Work RVUs Up, Medicare Conversion Factor Down – How Will it Impact Your Organization?

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In its 2021 proposed Medicare Physician Fee Schedule, the Centers for Medicare and Medicaid Services (CMS) indicated its intention to increase the number of work Relative Value Units (wRVUs) for seven of the most highly used CPT codes for evaluation and management (E/M) services. These include the commonly used established patient codes (99212 – 99215). CMS also introduced two new add-on codes, one for prolonged visits and another for visit complexity. At the same time, CMS indicated its intention to reduce the related Medicare conversion factor (which is used to convert a wRVU to a specific dollar amount) by approximately 11%, down to $32.26. This reduction in the conversion factor was to ensure that the increase in wRVUs would have a budget-neutral impact on the Medicare program.

These changes, which are slated to go into effect on January 1, 2021, may have a significant impact on many existing physician compensation arrangements. For example, physicians who are high users of E/M codes and are paid based on the number of wRVUs they generate will very likely see their compensation increase, possibly without much of a corresponding increase in revenues to their employer. At the same time, physicians who are not frequent users of the revised E/M codes, such as surgeons, radiologists, emergency medicine and critical care doctors, may see their associated revenues drop due to the reduction in the conversion factor. If those providers are compensated based on collections, their take-home pay may likewise suffer.

On the organization level, hospital systems could be impacted depending on the specialty complement of their employed physicians. For example, hospitals paying physicians based on a dollar value per wRVU may face a situation where they must pay more to their primary care providers, while at the same time face a drop in revenues across all of their employed physicians as a result of the reduced Medicare conversion factor. Also, these changes

may result in certain doctors receiving a significant pay raise without any actual increase in productivity. This may call into question whether their compensation is now outside the required realm of fair market value.

Organizations such as the American Hospital Association have let CMS know about their concerns regarding the potential fallout if the 2021 Medicare Physician Fee Schedule is finalized as proposed. If that occurs in spite of such lobbying, physician employers may be scrambling to review their various contracts in an effort to analyze the potential impact on their compensation obligations and potential concerns about fair market value compliance. With many contracts having "locked in" compensation models, employers may be stuck with the financial impact for some period of time. And with so many providers focused on the COVID-19 pandemic, CMS's proposed Medicare Physician Fee Schedule and these associated concerns may not be getting the attention they would otherwise receive.

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