Physician fee schedules, coding are closely related

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The responsibility of creating a fee schedule rests with the physician, and with this responsibility comes opportunity. A well-conceived fee schedule is critically important in discussions with payers because it assigns specific dollar values to codes. The fee schedule may be easier than practice costs to bring into the negotiation process, since practices often do not have complete information on practice costs per code.

Fee schedules are intimately tied to coding. Almost all CPT codes are associated with specific relative value unit (RVU) figures. The RVU system is based on resource utilization and may be used to determine appropriate values in the physician fee schedule.

A review of the RVU system is in order. There are three subtypes of RVUs: work RVUs, practice expense RVUs, and professional liability insurance RVUs. Work RVUs capture physician effort ("physician work"). Physician work is comprised of these elements: time required to perform service,

technical skill and physical effort, mental effort and judgment, and stress due to potential risk to the patient. Physician work is the largest component of the resource-based relative value scale (RBRVS).

Practice expense RVUs reflect the cost to the physician (excluding physician effort and professional liability insurance) in providing professional service. Practice expense is composed of clinical labor, medical supplies, medical equipment, administrative labor, office expenses, and other expenses. "Non-facility" practice expense RVUs are relevant for services performed in the office, whereas "facility" practice expense RVUs apply to services performed in the hospital or in an ambulatory surgery center.

Professional liability insurance RVUs essentially represent the cost of malpractice insurance. This is the smallest component of the RBRVS.

A cost-based pricing approach underlies the concept of using RVUs to generate a fee schedule. (Other recognized pricing models include customer-based and competition-based.) The schedule of RVUs accepted by the Centers for Medicare and Medicaid Services reflects the resources

required to provide a particular service (as represented by a CPT code) to the patient.

Various RVU-based approaches to fee schedule creation have been suggested. Many of these approaches are similar. Basically, a cost per relative value unit is calculated separately for work RVUs, practice expense RVUs, and professional liability insurance RVUs. The cost per each type of RVU is then multiplied by the number of the appropriate type of RVUs to determine the total resource cost of the code to the practice.

In some models, an additional percentage is added to the resource cost to arrive at a final fee schedule amount. Other models have a different mechanism that allows for adjustment after creation of the initially-calculated figures.

An example will clarify one of the simpler methods. Assume a multi-ophthalmologist practice has paid $1,800,000 in physician compensation in the most recent year. The practice generated 30,000 work RVUs over this period. Therefore, the cost to the practice per work RVU is $1,800,000 divided by 30,000, or $60.

The practice expended $1,000,000 in clinical labor, medical supplies, medical equipment, administrative labor, office expenses, and other expenses over this time. There were 25,000 practice expense RVUs created. The cost to the practice per practice expense RVU is $1,000,000 divided by 25,000, or $40.

Professional liability insurance cost the practice $60,000. A total of 5000 professional liability insurance RVUs were generated in this time. The cost to the practice per professional liability RVU is $60,000 divided by 5000, or $12.

We may now apply the calculated values to create a fee schedule. Consider CPT 67800, Excision of chalazion, single.

This CPT code is associated with these values: work RVU = 1.39, practice expense RVU = 1.48, professional liability insurance RVU = 0.07. The "first pass" on the fee schedule amount yields these figures:

(1.39 x $60) + (1.48 x $40) + (0.07x $12) = $143.44.

A similar calculation for CPT 65222, Removal of corneal foreign body, corneal, with slit lamp, results in a fee schedule amount of $89.08.

There is a distinct advantage of this process over the frequently-used approach of adding a standardized percentage "markup" to Medicare allowables for each code. The system presented here utilizes the actual costs specific to the practice (including compensation to the physician for physician work). This is conceptually better than using the generic conversion factor value to determine the fee schedule amounts.

The simple model above has its limitations. For example, practice expenses that are not captured by the RVU system are not accurately assigned. Instead, they are absorbed by the codes that have designated practice expense RVUs. However, the vast majority of services provided by most ophthalmology practices do have assigned RVUs. Therefore, the distortion created by this simplification is probably quite small in most situations.

These amounts provide a useful basis for determination of the final fee schedule. Obviously the fee schedule for services without assigned RVUs

(e.g., CPT 15826, Rhytidectomy, glabellar frown lines) must be determined in some other fashion.

Be sure to review your fee schedule regularly. You will enjoy benefits in your interactions with payers and throughout your practice management system.