Extension of the Floor for Geographic Adjustments and Revisions to the Practice Expense Geographic Adjustment

**Summary:** Extends a floor on geographic adjustments to the work portion of the fee schedule through the end of 2010, with the effect of increasing practitioner fees in rural areas. Also provides immediate relief to areas negatively impacted by the geographic adjustment for practice expenses, and requires the Secretary of HHS to improve the methodology for calculating practice expense adjustments beginning in 2012.

**Status update:** On July 1, 2011, the Centers for Medicare and Medicaid Services (CMS) issued a proposed rule that would update payment policies and rates for physicians and nonphysician practitioners (NPPs) for services paid under the Medicare Physician Fee Schedule (MPFS) in calendar year (CY) 2012, including proposed changes to the Practice Expense Geographic Adjustment.

**Next steps:**
- July 1, 2011 – CMS issued proposed rule.
- August 30, 2011 – Comments due on proposed rule.
- November 1, 2011 – CMS final rule.
- January 1, 2012 – Changes for calendar year 2012 go into effect.
- By January 1, 2012 -- Secretary must make appropriate adjustments to the practice expense geographic adjustment to ensure accurate geographic adjustments across fee schedule areas, including (1) basing the office rents component and its weight on office expenses that vary among fee schedule areas and (2) considering a representative range of professional and non-professional personnel employed in a medical office. Such adjustments shall be made without regard to adjustments for 2010 and 2011 and must be budget neutral.

**Additional information:**
Long summary:
Sec. 3102. Extension of the work geographic index floor and revisions to the practice expense geographic adjustment under the Medicare physician fee schedule (as modified by sec. 1108 of HCERA).

Extends the work geographic adjustment floor until January 1, 2011 (previously January 1, 2010). States that for 2010 and subsequent years, the geographic adjustment for practice expenses to reflect 50% (rather than 100%) of the difference in costs of employee wages and rents between each fee schedule area and the national average. Adds a holds harmless provision for areas that would otherwise lose under the revised formula. Requires the Secretary to study improvements in the methodology for calculating practice expense adjustments and to implement changes by January 1, 2012.

Long summary:
The Centers for Medicare and Medicaid Services (CMS) proposed changes in how it adjusts payment for geographic variation in the cost of practice. For physician work, CMS is not proposing to revise the physician work geographic practice cost indices (GPCI) data source for calendar year (CY) 2012. However, the workGPCIs will be revised to account for the expiration of the statutory work floor. CMS is proposing to revise the physician work cost share weight in line with the 2011 Medicare Economic Index (MEI) weights, which are based on more current (2006) data.

For practice expense (PE), and as a result of the Affordable Care Act, CMS is proposing to make four revisions to the PE data sources and cost share weights effective January 1, 2012. Specifically, CMS is proposing to: (1) revise the occupations used to calculate the employee wage component of PE using Bureau of Labor Statistics (BLS) wage data specific to the office of physicians’ industry; (2) utilize two bedroom rental data from the 2006-2008 American Community Survey as the proxy for physician office rent; (3) create a purchased service index that accounts for regional variation in labor input costs for contracted services from industries comprising the “all other services” category within the MEI office expense and the stand alone “other professional expenses” category of the MEI and; (4) use the 2006-based MEI (most recent MEI weights finalized in the CY 2011 final rule with comment period) to determine the GPCI cost share weights.

For malpractice, CMS is proposing to revise the cost share weight for the malpractice GPCI. Specifically, CMS will increase the weight from 3.865 percent to 4.295 percent.

CMS will continue to evaluate recommendations from the Institute of Medicine (IOM) on GPCI’s and make additional adjustments, as required by the Affordable Care Act.

Legislative text:
SEC. 3102. EXTENSION OF THE WORK GEOGRAPHIC INDEX FLOOR AND REVISIONS TO THE PRACTICE EXPENSE GEOGRAPHIC ADJUSTMENT UNDER THE MEDICARE PHYSICIAN FEE SCHEDULE.
(a) EXTENSION OF WORK GPCI FLOOR.—Section 1848(e)(1)(E) of the Social Security Act (42 U.S.C. 1395w–4(e)(1)(E)) is amended by striking "before January 1, 2010" and inserting "before January 1, 2011".
(b) PRACTICE EXPENSE GEOGRAPHIC ADJUSTMENT FOR 2010 AND SUBSEQUENT YEARS.—Section 1848(e)(1) of the Social Security Act (42 U.S.C. 1395w4(e)(1)) is amended—
(1) in subparagraph (A), by striking “and (G)” and inserting “(G), and (H)”; and
(2) by adding at the end the following new subparagraph:
“(i) FOR 2010.—Subject to clause (iii), for services furnished during 2010, the employee wage and rent portions of the practice expense geographic index described in subparagraph (A)(i) shall reflect 1/2 of the difference between the relative costs of employee wages and rents in each of the different fee schedule areas and the national average of such employee wages and rents.
“(ii) FOR 2011.—Subject to clause (iii), for services furnished during 2011, the employee wage and rent
portions of the practice expense geographic index described in subparagraph (A)(i) shall reflect 1/2 of
the difference between the relative costs of employee wages and rents in each of the different fee schedule areas and the national average of
such employee wages and rents.
"’(iii) HOLD HARMLESS.—The practice expense portion of the geographic adjustment factor applied in
a fee schedule area for services furnished in 2010 or 2011 shall not, as a result of the application of clause (i) or (ii), be reduced below the
practice expense portion of the geographic adjustment factor under subparagraph (A)(i) (as calculated prior to the application of such clause (i)
or (ii), respectively) for such area for such year.
"’(iv) ANALYSIS.—The Secretary shall analyze current methods of establishing practice expense geographic adjustments under subparagraph
(A)(i) and evaluate data that fairly and reliably establishes
distinctions in the costs of operating a medical practice in the different fee schedule areas. Such analysis shall include an evaluation of the
following:

"’(I) The feasibility of using actual data or reliable survey data developed by medical organizations on the costs of operating a medical practice,
including office rents and non-physician staff wages, in different fee schedule areas.

"’(II) The office expense portion of the practice expense geographic adjustment described in subparagraph (A)(i), including the extent to which
types of office expenses are determined in local markets instead of national markets.

"’(III) The weights assigned to each of the categories within the practice expense geographic adjustment described in subparagraph (A)(i).

"’(v) REVISION FOR 2012 AND SUBSEQUENT YEARS.—As a result of the analysis described in clause (iv),
the Secretary shall, not later than January 1, 2012, make appropriate adjustments to the practice expense geographic adjustment described in
subparagraph (A)(i) to ensure accurate geographic adjustments across fee schedule areas, including—

"’(I) basing the office rents component and its weight on office expenses that vary among fee schedule areas; and

"’(II) considering a representative range of professional and non-professional personnel employed in a medical office based on the use of the
American Community Survey data or other reliable data for wage adjustments.
Such adjustments shall be made without regard to adjustments made pursuant to clauses (i) and (ii) and
shall be made in a budget neutral manner.”.

Note: Section 10324(c) of PPACA, p. 824, provided for amendments to section 1848(e)(1) of Social Security Act providing a floor on practice
expense index for services in frontier States.