The resource-based relative value scale was implemented by CMS—or HCFA, as it was known at the time—for the Medicare physician fee schedule in 1992. In 2002, it transitioned wholly to a resource-based methodology. Relative value units are updated annually. The conversion factors are driven by government budgetary requirements. Specialty societies and individuals are invited to submit comments and participate in relative value unit (RVU) evaluations.

Components of the resource-based relative scale (RBRVS) include a work value, which is the physician skill and treatment time, a practice expense, which are the practice management expenses (labor and non-labor) for facility and non-facility, and a malpractice value, which are malpractice insurance premiums.

The formula is displayed as: \[ \text{Work} + \text{Practice} + \text{Malpractice} = \text{Total RVU}. \]

Table 1

<table>
<thead>
<tr>
<th>CPT® Code</th>
<th>Work</th>
<th>Facility Practice Expense</th>
<th>Non-Facility Practice Expense</th>
<th>Malpractice</th>
<th>Facility Total</th>
<th>Non-facility Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>992XX</td>
<td>0.67</td>
<td>0.24</td>
<td>0.69</td>
<td>0.03</td>
<td>0.94</td>
<td>1.39</td>
</tr>
</tbody>
</table>
One of the first steps in implementing a relative value-based fee philosophy is to purchase or download a relative value scale. Downloads are available online through the CMS website (https://www.cms.gov/PhysicianFeeSched/PFSRVF/itemdetail.aspx?filterType=none&filterByDID=.99&sortByDID=1&sortOrder=ascending&itemID=CMS1230197&intNumPerPage=10), or by doing an Internet search with the words, “Medicare Physician Fee Schedule 2010,” or “2010 MPFS.” Determine the codes that you are evaluating and compile a spreadsheet that includes your current fee and the total relative value unit (RVU) for the procedure.

Next, you’ll need to calculate the conversion factor. Divide your current fee by the total RVU. The result is your “conversion factor” for that code. A more detailed explanation of this process will be discussed later. Right now, let’s do a hands-on exercise. We will compare sample fees with the Medicare payment. In the example, below, calculate the conversion factor, the Medicare payment, and percentage of Medicare for each code. Use 36.0791 for the Medicare conversion factor* (which, at the time of printing, is current.)

<table>
<thead>
<tr>
<th>CPT® Code</th>
<th>Your Current Fee</th>
<th>Non-Facility Total RVU</th>
<th>Fee/RVU = Conversion Factor</th>
<th>Medicare Payment</th>
<th>Percent of Medicare</th>
</tr>
</thead>
<tbody>
<tr>
<td>11640</td>
<td>$300</td>
<td>5.08</td>
<td>59.06</td>
<td>$183.28</td>
<td>164%</td>
</tr>
<tr>
<td>12002</td>
<td>$160</td>
<td>4.36</td>
<td>36.70</td>
<td>$157.30</td>
<td>102%</td>
</tr>
<tr>
<td>17000</td>
<td>$70</td>
<td>2.07</td>
<td>33.82</td>
<td>$74.68</td>
<td>94%</td>
</tr>
<tr>
<td>25600</td>
<td>$445</td>
<td>7.49</td>
<td>59.41</td>
<td>$270.23</td>
<td>165%</td>
</tr>
<tr>
<td>27236</td>
<td>$2,990</td>
<td>32.47</td>
<td>92.09</td>
<td>$1171.49</td>
<td>255%</td>
</tr>
<tr>
<td>27788</td>
<td>$590</td>
<td>11.03</td>
<td>53.49</td>
<td>$397.95</td>
<td>148%</td>
</tr>
</tbody>
</table>

*The Medicare conversion factor is a scaling factor that converts the geographically adjusted number of relative value units (RVUs) for each service in the Medicare physician payment schedule into a dollar payment amount. The initial Medicare conversion factor was set at $31.001 in 1992. Subsequent conversion factor updates have been based on three factors: The Medicare economic index, an expenditure target “performance adjustment,” and miscellaneous adjustments including those for “budget neutrality.”

Completed Example:
Now, set up a spreadsheet of your practice’s procedures and fees, using these same data fields. This exercise provides a quick analysis of your current fees. You may find that your conversion factor varies widely. To add relativity and simplicity to your fee schedule, adjust the conversion factor. You may find you want to use one conversion factor for all services, or, you may opt to use several conversion factors (one for each section of CPT® codes, for instance). You will want to use payer and charge data to validate your selected conversion factor[s]. When you compare your fees with those of like practices (generally, this is purchased charge data), what percentile[s] do your new fees reflect? Is that amount satisfactory? You may require minor adjustments, but you will have a baseline methodology that can be easily updated year after year.

Once you decide how to set your fees, you may refer to your fee schedule by conversion factor, “We base our fees on a $57 conversion factor.” Or by percentage of Medicare, “We set our fees at 150% of Medicare. Either way, you are saying approximately the same thing. This will be very helpful in your contract analysis and negotiations. This will also enable you to set new fees or to adjust your fee schedule from year to year.

The Medicare payment schedule’s impact on a physician’s Medicare payments is primarily a function of three key factors: The resource-based relative value scale (RBRVS), the geographic practice cost indexes (GPCIs), the monetary conversion factor. The Omnibus Budget Reconciliation Act of 1989 (OBRA 89) geographic adjustment provision requires all three components of the relative value for a service—physician work relative value units (RVUs), practice expense RVUs, and professional liability insurance (PLI) RVUs—to be adjusted by the corresponding GPCI for the locality.

In effect, this provision increases the number of components in the payment schedule from three to the following six:
- Physician work RVUs
- Physician work GPCI
- Practice expense RVUs
- Practice expense GPCI
- PLI RVUs
- PLI GPCI

The formula for calculating payment schedule amounts entails adjusting RVUs, which correspond to services, by the GPCIs, which correspond to payment localities.

The general formula for calculating Medicare payment amounts for 2010 is expressed as:

\[
\text{Work RVU} \times \text{Work (GPCI)}^2 + \text{Practice Expense (PE) RVU} \times \text{PE GPCI} + \text{Malpractice (PLI) RVU} \times \text{PLI GPCI} = \text{Total RVU} \times \text{CY 2010 Conversion Factor of $36.0791} = \text{Medicare Payment}
\]

Understanding the Medicare Physician Fee Schedule, RBRVS, RVUs, GPCIs, and conversion factors are vital in establishing a fee schedule that is consistent, logical, competitive, defensible in contract negotiations, and is easily and accurately administered.

**Next issue:** Applying conversion factors: Gross Conversion Factor versus Frequency Adjusted Conversion Factor.

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Prior to her position at Ingenix, she was a systems analyst for a fully integrated electronic medical record at a large teaching hospital and healthcare system.

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