

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## Health Care Financing Administration

[BPD-828-FN]

RIN 0938-AH03

### Medicare Program; Physician Fee Schedule Update For Calendar Year 1996 and Physician Volume Performance Standard Rates of Increase for Federal Fiscal Year 1996

**AGENCY:** Health Care Financing Administration (HCFA), HHS.

**ACTION:** Final notice.

**SUMMARY:** This final notice announces the calendar year 1996 updates to the Medicare physician fee schedule and the Federal fiscal year 1996 volume performance standard rates of increase for expenditures for physicians' services under the Medicare Supplementary Medical Insurance (Part B) program as required by sections 1848 (d) and (f), respectively, of the Social Security Act. The fee schedule update for calendar year 1996 is 3.8 percent for surgical services, -2.3 percent for primary care services, and 0.4 percent for other nonsurgical services. While it does not affect payment for any particular service, there was a 0.8 percent increase in the update for all physicians' services for 1996. The physician volume performance standard rates of increase for Federal fiscal year 1996 are -0.5 percent for surgical services, 9.3 percent for primary care services, 0.6 percent for other nonsurgical services, and a weighted average of 1.8 percent for all physicians' services.

In our July 26, 1995 proposed rule concerning revisions to payment policies under the Medicare physician fee schedule for calendar year 1996, we proposed using category-specific volume and intensity growth allowances in calculating the default Medicare Volume Performance Standard (MVPS). We received 20 comments on this proposal. Since this proposal is related to the MVPS and this notice deals with MVPS issues, we are responding to those comments in this notice instead of in the final rule for the fee schedule entitled "Medicare Program; Revisions to Payment Policies and Adjustments to the Relative Value Units Under the Physician Fee Schedule for Calendar Year 1996" published elsewhere in this Federal Register issue.

**EFFECTIVE DATE:** The volume performance standard rates of increase are effective on October 1, 1995. The Medicare physician fee schedule update is effective on January 1, 1996.

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**FOR FURTHER INFORMATION CONTACT:**  
*Ordering information:* See **ADDRESSES** section.

*Content information:* Contact either Don Thompson, (410) 786-4586, or Rick Ensor, (410) 786-5617.

#### SUPPLEMENTARY INFORMATION:

##### I. Background and Summary of Legislation

##### A. The Physician Fee Schedule Update and Medicare Volume Performance Standard

Section 1848 of the Social Security Act (the Act) requires the Secretary of Health and Human Services to—

- Establish annual updates to payment rates under the Medicare physician fee schedule, and
- Establish volume performance standard rates of increase to help control the rate of growth in expenditures for physicians' services.

Under section 1848(b)(1) of the Act, payment for physicians' services, except for anesthesia services, equals the product of the relative value units (RVUs) for a service, a geographic adjustment factor, and a conversion factor. Anesthesia services are paid

under a different relative value system, and payment is equal to the sum of the base and time units for the service multiplied by a geographically adjusted anesthesia-specific conversion factor. The RVUs and anesthesia base units reflect the relative amount of resources used by physicians to furnish the service, and the geographic adjustment factor measures practice cost differences between areas. The geographically adjusted RVUs are multiplied by a conversion factor to obtain the physician fee schedule payment amounts. The 1996 conversion factors are \$15.28 for anesthesia services, \$40.7986 for surgical services, \$35.4173 for primary care services, and \$34.6293 for other nonsurgical services.

##### 1. Physician Fee Schedule Update

Section 1848(d) of the Act requires the Secretary to provide the Congress with her recommendation of a physician fee schedule update by April 15 of each year. Under section 1848(d)(2)(A) of the Act, the Secretary is required to consider a number of factors, including the following:

- The percentage change in the Medicare economic index (MEI), a measure of the change in the cost of operating a medical practice.
- The growth in actual expenditures for physicians' services in the prior fiscal year.
- The relationship between that growth and the volume performance standard rate of increase.
- Changes in the volume and intensity of services.
- Access to services.
- Other factors that may contribute to changes in the volume and intensity of services or access to services.

If the Congress does not set the update, section 1848(d)(3) of the Act establishes the process for updating the physician fee schedule. Under section 1848(d)(3), unless otherwise specified by the Congress, the fee schedule update for a category of physicians' services equals the appropriate update index (the MEI) adjusted by the number of percentage points by which expenditure growth exceeded or was less than the volume performance standard rates of increase for the second preceding year for that category of physicians' services. That is, the calendar year 1996 update would equal the 1996 MEI increased or decreased by the difference between the rate of increase in expenditures for fiscal year 1994 and the volume performance standard for that year. However, section 1848(d)(3)(B) of the Act limits the maximum downward adjustment for 1995 and any succeeding year to 5.0 percentage points. There is