

The impact of CMS's changes to the method and data used to calculate PE payments: Preliminary results

ISSUE: What is the effect of CMS's revisions of the method used to calculate practice expense (PE) payments for physician services? Are there ways to improve CMS's methods for allocating indirect expenses?

KEY POINTS: The practice expense (PE) component of the physician fee schedule pays for the direct costs (nonphysician clinical staff, medical equipment, and medical supplies) and indirect costs (administrative staff, office rent, and other expenses) of operating a physician practice. PE payments account for about half of the \$54 billion Medicare paid for services under the physician fee schedule in 2004. In December 2006, CMS issued a final regulation that substantially revised the method used to calculate PE payments.

ACTION: At this meeting, we will summarize the impact of the changes in the methods and data on PE RVUs. We will also present options for modifying how CMS allocates indirect costs to specific services. We seek Commissioners' guidance on these options.

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