Practice expense has big impact on physician payments

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Practice expense is a crucial determinant of payments to physicians for their services. It is critical to understand the basic underpinnings of practice expense in the eyes of Medicare, because practice expense directly impacts the payment you receive. The setting in which you provide services will often result in large differences in the fee schedule amount that Medicare allows.

The Resource Based Relative Value System (RBRVS) is the predominant tool used to determine payment level to physicians. It is based on the cost of resources required to provide a service. The three components of the RBRVS are physician work, practice expense, and professional liability insurance. Practice expense accounts on average for 44% of the total value of a service.

Practice expense includes the cost of clinical labor, supplies, equipment, administrative labor, and office expenses. Practice expense will generally be greater for services provided in a physician's office rather than in a hospital or in an ASC. This is because the hospital or ASC is dealing with many of the costs that would otherwise be borne by the physician.

Hospitals and ASCs are termed "facilities" by Medicare. Separate fee schedules apply for many services, depending on whether the procedure is performed in a facility or in the physician's office. The amount by which office payment exceeds facility payment is called the "Site of Service Differential."

The magnitude of the Site of Service Differential varies from procedure to procedure. It also changes depending upon your practice location. For example, a Medicare-participating provider in Brooklyn faces a fee schedule amount of $507 in the office versus $459 in the facility for CPT 67141, Prophylaxis of retinal detachment (e.g., retinal break), cryotherapy. For CPT 67904, Repair of blepharoptosis, levator resection, external approach, the difference is approximately $210 ($741 office versus $530 facility). (These are 2005 values.)

The Site of Service Differential is additive in the case of bilateral procedures and multiple procedures, subject to adjustments. Consider the example of a Brooklyn physician performing bilateral ptosis surgery. Bilateral surgery for CPT 67904 is paid at 150% of the unilateral amount. The calculations are as follows:

Office: $741 * 150% = $1112
Facility: $530 * 150% = $795
Difference (Site of Service Differential) = $1112 - $795 = $317

In this instance, the magnitude of the Site of Service Differential is 150% of the amount for unilateral surgery.

The Site of Service Differential relies upon averages and approximations. From a strictly financial perspective, the benefit of performing a procedure in your office will vary depending on the specific procedure, your practice location, and your individual practice characteristics. The easiest way to balance these factors, if they are relevant in your practice setting, is by preparing a grid listing various CPT codes and their associated Site of Service Differentials.

An easy way to begin is to access the CMS (Medicare) Physician Fee Schedule lookup at http://www.cms.hhs.gov/physicians/mpfsapp/step1.asp. You may be asked to review a copyright statement, which you may accept by clicking at the bottom of the statement.

You will be asked to select either a single HCPC code, list of HCPC codes, or range of HCPC codes. For this purpose, you may think of "HCPC" as being roughly equivalent to "CPT." You may select any of the above choices depending on the nature of your inquiry.

When asked to select what type of information is desired, select "Pricing Information."

Under "Select Carrier Options," choose "Specific Locality." Under "Select Field Options," choose "Default Fields (Pricing Information Only)."

In the "HCPC" box, enter your code or codes. In the "Modifier" drop down box, select "All Modifiers." Under "Carrier Locality," choose your geographic region.

You will then see the “Non-Facility Price” and “Facility Price” for the codes you have selected. The difference between the two figures is the Site of Service Differential.

There are many services for which there is no Site of Service Differential. This is the case for procedures that have not been “priced in the office.” An example of such a procedure is CPT 67560, Orbital implant (implant outside muscle cone); removal or revision. For such a procedure, there is no additional reimbursement to the provider when the procedure is performed in office versus in the hospital or in an ASC.

Not only does Medicare specifically use practice expense when determining physician payments, but private payers almost always take practice expense into consideration as well when establishing their respective fee schedules. Certainly, to the extent that private payers adhere to RBRVS, practice expense represents a major component of procedural fee schedules.

Keep up to date with practice expense considerations and the Site of Service Differential. These factors play a major role in physician payments, your revenue stream, your cost structure, and practice profitability.