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HealthCare Appraisers' Industry Insight

UPDATED 2/9/2021

FORECASTING 2021 FINAL RULE FOR PHYSICIAN PRACTICES

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The 2021 Medicare Physician Fee Schedule (MPFS) final rule included recommendations by the Relative Value Scale Update Committee (RUC) to increase the work relative value units (wRVUs) for common evaluation and management (E&M) office visits. Medicare's final rule, and the subsequent Consolidated Appropriations Act of 2021, reduced the Medicare conversion factor from \$36.09 to \$34.89, a reduction of 3.3 percent, but rebasing wRVU values has greater implications. Tens of thousands of physician employment contracts use compensation models based on wRVU productivity.

On December 1, Medicare released the 2021 MPFS final rule, which included recommendations by the RUC to increase the wRVU values for the common E&M office visit codes identified in **Figure 1**.

FIGURE 1 – COMPARISON OF 2020 & FINAL 2021 MEDICARE PHYSICIAN FEE SCHEDULE wRVU VALUES

CPT*	DESCRIPTION	2020 WRVUS	2021 WRVUS	% CHANGE
99203	Office/outpatient visit new	1.42	1.60	12.6%
99204	Office/outpatient visit new	2.43	2.60	7.0%
99205	Office/outpatient visit new	3.17	3.50	10.4%
99212	Office/outpatient visit est	0.48	0.70	45.8%
99213	Office/outpatient visit est	0.97	1.30	34.0%
99214	Office/outpatient visit est	1.50	1.92	28.0%
99215	Office/outpatient visit est	2.11	2.80	32.7%

**The American Medical Association owns the copyright to CPT codes licensed to Medicare for use in the MPFS.*

The Medicare conversion factor is the dollar amount that is multiplied by the total RVU values for each physician service to determine Medicare reimbursement. Medicare's final rule, and the subsequent Consolidated Appropriations Act of 2021, reduced its conversion factor from \$36.09 per RVU to \$34.89 per RVU.

Medicare estimated the effect the final rule changes had on allowed charges (reimbursement) for various physician specialty groups, and the American Medical Association estimated the subsequent effect of the Consolidated Appropriations Act of 2021, as indicated in **Figure 2**. Significant increases in reimbursement are projected for specialties involving substantial office-based E&M services, including endocrinology (+14%), family medicine (+12%), hematology/oncology (+12%), nephrology (+11%), and rheumatology (+13%).

Commercial insurance companies commonly fix their physician reimbursement rates as a percentage markup on the Medicare fee schedule for their geographic region (e.g., 125% of Medicare Adjusted for Colorado GPCI). If not immediate, most commercial insurance reimbursement should be tied to the new Medicare rates within a few years. Because multiplication is distributive, an estimated 12% increase in family medicine Medicare rates would also result in a 12% increase in existing commercial insurance reimbursement from current levels,



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regardless of what markup on Medicare is being paid. See supplemental **Figures 6.a** and **6.b** for an illustrative example of this effect.

FIGURE 2 - CY 2021 PFS ESTIMATED IMPACT ON TOTAL ALLOWED CHARGES (REIMBURSEMENT) BY SPECIALTY (CMS-1734-F TABLE 106 & AMA ESTIMATE FOR CONSOLIDATED APPROPRIATIONS ACT OF 2021)

SPECIALTY	COMBINED REIMBURSEMENT IMPACT		
	ALLOWED CHARGES (MIL)	MPFS FINAL RULE	AMA ESTIMATE FOR CONSOLIDATED APPROPRIATIONS ACT OF 2021
Allergy/Immunology	\$247	9%	8%
Anesthesiology	\$2,020	-8%	-1%
Audiologist	\$75	-6%	3%
Cardiac Surgery	\$266	-8%	-2%
Cardiology	\$6,871	1%	4%
Chiropractor	\$765	-10%	-2%
Clinical Psychologist	\$832	0%	8%
Clinical Social Worker	\$857	1%	9%
Colon and Rectal Surgery	\$168	-5%	2%
Critical Care	\$378	-7%	0%
Dermatology	\$3,767	-1%	5%
Diagnostic Testing Facility	\$748	-3%	0%
Emergency Medicine	\$3,077	-6%	2%
Endocrinology	\$508	16%	14%
Family Practice	\$6,020	13%	12%
Gastroenterology	\$1,757	-4%	2%
General Practice	\$412	7%	8%
General Surgery	\$2,057	-6%	0%
Geriatrics	\$192	3%	6%
Hand Surgery	\$246	-3%	4%
Hematology/Oncology	\$1,707	14%	12%
Independent Laboratory	\$645	-5%	1%
Infectious Disease	\$656	-4%	1%
Internal Medicine	\$10,730	4%	6%
Interventional Pain Management	\$936	7%	8%
Interventional Radiology	\$499	-8%	-2%
Multispecialty Clinic/Other Physicians	\$153	-3%	3%
Nephrology	\$2,225	6%	11%
Neurology	\$1,522	6%	7%
Neurosurgery	\$811	-6%	0%
Nuclear Medicine	\$56	-8%	-1%
Nurse Anesthetist / Anesthesia Assistant	\$1,321	-10%	-3%
Nurse Practitioner	\$5,100	7%	8%
Obstetrics/Gynecology	\$636	7%	7%
Ophthalmology	\$5,343	-6%	1%
Optometry	\$1,359	-4%	3%
Oral/Maxillofacial Surgery	\$79	-4%	2%
Orthopedic Surgery	\$3,812	-4%	2%
Other	\$48	-5%	6%
Otolaryngology	\$1,271	7%	6%
Pathology	\$1,265	-9%	-2%
Pediatrics	\$67	6%	7%
Physical Medicine	\$1,164	-3%	4%
Physical/Occupational Therapy	\$4,973	-9%	-2%
Physician Assistant	\$2,901	8%	9%
Plastic Surgery	\$382	-7%	0%
Podiatry	\$2,133	-1%	6%
Portable X-Ray Supplier	\$95	-6%	0%
Psychiatry	\$1,112	7%	8%
Pulmonary Disease	\$1,654	1%	4%
Radiation Oncology and Radiation Therapy Centers	\$1,809	-5%	1%
Radiology	\$5,275	-10%	-3%
Rheumatology	\$548	15%	13%
Thoracic Surgery	\$352	-8%	-1%
Urology	\$1,810	8%	8%
Vascular Surgery	\$1,293	-6%	-1%
TOTAL	\$97,008	0%	+3.75%



Increasing wRVU values for common E&M office visit codes has greater implications than just Medicare reimbursement. Thousands of physician employment contracts use compensation models based on wRVU productivity. When wRVUs increase more than reimbursement, physician compensation growth can outpace reimbursement growth and strain margins.

To isolate the effect of the 2021 Final Rule on wRVUs by physician specialty, HAI utilized the wRVU values from the 2019, 2020 and final 2021 MPFS to estimate the total wRVUs based on the public Medicare utilization data from 2017. As summarized in **Figure 3**, total wRVUs in 2021 are projected to increase at a higher rate (or decrease less) than Medicare's projected change in allowed charges for all 40 of the largest physician specialties in the Medicare sample. Overall, wRVUs are projected to increase 9 percent for all 623,024 healthcare professionals in the Medicare utilization sample based on the final rule for 2021.

**FIGURE 3 - wRVU FORECAST USING 2017 MEDICARE UTILIZATION DATA
(40 LARGEST PHYSICIAN SPECIALTIES)**

NPI SPECIALTY	NPI COUNT	wRVUs					PAYMENT ONLY
		TOTAL 2019	TOTAL 2020	TOTAL 2021	2019-2020 CHANGE	2020-2021 CHANGE	PROJ. 2021 INCREASE
Internal Medicine	81,674	134,561,644	134,610,341	150,180,522	0%	12%	6%
Family Medicine	79,027	80,675,101	80,748,726	96,112,634	0%	19%	12%
Emergency Medicine	36,844	54,382,589	54,678,841	57,613,712	1%	5%	2%
Diagnostic Radiology	25,631	45,376,147	45,261,472	44,864,964	0%	-1%	-3%
Cardiovascular Disease	18,019	58,050,306	58,023,801	63,264,572	0%	9%	4%
Psychiatry	17,982	16,918,400	16,918,257	18,957,672	0%	12%	8%
Obstetrics & Gynecology	17,355	2,632,703	2,632,013	3,112,329	0%	18%	7%
Surgery	16,661	14,560,176	14,563,143	15,453,605	0%	6%	0%
Ophthalmology	15,676	60,321,710	56,929,200	58,410,895	-6%	3%	1%
Orthopedic Surgery	14,465	25,316,516	25,308,531	27,220,586	0%	8%	2%
Gastroenterology	12,109	24,496,229	24,496,404	25,917,028	0%	6%	2%
Neurology	11,587	16,886,214	16,199,170	18,109,696	-4%	12%	7%
Pulmonary Disease	9,401	26,357,929	26,356,528	28,135,490	0%	7%	4%
Dermatology	8,787	22,885,038	22,885,087	25,432,292	0%	11%	5%
Hospitalist	8,558	14,709,337	14,710,803	14,793,720	0%	1%	UK
Nephrology	8,373	34,751,023	34,750,538	40,327,676	0%	16%	11%
Hematology & Oncology	8,187	15,247,847	15,247,994	18,119,279	0%	19%	12%
Urology	7,930	16,199,740	16,185,147	18,601,668	0%	15%	8%
Anatomic & Clinical Pathology	7,702	11,714,054	11,708,808	11,746,280	0%	0%	-2%
Podiatrist	7,070	10,132,800	10,192,200	11,239,333	1%	10%	6%
Otolaryngology	6,314	7,243,526	7,242,537	8,302,627	0%	15%	6%
Physical Medicine & Rehab	6,206	12,456,653	12,460,260	13,157,823	0%	6%	4%
Podiatrist: Foot & Ankle Surgery	5,733	7,962,400	8,018,075	8,995,377	1%	12%	6%
Infectious Disease	5,519	11,211,676	11,218,169	11,569,098	0%	3%	1%
Endocrinology	5,431	6,507,628	6,508,028	7,847,655	0%	21%	14%
Neurological Surgery	4,356	6,773,635	6,767,564	7,091,749	0%	5%	0%
Rheumatology	4,278	5,959,913	5,956,610	7,259,742	0%	22%	13%
Radiology - Radiation Oncology	4,031	12,172,497	12,172,463	12,419,140	0%	2%	1%
General Practice	3,796	3,701,772	3,686,790	4,220,747	0%	15%	8%
Interventional Cardiology	3,789	15,017,373	14,982,655	16,094,740	0%	7%	UK
Thoracic Surgery	3,131	6,561,340	6,440,400	6,569,838	-2%	2%	-1%
Surgery - Vascular Surgery	2,901	5,686,288	5,686,237	6,037,208	0%	6%	-1%
Medical Oncology	2,493	3,308,871	3,308,892	3,972,963	0%	20%	UK
Geriatric Medicine	2,422	4,681,213	4,684,053	5,136,314	0%	10%	6%
Critical Care Medicine	2,403	4,886,929	4,887,113	5,013,333	0%	3%	0%
Emergency Medicine - EM Svcs	2,273	3,350,881	3,370,326	3,560,047	1%	6%	2%
Allergy & Immunology	2,136	1,068,497	1,068,170	1,260,874	0%	18%	8%
Electrophysiology	2,018	7,860,725	7,861,022	8,224,432	0%	5%	UK
Plastic Surgery	1,960	1,259,217	1,258,945	1,332,642	0%	6%	0%
Orthopedic - Sports Medicine	1,829	2,563,177	2,561,921	2,801,319	0%	9%	UK
[...]	[...]	[...]	[...]	[...]	[...]	[...]	[...]
Overall, All Professionals	623,024	1,082,979,899	1,073,873,291	1,170,578,083	-1%	9.0%	3.75%



Regardless of whether physicians treat any Medicare patients or not, the wRVU values set by the RUC and adopted by Medicare are still used by EHR vendors, practice management software vendors, and employers to calculate physicians' wRVUs. The finalized increases in wRVUs took effect immediately for all physician services performed on or after January 1, 2021, unless a different year's wRVU values are specified for use in individual physician employment contracts.

This change also affects physician specialties that do not customarily serve large numbers of Medicare patients, including employed pediatricians and obstetricians. The projected overall 9 percent increase in wRVUs shown for all specialties at the bottom of **Figure 3** includes about 1,000 pediatricians that are categorically under-represented in Medicare utilization data. If pediatricians' utilization emulates family medicine, then pediatricians may also experience a 19 percent increase in wRVUs during 2021. Like all specialties, the reimbursement effect on pediatricians will be highly influenced by overall payor mix, and market-specific markups on Medicare rates.

To the extent that physician employers are already parties to employment contracts with pre-determined compensation-to-wRVU rates (e.g., \$50 of compensation-per-wRVU), the number of wRVUs performed for nearly every specialty increased January 1, 2021 even if the same volume of E&M services are performed. Physician compensation under this model will increase commensurate to the new wRVU values, irrespective of the associated change in reimbursement. Practices with many surgeons and emergency medicine physicians will likely be impacted the worst.

In contrast, physician practices using compensation-to-collections models and fixed salary models will only be affected by changes in reimbursement and not wRVUs directly. If reimbursement increases or decreases, compensation under a compensation-to-collections model will adjust up or down with collections. Compensation under fixed salary models will obviously not change when reimbursement increases or decreases.

The financial and business impact of the 2021 MPFS final rule poses a challenge for organizations that are already financially fragile from the recent COVID-19 crisis. It will be necessary to project both the impact and timing of both reimbursement and physician compensation changes.

CONCLUSION

Medicare's 2021 Physician Fee Schedule final rule, and the Consolidated Appropriations Act of 2021, reallocated Medicare's reimbursement budget to increase reimbursement for E&M office visits, while decreasing reimbursement for specialists performing few or no office visits. Total wRVUs are projected to increase at a higher rate (or decrease less) than Medicare reimbursement for all 40 of the largest physician specialties. For physician employers using *compensation-to-Work-RVU* models, the 2021 MPFS changes may increase physician compensation at a higher rate than reimbursement.

If you have not yet implemented 2021 Work RVUs in your organization, contact HealthCare Appraisers to learn how our Provider Compensation Plan Design Services and Automated FMV Solutions™ can help your organization plan and prepare for these changes.



SUPPLEMENTAL

HealthCare Appraisers notes that large increases in wRVUs for certain codes (99213, 99214) are diluted among specialties by the overall mix of procedures performed. This phenomenon is illustrated in detail for family medicine physicians in supplemental **Figure 4** and hematologists/medical oncologists in **Figure 5**.

FIGURE 4 – wRVU IMPACT ON 15 MOST COMMON FAMILY MEDICINE CODES

CODE	COUNT	TOTAL WRVUS 2019	TOTAL WRVUS 2020	TOTAL WRVUS 2021	2019-2020 CHANGE	2020-2021 CHANGE
99214	18,969,629	28,454,444	28,454,444	36,421,688	0%	28%
99213	14,956,482	14,507,788	14,507,788	19,443,427	0%	34%
G0439	2,423,822	3,635,733	3,635,733	4,653,738	0%	28%
99232	2,655,268	3,690,823	3,690,823	3,690,823	0%	0%
99215	995,555	2,100,621	2,100,621	2,787,554	0%	33%
99233	1,159,838	2,319,676	2,319,676	2,319,676	0%	0%
99223	546,604	2,109,891	2,109,891	2,109,891	0%	0%
99285	503,574	1,913,581	1,913,581	2,014,296	0%	5%
99309	1,102,977	1,709,614	1,709,614	1,709,614	0%	0%
99308	1,453,000	1,685,480	1,685,480	1,685,480	0%	0%
99204	392,882	954,703	954,703	1,021,493	0%	7%
G0438	386,242	938,568	938,568	1,004,229	0%	7%
99203	622,508	883,961	883,961	996,013	0%	13%
99222	342,594	894,170	894,170	894,170	0%	0%
99239	448,837	852,790	852,790	852,790	0%	0%
[...]	[...]	[...]	[...]	[...]	[...]	[...]
Grand Total	63,923,613	80,675,101	80,748,726	96,112,634	0%	19%

FIGURE 5 – wRVU IMPACT ON 15 MOST COMMON HEMATOLOGY-ONCOLOGY CODES

CODE	COUNT	TOTAL WRVUS 2019	TOTAL WRVUS 2020	TOTAL WRVUS 2021	2019-2020 CHANGE	2020-2021 CHANGE
99214	3,600,835	5,401,253	5,401,253	6,913,603	0%	28%
99213	2,036,179	1,975,094	1,975,094	2,647,033	0%	34%
99215	800,294	1,688,620	1,688,620	2,240,823	0%	33%
99232	754,887	1,049,293	1,049,293	1,049,293	0%	0%
99233	510,728	1,021,456	1,021,456	1,021,456	0%	0%
99223	216,133	834,273	834,273	834,273	0%	0%
99205	231,850	734,965	734,965	811,475	0%	10%
99204	162,808	395,623	395,623	423,301	0%	7%
96413	966,361	270,581	270,581	270,581	0%	0%
99222	99,855	260,622	260,622	260,622	0%	0%
96367	1,017,921	193,405	193,405	193,405	0%	0%
96372	1,036,431	176,193	176,193	176,193	0%	0%
99231	125,184	95,140	95,140	95,140	0%	0%
96365	442,682	92,963	92,963	92,963	0%	0%
99212	126,602	60,769	60,769	88,621	0%	46%
[...]	[...]	[...]	[...]	[...]	[...]	[...]
Grand Total	15,447,635	15,247,847	15,247,994	18,119,279	0%	19%

FIGURE 6.A - ILLUSTRATIVE FAMILY MEDICINE REIMBURSEMENT 2020

PAYORS	REIMBURSEMENT
Medicare	\$200,000
Commercial (150% Medicare)	\$300,000
	\$500,000

FIGURE 6.B - ILLUSTRATIVE FAMILY MEDICINE REIMBURSEMENT 2021

PAYORS	REIMBURSEMENT
Medicare (2021, Est. +12.0%)	\$224,000
Commercial (150% Medicare)	\$336,000
	\$560,000

Increase	+60,000
Change %	+12.0%

