What are RVUs and how do we get paid on them?

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1

Disclosures

- No disclosures or competing interests

2

How physicians are paid

- Salary may be based on one of several compensation structures, such as: a fixed, agreed upon sum, a percentage of physician's production, percentage of collections
- Salary formula may take into consideration various managed care incentives
- Bonuses may be paid as a fixed sum, a percentage of salary, percentage of production, percentage of collection or based on formula

3

Fixed base salary

- The Physician shall receive a salary at rate of $_____ per year, payable in equal [semimonthly] installments, on [first and 15th day or 15th and last day] of each month, subject to state and federal income tax withholding, etc

4

Compensation based on percentage of productivity

- On or before 15th of each month, Employer shall pay Physician ____% of his or her prior month's "productivity." For purposes of calculating compensation, Physician's productivity shall include all charges in preceding calendar month for services rendered by…

5

Percentage of profit or net income

- Attributable to physician's services
- Net income is amount remaining after deduction or payment of all practice expenses
- If salary is based on percentage of net income, agreement can become complicated in defining what constitutes income and expenses, leading to physician becoming entangled in affairs of employer

6

Bonus compensation based on percentage of salary

- Within fifteen (15) days of close of each [quarter or year], Employer [shall or in its sole discretion may] pay Physician bonus compensation of [up to] ____% of Physician's salary in addition to base salary paid to Physician if Physician has [produced or collected] $_____ in the preceding [quarter or year]

7

Managed care bonus formula

- In addition to Physician's base salary, Employer shall [in its sole discretion] pay bonus compensation to Physician pursuant to following formula that compares Physician's capitated gross collections (as defined) with other physicians in group

8

Relative Value Unit

- **Definition:** RVU is an acronym that stands for "relative value unit." assigned to each encounter, procedure, or surgery
- **Use:** Method for calculating volume of work or effort expended by a physician in treating patients. Employers calculate compensation or bonuses. Can help in deciding whether to take a buyout offer from a hospital system
- **Standardization:** refers to way value used in compensation formula may vary from employer to employer. Medical Group Management Association (MGMA) tracks RVU values for various physician specialties, included in annual physician compensation report

9

Calculation

- Calculating physician productivity and compensation include:
  - Volume-based metrics attached to the number of patients physicians see
  - Amount of revenue physicians bill for or collect
- A well patient visit, for example, would be assigned a lower RVU than an invasive surgical procedure
- Physician seeing two or three complex or high acuity patients per day could accumulate more RVUs than a physician seeing ten or more low acuity patients per day

10

Components of RVUs

- RVUs reflect relative level of time, skill, training and intensity required of physician to provide a given service
- Dollar amount for each service determined by three components: physician's work, practice expenses, and malpractice insurance
- To account for variations in living and business costs across country, each of three components multiplied by a factor known as Geographic Practice Cost Index

11

Federal use of RVUs

- Conversion factor established each year by Congress
- Determined as part of Resource-based Relative Value Scale (RBRVS), system for describing, quantifying, and reimbursing physician services relative to one another
- Values in RBRVS scale reviewed periodically by panel of physicians, known as Relative Value Scale Update Committee (RUC), representing every sector of medicine (more specialists)

12

History

- RVU/RBRVS system created to bring uniformity to Medicare's reimbursement systems; slow increasing medical spending
- Until then, Medicare based reimbursements on "uniform, customary, and reasonable" fees for service in given market
- In 1988, Centers for Medicare and Medicaid Services commissioned study from Harvard School of Public Health to evaluate costs associated with medical services
- Led to introduction of RBRVS system in 1992
- In use ever since, not without controversy

13

RVU evolution

- CMS has used RVUs with application to reimbursement from Medicare and/or Medicaid since 1992
- Rapid growth in practice use; academic medical centers first; learning curve for many doctors and administrators
- Wide scale use of RVU as primary form of measuring physician performance and determining overall compensation relatively recent

14

Sample Productivity RVU

Provider name	Specialty	Percent of practice revenue	Percent of practice RVUs	RVU productivity ratio
Smith	Family medicine	13.47%	12.56%	1.07
Jones	Family medicine	13.93%	16.10%	0.87
Barnes	Family medicine	4.11%	5.77%	0.71
Adams	Pediatrics	13.14%	9.81%	1.34
Frey	Pediatrics	8.66%	8.74%	0.99
Leary	OB-GYN	12.25%	13.14%	0.93
Baron	OB-GYN	9.96%	14.86%	0.67
Singer	Orthopedics	6.81%	6.16%	1.11
Corsi	Orthopedics	17.66%	12.86%	1.37

- Calculate revenue per provider as a percent of total practice revenue
- Calculate total RVUs per provider as a percent of total practice RVUs
- Divide percent revenue by percent RVU to calculate productivity ratio

15

RVU generation

- Current Procedural Terminology (CPT) code used in billing for services has a corresponding Relative Value
- Periodically updated on CMS website Physician Fee Schedule (PFS)

16

Details for title: 2014

Calendar Year	2014
File Name	RVU14A
Description	Physician Fee Schedule – January 2014 release. This file contains the revisions identified in the Physician Fee Schedule Final Regulation published November 2013.
File Size	2 MB

Physician Fee Schedule – January 2014 release. This file contains the revisions identified in the Physician Fee Schedule Final Regulation published November 2013.

NOTE: The following 2014 MPFS payment rates reflect policies adopted in the CY 2014 Medicare Physician Fee Schedule Final Rule that appeared in the Federal Register on December 10, 2013. These rates also reflect the .5 percent update for January 1, 2014 through March 31st, 2014, as adopted by section 101 of the Pathway for SGR Reform Act of 2013.

Downloads

RVU14A (Updated 1/6/2014) [ZIP, 3MB]

Help with File Formats and Plug-Ins

17

The general formula for calculating Medicare payment amounts for 2015 is expressed as:

	Work RVU[1] x Work (GPCI)[2]
+	Practice Expense (PE) RVU x PE GPCI
+	Malpractice (PLI) RVU x PLI GPCI
	= Total RVU
x	CY 2015 Conversion Factor of $35.7547
	= Medicare Payment

[1]The 2015 physician work, practice expenses, and malpractice RVUs may be found in *Medicare RBRVS: The Physicians' Guide.*

18

RVU examples

- National median Compensation per Work RVU for a pediatrician is $38.89
- Median Compensation per Work RVU for an Orthopedic Surgeon $60.05, according to 2010 MGMA report

19

Basis for Coding

- AMA owns copyrights for CPT code and receives approximately $70 million annually from charging a license fee for those wishing to associate RVU values with CPT codes
- Codes periodically amended by CPT Editorial Panel and use required by statute. RBRVS system is based on CPT code and RBRVS system mandated by CMS
- This system is unlikely to be replaced soon

20

Trend towards RVU use

- 2007 MGMA's Physician Compensation and Productivity Report
  - Sixteen percent of group practices used an RVU formula to calculate physician compensation and productivity
  - Thirty-four percent of physicians had their compensation/productivity tied to RVUs
  - Thirty-five percent of group practices used RVU compensation/productivity metrics, and 61 percent of physicians had compensation/productivity tied to RVUs

21

RVU for new physician employees

- 2011 Review of Physician Recruiting Incentives, Merritt Hawkins
  - In 74% of physician search assignments between April 1, 2010 and March 31, 2011, a salary plus a production bonus was form of compensation offered to physician candidates
  - Fifty-two percent of searches feature a salary plus production bonus based production component on RVUs, rather than number of patients seen, revenue generated or quality and cost effectiveness metrics

http://www.merritthawkins.com/pdf/mhaRVUword.pdf

22

Approach to compensation using RVU

Compensation arrangements between physicians and nonprofit hospitals or integrated delivery systems (such as ACOs) subject to following considerations:

- –Cannot produce an "excess benefit"
- –Production-oriented compensation must be based on work personally performed by physician
- –Compensation must be similar to that which would be paid by similar organizations, for similar services and under similar circumstances
- –Governing body must have considered appropriate data during review process
- –Cannot consider or reward in any way volume or value of referrals

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23

Physician employee models

- Fair Market value: (90 percent to 95 percent based on an average of national and regional data)
- Commercial reasonableness
- Necessary for legitimate business purpose
- Does not vary with or take into account volume or value of referrals

24

Tools for fair market analyses

- MGMA preferred; surveys typically have largest sample size of any publicly available data on physician compensation and production
- Data reasonably reflect external market: survey data used on a comparative basis to answer whether compensation paid by a hospital similar to compensation paid by similar organizations for similar services

http://www.mgma.com/practice-resources/articles/directions-newsletter/2014/identifying-fair-market-value-with-compensation-ar#sthash.cppc5ORt.dpuf

25

Tools for compensation models

- Searchable Medicare Physician Fee Schedule (MPFS) allows health care professionals, suppliers, institutional providers to find Medicare payment amount for each code so can calculate beneficiary coinsurance amount
- For health care professionals/suppliers who choose to be “nonparticipating”, MPFS provides limiting charge

26

Base salary

- Survey data as benchmark
- Physicians are in “bonafide employment arrangement exception”
- Past performance

27

Productivity Incentive

- Net income (collections less expenses)
- Vs. RVU-based

28

Mission Component

- Quality
- Patient satisfaction
- ACO distribution
- Bundled payments
- (ACA encourages and broadens payment reform initiatives that are focused on rewarding — or penalizing — physicians based on quality and cost of care provided)

29

Example of how compensation might work

- Assume endocrinologist at 50% of MGMA
- Base Salary: $166, 420
- RVU converter: 41.66 per work RVU
- Benefit costs: 5,000
- RVUs billed: 4,847
- Mission component achieved quality and patient satisfaction targets (10% of base for each)

30

Calculation

Calculation

- Base Salary: $166, 420
- Productivity: 30,506 (201926-171,420)
- RVUs- Base plus benefits
- Mission incentive: 33, 284 ($16,642x2)
- (10% of base x 2)
- $230,210 = Total Compensation

31

Other compensation aspects

- Need for a cap?
- Can the cap float?

- What about ancillary income?
- Stipend for supervising allied health professionals?
- Share AHP-generated revenue with physicians in practice

32

Rolling compensation models

- Numerous RVU models structured in a way that reduces or eliminates base salary after first or second year, with compensation based solely on productivity
- Rolling quarterly reconciliation with subsequent three month "salary" paid at whatever previous quarter's production warrants

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33

Tiered compensation models

- Physician receives a lower dollar amount per RVU up to a specified threshold level, but a higher Compensation per Work RVU thereafter
- Several health systems have implemented a system with three or more tiers: as practice becomes more profitable, physician receives greater percentage of margin

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34

Failures in compensation schemes

- Covenant Medical Center in Iowa allegedly violated Stark laws by paying commercially unreasonable compensation to physicians in exchange for referrals
- Physicians were among highest paid hospital-employed physicians in entire country
- Hospital settled for $4.5 million

35

Benefits of RVU for payment

- Benefits of using RVU compensation model: ability of physicians to focus on patient care as opposed to spending an extensive amount of time managing business of medicine
- Can help recruiting and retaining physicians; value diminished if formula being used is overly complex and confusing, not transparent

36

Risks of RVU for payment

- Plethora of RVU formulas being used in employment contracts for determining physician compensation
- Frequently, formula used in calculating physician compensation and/or bonuses complicated, confusing, incoherent
- Many physicians, employers unsure how to structure RVU-based compensation

37

RVU use in the future

- Accountable Care Organizations (ACOs) can realize income through shared savings
- Implementing an RVU compensation formula *can* act as bridge from fee-for-service to value based models by allowing doctors to treat all patients (regardless of insurance status) without concern for insurance status or acuity

38

RVU use in the future

- Complementing an RVU incentive model with qualitative measures such as patient satisfaction and outcome metrics can also help bridge gap while transitioning toward more "evidence-based" medicine
- Anticipated "value based modifier" for Medicare patients coming in 2015

39

Summary

- Any compensation structure should pay physician fairly and be economically sustainable for employer over time, or practice will not survive
- Turnover costly for health systems, physicians, and for patients in community
- RVUs if structured correctly, motivate physicians to do well for themselves and patients
- If structured poorly, can penalize physicians to the benefit of health systems

40