



Advising the Congress on Medicare issues

Paying accurately for imaging services in the physician fee schedule

Ariel Winter

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Background

- Imaging has contributed to improvements in diagnosis and treatment
- Concerns about rapid growth, geographic variations, quality, inappropriate use
- Commission's work has focused on quality and payment accuracy

Medicare's physician fee schedule

- 3 types of relative value units (RVUs): physician work, practice expense (PE), professional liability insurance
- PE accounts for almost half of spending on physician services
 - Direct costs (nonphysician clinical staff, equipment, supplies)
 - Indirect costs (administrative staff, office rent, other expenses)
- CMS changed PE method for all services for 2007
 - Redistributed RVUs from imaging and major procedures to other services

Payment accuracy is important

- Inaccurate payments can distort market for physician services
- Overvalued services may be overprovided
- Some providers may not furnish undervalued services, which may threaten access to care
- Other providers may increase volume of undervalued services to maintain total payments

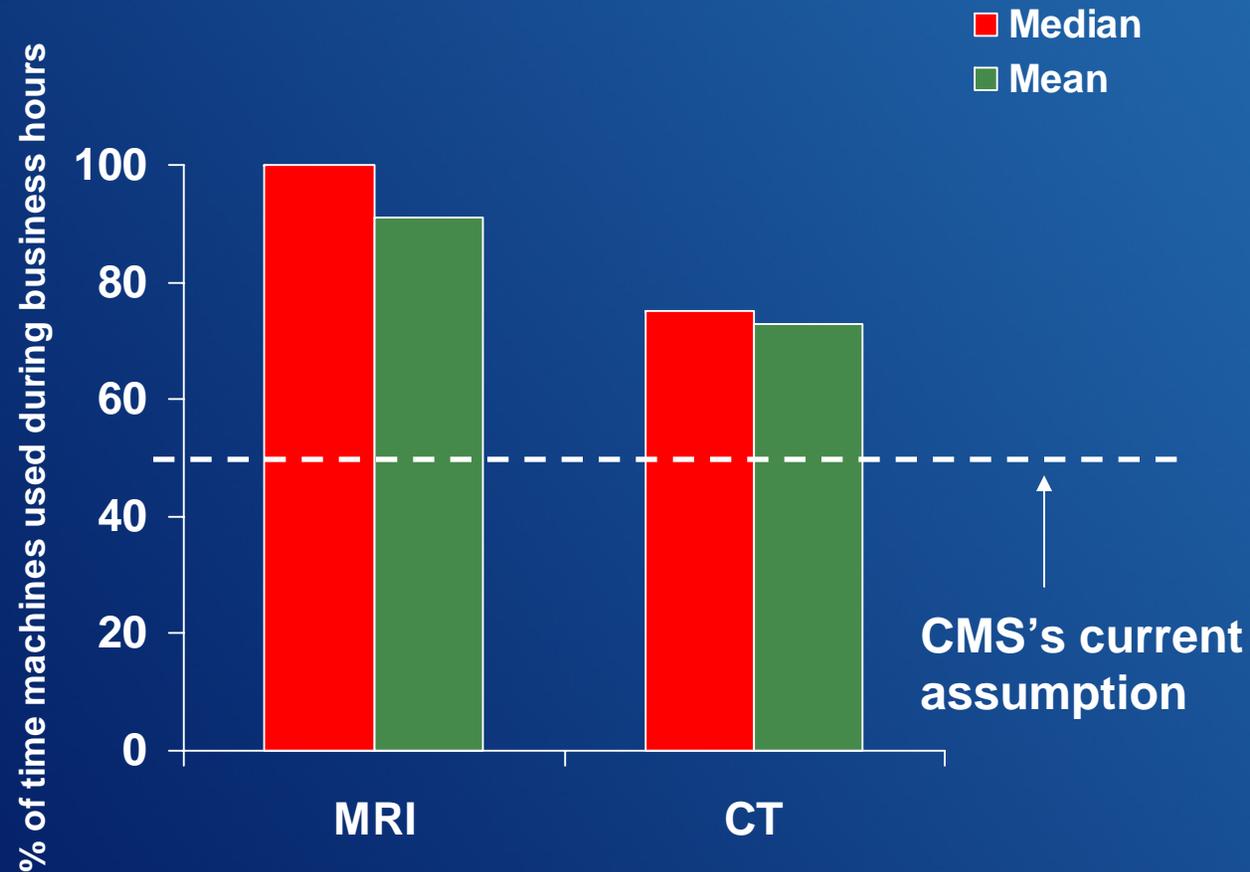
How physician fee schedule pays for imaging services

- 2 portions of imaging service
 - Technical component (performing the study)
 - Professional component (interpreting the study)
- Medical equipment is significant portion of practice expense RVU for advanced imaging (CT, MRI, nuclear medicine)

How CMS estimates cost of medical equipment

- Cost of equipment per service = *cost per minute* * number of minutes used
- *Cost per minute* based on purchase price, % of time equipment is used, cost of capital, useful life
- CMS assumes that all equipment used 50% of time providers are open for business
- If equipment used more frequently, costs per service are lower
- NORC survey of imaging providers in 6 markets found that MRI and CT machines used more than 50% of time (2006)

Results from NORC survey of imaging providers in 6 markets (2006)



Source: NORC survey for MedPAC.

Options for updating use rate for expensive machines

- Survey providers
 - AMA's practice costs survey is collecting information on use of high-cost equipment
- Set a standard based on expectation of efficiency
 - Providers who purchase costly imaging equipment should be expected to use it at nearly full capacity
 - Would encourage efficient use of expensive equipment
 - Would discourage low-volume providers from purchasing costly equipment

Impact on PE RVUs of increasing equipment use rate for MRI and CT machines

	Rate = 75%	Rate = 90%
E & M	+0.8%	+1.1%
Imaging	-5.8	-7.9
Major procedures	+0.7	+1.0
Other procedures	+2.0	+2.6
Tests	+2.8	+3.8

Note: Current use rate is 50%. Estimates do not account for outpatient cap on physician fee schedule imaging rates.

Source: NORC/SSS analysis for MedPAC.

How CMS estimates imaging equipment time per service

- Cost of equipment per service = cost per minute * *number of minutes used for service*
- Minutes imaging equipment is used = radiology technician's time to perform study
- Time estimates recommended by AMA/Specialty Society Relative Value Scale Update Committee (RUC)
 - Estimates for MRI and CT developed by RUC in 2002-2003

Time estimates for MRI and CT services may be out of date

- Newer scanners (e.g., 64-slice CT) have led to faster imaging
- Providers using older machines may also be performing studies in less time
- If time estimates are too high, Medicare is overstating equipment and technician costs

Outpatient cap on physician fee schedule imaging rates

- Deficit Reduction Act capped fee schedule rates for TC of imaging at outpatient rates
- Savings from policy returned to trust fund
- Reduced payment rates for 2/3 of advanced imaging tests in 2007 (GAO)
- Thus, reducing PE RVUs for advanced imaging unlikely to affect rates for many codes in short term

Outpatient cap (continued)

- Despite outpatient cap, important to improve accuracy of physician fee schedule and encourage efficiency
- Impact of cap will decline over time if outpatient rates increase faster than fee schedule rates

Discussion questions

- Should Medicare's equipment use rate for costly imaging machines be based on an efficiency standard?
- Should time estimates for MRI and CT services be updated?
- Other practice expense issues to consider?