

The specific calculations to determine the volume performance standard rates of increase for physicians' services for fiscal year 1996 are explained in section IV.B. of this notice.

IV. Detail on Calculation of the Calendar Year 1996 Physician Fee Schedule Update and the Fiscal Year 1996 Physician Volume Performance Standard Rates of Increase

A. Physician Fee Schedule Update

1. The Percentage Change in the Medicare Economic Index

The MEI measures the weighted-average annual price change for various inputs needed to produce physicians' services. The MEI is a fixed-weight input price index, with an adjustment for the change in economy-wide labor productivity. This index, which has

1989 base weights, is comprised of two broad categories: (1) Physician's own time, and (2) physician's practice expense.

The physician's own time component represents the net income portion of business receipts and primarily reflects the input of the physician's own time into the production of physicians' services in physicians' offices. This category consists of two subcomponents, wages and salaries and fringe benefits. These components are adjusted by the 10-year moving average percent change in output per man-hour for the nonfarm business sector to eliminate double counting for productivity growth in physicians' offices and the general economy.

The physician's practice expense category represents the rate of price growth in nonphysician inputs to the

production of services in physicians' offices. This category consists of wages and salaries and fringe benefits for nonphysician staff and other nonlabor inputs. Like physician's own time, the nonphysician staff categories are adjusted for productivity using the 10-year moving average percent change in output per man-hour for the nonfarm business sector. The physician's practice expense component also includes the following categories of nonlabor inputs: office expense, medical materials and supplies, professional liability insurance, medical equipment, professional car, and other expense. The table below presents a listing of the MEI cost categories with associated weights and percent changes for price proxies for the 1996 update. The calendar year 1996 MEI is 2.0 percent.

INCREASE IN THE MEDICARE ECONOMIC INDEX [Update for Calendar Year 1996 ¹]

	1989 weights ²	CY 1996 percent changes
Medicare Economic Index Total	100.0	2.0
1. Physician's Own Time ^{3 4}	54.2	1.7
a. Wages and Salaries: Average hourly earnings private nonfarm, net of productivity	45.3	1.6
b. Fringe Benefits: Employment Cost Index, benefits, private nonfarm, net of productivity	8.8	2.1
2. Physician's Practice Expense ³	45.8	2.4
a. Nonphysician Employee Compensation	16.3	1.9
1. Wages and Salaries: Employment Cost Index, wages and salaries, weighted by occupation, net of productivity	13.8	1.8
2. Fringe Benefits: Employment Cost Index, fringe benefits, white collar, net of productivity	2.5	2.8
b. Office Expense: Consumer Price Index for Urban Consumers (CPI-U), housing	10.3	2.4
c. Medical Materials and Supplies: Producer Price Index (PPI), ethical drugs/PPI, surgical appliances and supplies/CPI-U, medical equipment and supplies (equally weighted)	5.2	2.8
d. Professional Liability Insurance: HCFA professional liability insurance survey ⁵	4.8	2.9
e. Medical Equipment: PPI, medical instruments and equipment	2.3	0.9
f. Other Professional Expense	6.9	3.3
1. Professional Car: CPI-U, private transportation	1.4	4.8
2. Other: CPI-U, all items less food and energy	5.5	2.9
Addendum:		
Productivity: 10-year moving average of output per man-hour, nonfarm business sector	N/A	1.2
Physician's Own Time, not productivity adjusted	54.2	2.9
Wages and salaries, not productivity adjusted	45.3	2.8
Fringe benefits, not productivity adjusted	8.8	3.3
Nonphysician Employee Compensation, not productivity adjusted	16.3	3.1
Wages and salaries, not productivity adjusted	13.8	3.0
Fringe benefits, not productivity adjusted	2.5	4.0

¹ The rates of change are for the 12-month period ending June 30, 1995, which is the period used for computing the calendar year 1996 update. The price proxy values are based upon the latest available Bureau of Labor Statistics data as of September 1995.

² The weights shown for the MEI components are the 1989 base-year weights, which may not sum to subtotals or totals because of rounding. The MEI is a fixed-weight, Laspeyres-type input price index whose category weights indicate the distribution of expenditures among the inputs to physicians' services for calendar year 1989. To determine the MEI level for a given year, the price proxy level for each component is multiplied by its 1989 weight. The sum of these products (weights multiplied by the price index levels) over all cost categories yields the composite MEI level for a given year. The annual percent change in the MEI levels is an estimate of price change over time for a fixed market basket of inputs to physicians' services.

³ The Physician's Own Time and Nonphysician Employee Compensation category price measures include an adjustment for productivity. The price measure for each category is divided by the 10-year moving average of output per man-hour in the nonfarm business sector. For example, the wages and salaries component of Physician's Own Time is calculated by dividing the rate of growth in average hourly earnings by the 10-year moving average rate of growth of output per man-hour for the nonfarm business sector. Dividing one plus the decimal form of the percent change in the average hourly earnings (1+.028=1.028) by one plus the decimal form of the percent change in the 10-year moving average of labor productivity (1+.012=1.012) equals one plus the change in average hourly earnings net of the change in output per man-hour (1.028/.012=1.016). All Physician's Own Time and Nonphysician Employee Compensation categories are adjusted in this way. Due to a higher level of precision the computer-calculated quotient may differ from the quotient calculated from rounded individual percent changes.

⁴ The average hourly earnings proxy, the Employment Cost Index proxies, as well as the CPI-U, housing and CPI-U, private transportation are published in the Current Labor Statistics Section of the Bureau of Labor Statistics' Monthly Labor Review. The remaining CPIs and PPIs in the revised index can be obtained from the Bureau of Labor Statistics' CPI Detailed Report or Producer Price Indexes.