Physician Fee Schedule WRVU Changes: Move Beyond Rolling with the Punches – How to Take Advantage of the Current Crisis

Presentation Materials – 11/10/2021

Randy Biernat, CPA/ABV
Partner
Tel: 317-383-4271
Email: rbiernat@bkd.com
https://www.linkedin.com/in/randybiernat/

BKD CPAs & Advisors

Physician Enterprise Lead
Strategy: Compensation. Reimb. Profitability. Compliance

Agenda - 15 min reimb. & disruption

Passion for physician leadership and I believe contracting wisely can unlock the true, deep, unique value physicians can bring.

2021 Physician Fee Schedule Disruption

- Key Changes in 2021 PFS
  - Telehealth Expansion
  - Coding & Documentation Updates
  - 10% Reduction in Conversion Factor (with temporary reprieve)
    - 2020 - $36.09 | 2021 - $34.89 | 2022 - $33.60 *per final rule published Nov. 2*
  - Continued PERVU Pricing Conversion
- Greatly disrupts employed provider contracts

2022 PFS Final Rule

- E&M Touch Up (no walk back on 2021 E&M changes)
- Conversion factor $33.59 (-$1.30 from CY20)
- New Split/Shared Services Billing & Coding Provisions
- Critical Care Updates
- Telehealth Services
  - "Temporary" runs through end of calendar 2023
  - Originating Site and Audio-only Relief
- Physician Assistants can now bill and collect from Medicare directly
- CY2022 PFS Fact Sheet *link*

New Doc-Fix

CMS Restructured wRVU Values

Inflation

Illustrate time-limits utilization

	CPT Code	CY 2020 wRVU Value	CY 2021 wRVU Value	wRVU Variance	wRVU % Increase	Current Total Time	CY 2021 Total Time	Time Change	Time % Increase
New Patient Office Visit Codes	99202	0.93	0.93	0	0%	22	22	0	0%
	99203	1.42	1.6	0.18	13%	29	40	+13	38%
	99204	2.43	2.6	0.17	7%	45	60	+15	33%
	99205	3.17	3.5	0.33	10%	67	85	+18	27%
Established Patient Office Visit Codes	99211	0.18	0.18	0	0%	7	7	0	0%
	99212	0.48	0.7	0.22	46%	16	18	+2	13%
	99213	0.97	1.3	0.33	34%	23	30	+7	30%
	99214	1.5	1.92	0.42	28%	40	49	+9	23%
	99215	2.11	2.8	0.69	33%	55	70	+15	27%

Compensation Impact – Service Contracts

- On-Paper Compensation Windfalls – High Utilizers of Key E/M Codes will be Due if Pay Processing Utilizes the 2021 Medicare Physician Fee Schedule to Calculate wRVUs
- Employed Provider Subsidies Then Increase Based on:
  - Typical reimbursement is 100%-120% of Medicare
  - Typical compensation between 140% and 220% of Medicare
  - Reimbursement has not changed for most commercial contracts
  - wRVU crediting pertains to all services rendered, regardless of payor

No additional work

Illustrative Impact Summary (No Action)

wRVU Impact	Pediatrician	Family Practice	Internal Medicine	Hospitalist	Med. Oncology	Cardiac Surgery	General Surgery
2020 WRVU	4,307	6,101	5,571	5,098	13,267	14,934	7,028
2021 WRVU	5,332	7,424	6,410	5,014	15,028	14,752	7,119
Difference	1,025	1,323	839	(84)	1,761	(182)	91
Percent Change	*23.8%*	*21.7%*	*15.1%*	*-1.6%*	*13.3%*	*-1.2%*	*1.3%*
Medicare Collections Impact							
2020 Collections	$ -	$ 109,372	$ 165,552	$ 120,957	$ 757,241	$ 382,239	$ 198,363
2021 Collections	-	128,888	185,382	117,005	840,756	373,929	198,942
Collections Impact	***$ -***	***$ 19,516***	***$ 19,830***	***$ (3,952)***	***$ 83,515***	***$ (8,310)***	***$ 579***
Percent Change	*0.0%*	*17.8%*	*12.0%*	*-3.3%*	*11.0%*	*-2.2%*	*0.3%*
Compensation Impact	$ 46,125	$ 59,535	$ 37,755	no change	$ 149,685	no change	$ 5,005
Net Spend Impact	***$ 46,125***	***$ 40,019***	***$ 17,925***	***$ 3,952***	***$ 66,170***	***$ 8,310***	***$ 4,426***

Industry Response (Physician Employers)

- No Change (if no impact) – P.E. Private practice – salary PAs
- Delayed Implementation / Impact Assessment ~ many!
- Early Adoption with Revised Rates/Thresholds ~ few
- Pay Freezes – few
- Maintained Usage of 2020 PFS wRVU Values – many
- Compensation Re-Design ~ lots of interim after 6-12 months of assessment

Disruption Equals Opportunity

Never let a good crisis go to waste!

- Every Response Has Its Own Pain
- Big Rise in Organizations “Leaning-In” to Evaluate Alignment Under Provider Compensation Terms
- Drivers
  - Pressure from Providers
  - Changing Reimbursement Environment
  - Influx of Private Equity Buyers
  - Changing Regulatory Environment
  - Subsidy Fatigue

ASSESSMENT — end with keys to decide what is in reach

Tactical, Strategic, or Transformational?

A Design Exercise is *Tactical* when it is:

- Solved easily by an expert
- Does not challenge the status quo

A Design Exercise is *Strategic* when it is:

- Driven by changes to the external environment
- Essential to the organizations' mission
- Represents a new way of thinking or acting (incremental)

A Design Exercise is *Transformational* when it is:

- Complicated by deeply held values
- Historically unsolvable
- Fundamental change of business practices (e.g., FFS → Capitation)

Step 1: Environmental & Readiness Assessment

Describe each as we go

Why Change?

Fixable Flaws in Provider Pay Design

- **Tactical** — Pricing – Services Cost Do Not Match Value (Wrong Rate)
- **Tactical** — Scope – Purchased Service Have Gaps to Actual Need
- **Strategic** — Mis-Leveraged – Providers working "below license"/need
- **Strategic** — Misfocused Compensation – Pay Incents Wrong Behaviors
- **Transform.** — Provider Work Efforts Drive Poor Performance – results from disconnect from payor terms, structural reimbursement, cost, and gaps in "system" strategies

1st Tactical

Tactical Pay Design Process

- Establish Baselines
- Benchmarking
- “Math Fix”
- Contract Language Clean Up
- Fair Market Value Compliance Check
- Outcome: Preserves Status Quo but Work Calibration System is Updated to Current

prefer ~~[illegible]~~ rate Δ's to thresholds

Tactical Pay Updates - Example

Medical Oncology

Category	Current State	Future State	Difference
wRVUs	25,252	31,749	6,497
Compensation	$ 2,677,687	$ 3,291,419	$ 613,731
Comp/wRVU	$ 103.67	$ 82.46	$ (21.21)
FMV Max	$ 2,920,000	$ 2,920,000	No Change
Comp Gap to Max	$ 242,000	$ (371,000)	N/A
Medicare Collections	$ 785,387	$ 963,988	$ 178,601

Compensation Rate required to match current total compensation to physicians

Strategic Design: Illustrative Process

Data Sandbox, Baselines & Benchmarks

- Form steering committee/ project champions
- Document baselines for
  - Compensation
  - Activity data (productivity, call coverage, medical directorships)
  - Benefits
- Benchmarking
- Pay equity analysis
- Benefits assessment

Pay Design Process

- Determine best fit compensation plan concepts
- Survey of employed medical staff members
- Draft compensation plan philosophy document
- Prepare financial model of comparative provider pay
- Iterate philosophy and financial analyses until satisfaction
- Draft template compensation language for legal counsel to review

Stakeholder Acceptance & Approvals

- Socialize draft pay plan with providers & incorporate best suggestions to plan
- Finalize philosophy
- Issue personal impact summaries
- Summarize overall financial impact
- Establish as Commercially Reasonable and FMV
- Obtain legal approvals
- Obtain board approval

Implementation Excellence

- Evaluate control environment for provider pay process
- Incorporate new plan terms into relevant policies & procedures
- Create “Source of Truth” master pay plan and calculation file
- Update / establish balanced scorecard
- Cost/Benefit evaluation on compensation calculation software

Illustrative Compensation Plan Discussion Matrix

Key Factors	Salary	% Charges	% Collections	Rev. - Exp.	WRVUs	Per Encounter	PMPM
Incentivizes Provider Productivity	★	★★★★	★★★	★★★★	★★★★	★★★★	★
Provider Bears Payor Mix Risk	★	★	★★★★	★★★★	★	★	★
Has No Inherent Fee Setting Constraint	★★★★	★	★	★★★★	★★★★	★★★★	★★★★
Rewards Keeping Practice Costs Low	★	★	★	★★★★	★	★	★★★★
Easy for Management to Administer	★★★★	★★★	★★★	★★	★	★★★	★★★
Matches Practice Income Method	★	★★	★★★★	★★★★	★★	★★	★
Incentivizes Providing Access to Care	★★★	★★	★★	★★	★★	★★★	★★★★
Incentivizes Practice Profitability	★	★	★★	★★★★	★★	★★	★★★
Rewards Patient Visit Efficiency	★	★★★	★★★	★★★★	★★★	★★★★	★★
Rewards Quality Outcomes	★	★	★	★	★	★	★★★
Rewards Patient Safety	★	★	★	★	★	★	★★★
Rewards High Patient Satisfaction	★	★	★	★	★	★	★★★

Star Rating Key							
★	Poor	★★	Fair	★★★	Good	★★★★	Excellent

So what is transformation?

Getting to System Strategy

Strategic Design for Transformation

Success in transformative physician pay design depends on finding the best fit between system strategy, reimbursement/payor incentives, group culture, and regulatory compliance

Document System Strategic Objectives

Patient Access
Clinical Quality
Financial

Assess Opportunities Resources, Needs & Gaps

Physician Champions
Service Line Leaders
Reimbursement/Finance

Initiate Transformation

Operational Changes
New Provider Contracts
Align Measurement, Reporting and Accountability

Leadership to drive the change ***Process owners to implement the change***

Using the Value-Based Arrangement Exception to the Stark Law to Drive Transformation

Regulatory Flexibility for Arrangements

Key Is New Regulatory Flexibility from 2021 Stark Law Update

- Keys to arrangement
  - Provider takes risk for pay based on outcomes
  - Pay is conditioned on patient quality at improving/high levels
  - Traditional FMV requirements *do not apply* if arrangement is designed to meet Stark value-based exception

CMS Regulatory Intent

- CMS states it "… believes that financial risk tied to the achievement, or failure to achieve, value-based purposes incents the type of provider behavior needed to transform the healthcare delivery system from volume-based to value-based"

Value-Based Arrangement: Definitions

Core Definitions

Value-Based Activity

- Provision of service or item
- Taking of action
- Not taking an action (demurring)

Value-Based Purpose

- Coordination & management of care
- Improving care quality
- Reducing costs
- Maintaining &/or improving quality
- Transition from volume to value

Excludes making a referral

Dependent Definitions

Value-Based Arrangement

- Arrangement for provision of at least one value-based activity
- Must be for a target population
- Between or among the value-based Enterprise (VBE) & VBE participants

Value-Based Enterprise

- 2(+) VBE participants
- Accountable person/entity over finance & operations
- Has governing document

Target Populations

- Identified patient populations
- Selected by VBE using legitimate & verifiable criteria
- Set in advance in writing

Triple Aim at Provider Level

Issue: Current Arrangements Are Not Structured to Incentivize Outcomes in Relation to Financial Performance due to Stark Law

Opportunity: Utilize New Regulatory Flexibility to Design & Implement Physician Arrangements that Pay for "Aligned Performance Outcomes"

Aligned Performance Focus Areas

- Patient Care
- Provider Work Effort
- Health System Economics

Aligned Performance Arrangements

- Co-Management (Evolution)
- Service Line Performance Improvement (Revelation)
- Employment (Revolution)

Opportunity: Aligned Service Line Performance

Illustrative Employment Arrangement Analysis

Value Based Activity - Illustrative Income Statement				
Economic Benefits (relative to baseline)	Year 1	Year 2	Year 3	Year 4
Claims Cost Reduction	$ 25,000	$ 75,000	$ 125,000	$ 200,000
Hospital Cost Reduction	500,000	550,000	600,000	650,000
Reimbursement Program Bonus	-	-	100,000	200,000
Reimbursement Penalty Avoided	250,000	250,000	250,000	250,000
subtotal	775,000	875,000	1,075,000	1,300,000
Economic Costs				
Physician Program/Activity Payments				
Provider Administrative Pay (Hourly)	75,000	50,000	45,000	40,000
Adherence to Clinical Protocols (Process)	200,000	225,000	250,000	250,000
Cost Savings / Outcomes Bonus (Outcomes)	150,000	200,000	250,000	300,000
Capital Pool Build-Up	-	-	-	-
Hospital Resource Commitment	200,000	125,000	125,000	125,000
Incremental Costs (pro fees, etc.)	100,000	65,000	65,000	65,000
subtotal	725,000	665,000	735,000	780,000
Net Benefit Achieved	**$ 50,000**	**$ 210,000**	**$ 340,000**	**$ 520,000**

How it Works

- Clinical and Financial Leadership Identifies Non-FFS Activities that Drive Triple Aim Type “Value”
- Pay for Performance Metrics are Selected to Demand Quality and Reward Efficiency in Care Management & Coordination

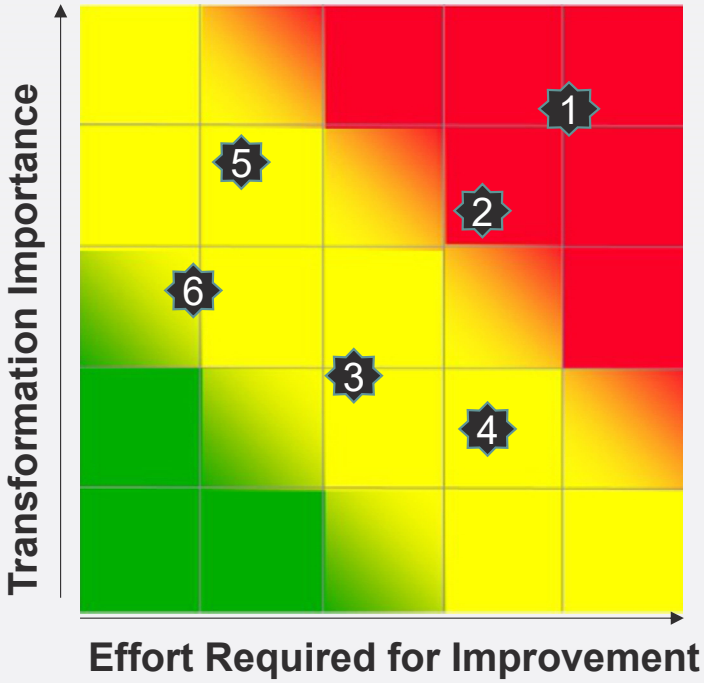
This is a new way of thinking about how to fund physician alignment: bending cost curves & payor alignment, not subsidization.

Transformation Risk Assessment Heat Map

Change Readiness Assessment

1. Provider Trust / Engagement
2. Strength of Data (Integrity, Reporting)
3. Understanding Reimbursement Incentives
4. QA/QR Leadership, Reporting
5. Operational Leadership
6. Excellence in Pay Administration

Heat Map



Thank You!

bkd.com/hc | @BKDHC

Randy Biernat, CPA/ABV
Partner
Tel: 317-383-4271
Email: rbiernat@bkd.com
https://www.linkedin.com/in/randybiernat/

BKD
CPAs & Advisors