\$474	17.9%
	X Conversion factor (34.89/36.09)		96.7%	
	Adjusted compensation		\$458	13.9%

⁸ 99203 CPT Code: Know Your Codes. <https://www.e2medicalbilling.com/blog/99203-cpt-code-know-your-codes/>

⁹ 99205 CPT Code: Know Your Codes. <https://www.e2medicalbilling.com/blog/99205-cpt-code-know-your-codes/>

¹⁰ 99215 CPT Code: Know Your Codes. <https://www.e2medicalbilling.com/blog/99215-cpt-code-know-your-codes/>

The net impact of the change in the physician fee schedule is 13.9% for these CPT codes. The direct impact of the change will vary by hospital/health system based on contractual obligations, which include the inclusion (exclusion) of Medicare PFS updates; wRVU performed, billed or collected; use of wRVU modifiers for certain procedures; the computation period (monthly, quarterly or annually); the inclusion of value-based and quality metrics; and a compensation cap to ensure Fair Market Value.¹¹

The magnitude of the increase in compensation varies based on whether the compensation model utilizes a Medicare conversion factor. Most E&M codes are generated by primary care physicians, whereas surgeons utilize procedural codes. *There is an inherent reluctance to lower surgeon pay, which results in higher pay for all.*

Recommendation

Organizations evaluating how to respond to the 2021 CMS Physician Fee Schedule change should consider the following options:

1. “As is” - Continue to maintain 2020 wRVU values and historical compensation rates into 2021. This option is determined by contractual obligation and is a temporary solution.
2. Adopt 2021 fee schedule without modification of compensation plan. Transition to the 2021 wRVU values and maintain the organization’s wRVU compensation factor (\$ per wRVU), resulting in higher compensation for primary care physicians and lower compensation for surgical specialties.
3. Adopt 2021 fee schedule and modify compensation plan. Transition to the 2021 wRVU values while lowering the organization’s RVU compensation factor to hold physicians to historical compensation levels (e.g., \$300,000 per annum).

Suggested next steps:

- (1). Establish three-year compensation plan goals/objectives, inclusive of underlying assumptions.
- (2). Model longer- and near-term compensation plans and impact, e.g., scenario planning for CMS.
- (3). Communicate and execute new compensation model.
- (4). Conduct midyear evaluation of impact on compensation plan changes, e.g., productivity, recruitment and retention.

Surveys conducted in the fall of 2020 found most organizations were planning to use 2020 wRVU values and historical compensation rates for the near future.¹² These decisions were likely based on the short time frame that CMS provided for organizations to consider and implement the final PFS changes. And midway through calendar year 2021, this assumption has proven true.

It is difficult to make immediate decisions with respect to compensation arrangements. If an organization uses the 2021 wRVU values but does not modify historically determined compensation rates per wRVU, physicians and Advance Practice Providers will receive a significant increase in compensation with no change in actual work effort.

Further changes in wRVU values and Medicare payment rates are likely as early as 2022. The conversion factor has been adjusted to \$33.58, a decrease of \$1.31 (3.8%) from the 2021 rate of \$34.89.¹³ CMS has indicated it will be re-evaluating other E&M codes in the near term, which may lead to additional changes in wRVU values and, potentially, in the Medicare conversion factor. Also, as commercial payer contract negotiation cycles approach, it will be critical for organizations to be prepared for changes in this area as well.

¹¹ wRVU Compensation Formulas: Time to Review. Holland & Hart; November 11, 2020. <https://www.jdsupra.com/legalnews/wrvu-compensation-formulas-time-to-82397/>

¹² MGMA Compensation Survey

¹³ CMS Releases Proposed Medicare Physician Fee Schedule Payment Rule for CY 2022. Policy and Medicine; August 1, 2021 <https://www.policymed.com/2021/08/cms-releases-proposed-medicare-physician-fee-schedule-payment-rule-for-cy-2022.html>

TABLE 106: CY 2021 PFS Estimated Impact on Total Allowed Charges by Specialty

“(A) Specialty”	“(B) Allowed Charges (mil)”	“(C) Impact of Work RVU Changes”	“(D) Impact of PE RVU Changes”	“(E) Impact of MP RVU Changes”	“(F) Combined Impact”
ALLERGY/IMMUNOLOGY	\$247	5%	4%	0%	9%
ANESTHESIOLOGY	\$2,020	-6%	-1%	0%	-8%
AUDIOLOGIST	\$75	-4%	-2%	0%	-6%
CARDIAC SURGERY	\$266	-5%	-2%	0%	-8%
CARDIOLOGY	\$6,871	1%	0%	0%	1%
CHIROPRACTOR	\$765	-7%	-3%	0%	-10%
CLINICAL PSYCHOLOGIST	\$832	0%	0%	0%	0%
CLINICAL SOCIAL WORKER	\$857	0%	1%	0%	1%
COLON AND RECTAL SURGERY	\$168	-4%	-1%	0%	-5%
CRITICAL CARE	\$378	-6%	-1%	0%	-7%
DERMATOLOGY	\$3,767	-1%	0%	0%	-1%
DIAGNOSTIC TESTING FACILITY	\$748	-1%	-2%	0%	-3%
EMERGENCY MEDICINE	\$3,077	-5%	-1%	0%	-6%
ENDOCRINOLOGY	\$508	10%	5%	1%	16%
FAMILY PRACTICE	\$6,020	8%	4%	0%	13%
GASTROENTEROLOGY	\$1,757	-3%	-1%	0%	-4%
GENERAL PRACTICE	\$412	5%	2%	0%	7%
GENERAL SURGERY	\$2,057	-4%	-2%	0%	-6%
GERIATRICS	\$192	1%	1%	0%	3%
HAND SURGERY	\$246	-2%	-1%	0%	-3%
HEMATOLOGY/ONCOLOGY	\$1,707	8%	5%	1%	14%
INDEPENDENT LABORATORY	\$645	-3%	-2%	0%	-5%
INFECTIOUS DISEASE	\$656	-4%	-1%	0%	-4%
INTERNAL MEDICINE	\$10,730	2%	1%	0%	4%
INTERVENTIONAL PAIN MGMT	\$936	3%	3%	0%	7%
INTERVENTIONAL RADIOLOGY	\$499	-3%	-5%	0%	-8%
MULTISPECIALTY CLINIC/OTHER PHYS	\$153	-3%	-1%	0%	-3%
NEPHROLOGY	\$2,225	4%	2%	0%	6%
NEUROLOGY	\$1,522	3%	2%	0%	6%
NEUROSURGERY	\$811	-4%	-2%	-1%	-6%
NUCLEAR MEDICINE	\$56	-5%	-3%	0%	-8%
NURSE ANES / ANES ASST	\$1,321	-9%	-1%	0%	-10%
NURSE PRACTITIONER	\$5,100	5%	3%	0%	7%

“(A) Specialty”	“(B) Allowed Charges (mil)”	“(C) Impact of Work RVU Changes”	“(D) Impact of PE RVU Changes”	“(E) Impact of MP RVU Changes”	“(F) Combined Impact”
OBSTETRICS/GYNECOLOGY	\$636	4%	3%	0%	7%
OPHTHALMOLOGY	\$5,343	-4%	-2%	0%	-6%
OPTOMETRY	\$1,359	-2%	-2%	0%	-4%
ORAL/MAXILLOFACIAL SURGERY	\$79	-2%	-2%	0%	-4%
ORTHOPEDIC SURGERY	\$3,812	-3%	-1%	0%	-4%
OTHER	\$48	-3%	-2%	0%	-5%
OTOLARNGOLOGY	\$1,271	4%	3%	0%	7%
PATHOLOGY	\$1,265	-5%	-4%	0%	-9%
PEDIATRICS	\$67	4%	2%	0%	6%
PHYSICAL MEDICINE	\$1,164	-3%	0%	0%	-3%
PHYSICAL/OCCUPATIONAL THERAPY	\$4,973	-4%	-4%	0%	-9%
PHYSICIAN ASSISTANT	\$2,901	5%	2%	0%	8%
PLASTIC SURGERY	\$382	-4%	-3%	0%	-7%
PODIATRY	\$2,133	-1%	0%	0%	-1%
PORTABLE X-RAY SUPPLIER	\$95	-2%	-4%	0%	-6%
PSYCHIATRY	\$1,112	4%	3%	0%	7%
PULMONARY DISEASE	\$1,654	0%	0%	0%	1%
"RADIATION ONCOLOGY AND RADIATION THERAPY CENTERS"	\$1,809	-3%	-3%	0%	-5%
RADIOLOGY	\$5,275	-6%	-4%	0%	-10%
RHEUMATOLOGY	\$548	10%	5%	1%	15%
THORACIC SURGERY	\$352	-5%	-2%	0%	-8%
UROLOGY	\$1,810	4%	4%	0%	8%
VASCULAR SURGERY	\$1,293	-2%	-4%	0%	-6%
TOTAL	\$97,008	0%	0%	0%	0%

<https://www.cms.gov/files/document/12120-pfs-final-rule.pdf>

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