The Birds, the Bees and Your Fees!

Excerpts from the

Medical Coding Preparatory®

Tier I, Module III CPT Coding, Chapter 3 NCCI and RBRVS

Fee Setting Overview:

There are several ways the medical clinic administrator, managers and physicians may use the Resource Based Relative Value Scale (RBRVS) (Medicare Fees) to improve their bottom line. First, they may use them to benchmark their fee schedule and practice. They may use RBRVS to adjust their fees annually to ensure that they are in alignment with the Medicare fee-for-service (FFS) fees and their local market. Finally, alignment is the first step in revealing if the costs of services are being covered, since RBRVS is a cost-based system. Cost analyses are often performed using the Relative Value Units (RVUs) of the RBRVS system. The RVUs are the standardized value associated with each service in a medical practice. They are adjusted every year in the Medicare Physician Fee Schedule (MPFS).

Fee Setting:

It is necessary to evaluate your fees annually, since the RVUs, Geographic Price Cost Indices (GPCI) and conversion factors (CF) changes annually within the RBRVS formula. It is also important to track the medical consumer price index (mCPI), e.g., the inflation rate for medical services quarterly. This will help you note any significant market changes and allow you to adjust any fees as appropriate.

Generally, the local State Medicare Fee Schedule is available online for the clinic's medical service area (MSA) (region or locality). In the process of fee setting, the clinic will use the Medicare allowable fees to "align" their own fees so that they are "relative" to the RBRVS system. They should also

adjust their fees in accordance with local market conditions through a market analysis so that their business remains competitive. Finally, a cost analyses is important to ensure that the clinic does not have any unusual expenses that create a loss for any one of their services. In the discussion below, fee setting and analysis has been broken down into five keys.

Five Keys to Fee Setting and Analysis:

- ☑ **Key 1: Aligning fees with Medicare (Minimum Fee)**: In the example chart below, the clinic begins its alignment by multiplying their local Medicare fee by 1.15 or 115%, which can then be used to compare to their clinic fee. The 115% is chosen because it is the maximum that the non-participating Medicare provider may bill a Medicare patient and the minimum that the participating provider should use in an alignment. It is your first benchmark. Check to see what your fees are in terms of a percent above or below the adjusted local Medicare fee schedule.
  - ***(RVRVS fee x 115%)/(Your clinic fee) -1***
    = % over/under RBRVS

- ☑ **Key 2: Aligning with Local Markets:** The clinic will need to align their fees with their local markets. In the illustrative case in the chart below, 120% is used. Realistically, medical markets are most often higher than 20% above RBRVS, except in areas where fees may be kept low due to access and other health service issues. Medical fees are more often 150% to 300% of RBRVS in most markets. This variation is dependent on the local MSAs costs and inflation rates which must be factored into the fees. Therefore, the next task is aligning fees with your market. Performing a market analyses requires discovery of select key fees from aggregate practice surveys. These

may be purchased by geographic location from professional associations, or done internally depending on the clinic size and resources available. Using the market survey results, the clinic would adjust the previous local Medicare fees and then repeat the analyses performed in key 1, e.g.,

- ***(Adjusted (115%) RVRVS Fee x 120% market rate)/(Your clinic fee) -1 = % over/under your medical market***

☑ **Key 3: mCPI:** The clinic then uses in the chart below a 5% medical inflation factor, based on the *medical consumer price index* (mCPI). The mCPI is unique to healthcare, but it is a part of our national CPI reporting systems. It should be used annually, but also looked quarterly for any exceptional changes and the fee schedule adjusted according throughout the year. For example, as of August 2012, the "All CPI" was 1.7% for the previous 12 months, but the medical (mCPI) was 4.2%. It is important to make adjustments to account for future medical inflation in your fee schedule.

- ***(Adjusted Market Fee x 105% inflation rate)/(Your clinic fee) -1 = % over/under your Final total adjusted fee***

☑ **Key 4: Rounding:** Clinics tend to round up their final fees, within their fee schedule which helps to simplify accounting when charge posting, payment posting, monthly reporting and analyses.

See Example Illustrative Chart for Clinic XYZ fee setting.

CPT	Service	RVU	Medicare Fee	Profit 10%	Local Market 20%	Inflation 5%	Final Physician Fee (Rounded)
71021	Chest x-ray	1.01	$ 36.45	$ 40.09	$ 48.11	$ 50.51	$ 51
71550	MRI of the chest w/o contrast	17.02	$ 614.16	$ 675.58	$ 810.69	$ 851.23	$ 851
43847	Gastric bypass including small intestines	46.81	$ 1,689.12	$ 1,858.03	$ 2,229.64	$ 2,341.12	$ 2,341
99213	Office/outpatient visit, established	1.82	$ 65.67	$ 72.24	$ 86.69	$ 91.02	$ 91

Key 5: Practice Cost Profile: Cost Analyses and Adjustments are the final phase of setting fees. It may be done using the RVUs in the RBRVS formula and the costs reflected in your general ledger (GL) accounting categories. It takes some time the first time it is performed, but it is worth the effort. Costing with RVUs not only helps in discovery of service costs that are out of alignment with your fees, also may be used to track physician, clinic site or total clinic productivity, determine practice visit or service trends. It may be used in resource allocation, help with negotiating managed care contracts and in some cases it is used in physician compensation formulas.

Using the current year CMS RBRVS source file Appendix B, which contains all RVUs, and your year-end GL account balances, the individual costs that go into a service may be calculated per CPT and then divided by the total RVUs. The RVUs are very versatile and can be used to calculate:

- Individual CPT Code Costs and Revenue per RVU
- Groups of related CPT Codes Cost and Revenue per RVU
- Clinic site Cost and Revenue per RVU
- Physician Cost and Revenue per RVU
- Total Practice Cost and Revenue per RVU

This information can then be compared your fees and your costs to calculate profit/loss per CPT code or whatever other subset of data you wish to analyze, e.g.,

- ***Service Fee by CPT Code(s)/CPT Code(s) RVUs***
  - ***= Revenue per RVU***
- ***Service Cost by CPT Code(s)/CPT Code(s) RVUS***
  - ***= Cost per RVU***
  - ***Revenue per RVU - Cost Per RVU***

    = Service Profit(+)/Loss(-)

In summary, you may say to yourself that this is a lot of intimacy with fees and is it really necessary. Yes, it is! Fees that are not in alignment cause some serious issues. First, if fees are out of alignment, for example 400-1000% above market prices, medical facilities and their physicians may lose market share, struggle with their accounts receivable management and collections, and/or have skewed practice benchmarking and analyses results. Second, fees that are too low; even $1 below market will create losses to the clinic's bottom line. Imagine a reimbursable service that is $1 below market that is performed 10,000 times per year. That is a potential of $10k in lost income. The accuracy of the codes and the quality of fee schedule alignment is reflected in the financial health of any medical practice.

Fee schedule analyses and alignment may be done in a simple spreadsheet using the annual RBRVS source files from CMS. However, some practice management systems have a built in function for this task, which is part of their managed care contracting module. Others use the Medical Group Management or other professional association cost and revenue modeling software products.