⁵ Derived from a HCFA survey of several major insurers (the latest available historical percent change data are for calendar year 1994). This is consistent with prior computations of the professional liability insurance component of the MEI.

N/A Productivity is factored into the MEI compensation categories as an adjustment to the price variables; therefore, no explicit weight exists for productivity in the MEI.

2. Medicare Volume Performance Standard Performance Adjustment

As required by section 1848(d)(3)(B)(i) of the Act, we are increasing the update by 1.8 percentage points for surgical services and decreasing it by 4.3 percentage points for primary care and 1.6 percentage points for other nonsurgical services to reflect the percentage increase in expenditures between fiscal year 1993 and fiscal year 1994 relative to the volume performance standard rates of increase for fiscal year 1994.

Our estimate of the percentage growth in surgical services between fiscal year 1993 and fiscal year 1994 is 7.3 percent. Because the volume performance standard rate of increase for fiscal year 1994 was 9.1 percent, the rate of increase in expenditures for surgical services was less than the volume performance standard rate of increase by 1.8 percentage points. For primary care services, the rate of increase in expenditures was 14.8 percent, 4.3 percentage points greater than the volume performance standard rate of increase of 10.5 percent. For other nonsurgical services, the rate of increase in expenditures was 10.8 percent, 1.6 percentage points greater than the volume performance standard rate of increase of 9.2 percent.

B. Fiscal Year 1996 Physician Volume Performance Standard Rates of Increase

Below we explain how we determined the increases for each of the four factors used in determining the volume performance standard rates of increase for fiscal year 1996.

Factor 1—Weighted-Average Percentage Increase in Fees for Physicians' Services (Before Applying Legislative Reductions) for Months of Calendar Years 1995 and 1996 Included in Fiscal Year 1996

This factor was calculated as a weighted average of the fee increases that apply to fiscal year 1996; that is, the fee increases that apply to the last 3 months of calendar year 1995 multiplied by 25 percent plus the fee increases that apply to the first 9 months of calendar year 1996 multiplied by 75 percent. Beginning with calendar year 1992, physicians' services are updated by a physician fee schedule update factor that is based on the MEI adjusted for several statutory factors. The update factor for a category

of physicians' services for calendar year 1996 is adjusted by the number of percentage points that the rate of increase in expenditures in fiscal year 1994 compared to fiscal year 1993 was less than the volume performance standard rate of increase for the category of physicians' services in fiscal year 1994. Laboratory services are updated by increases in the Consumer Price Index for Urban Consumers (CPI–U).

Table 2 shows the updates that were used to determine the weighted-average percentage increase in physician fees.

TABLE 2.—MEDICARE ECONOMIC INDEX AND CONSUMER PRICE INDEX FOR URBAN CONSUMERS FOR CALENDAR YEARS 1995 AND 1996

	1995	1996
MEI	2.1 2.8	2.0 3.2

Physicians' services make up approximately 90 percent of the total expenditures in the definition of physicians' services used for purposes of the volume performance standard rates of increase; laboratory services represent approximately 10 percent.

In addition to the annual updates and individual weights of the above services, one other element has an effect on the rate of increase in physician fees. Section 1842(h)(1) of the Act provides for "participating physicians" who agree to accept Medicare payment as payment in full and to bill Medicare beneficiaries only for the 20 percent coinsurance amount and any unmet portion of the \$100 annual deductible amount. Sections 1842(b)(4)(A)(iv) and 1848(a)(3) of the Act provide that nonparticipating physicians are paid 5 percent less for their Medicare services than participating physicians. The nonparticipating physicians are given an opportunity at the end of each calendar year to enroll as participating physicians for the next calendar year. Participation rates have increased each year, and we assume that this trend will continue. The increase in the number of participating physicians and the fact that they are paid at a rate higher than nonparticipating physicians also add to the rate of increase in the weightedaverage percentage increase in physician fees.

Åfter taking into account all the elements described above, we estimate that the weighted-average increase in

fees for physicians' services in fiscal year 1996 before applying the legislative changes will be 2.1 percent for surgical services, 2.1 percent for primary care services, 2.3 percent for other nonsurgical services, and a weighted average of 2.2 percent for all physicians' services.

Factor 2—The Percentage Increase in the Average Number of Part B Enrollees from Fiscal Year 1995 to Fiscal Year 1996

We estimate that average Medicare Part B enrollment in fiscal year 1996 will be 36.2 million. Decreasing that figure by the estimated enrollment in risk health maintenance organizations of 3.1 million (those enrolled in risk health maintenance organizations whose Medicare-covered medical care is paid for through the adjusted average per capita cost mechanism and is therefore outside the scope of the MVPS) results in an estimate of 33.0 million Part B enrollees in fiscal year 1996 not in risk health maintenance organizations.

The corresponding figures for 1995 are estimated to be 35.5 million total Part B enrollees and 2.4 million risk health maintenance organization enrollees, which result in an estimate of 33.1 million Part B enrollees not in risk health maintenance organizations. We estimate that there will be 0.1 million fewer Part B enrollees not in risk health maintenance organizations in fiscal year 1996 than in fiscal year 1995, which represents a -0.3 percent decrease from fiscal year 1995 to fiscal year 1996 for surgical services, primary care services, other nonsurgical services, and the average of all physicians' services.

Factor 3—Average Annual Growth in the Volume and Intensity of Physicians' Services for Fiscal Year 1991 through Fiscal Year 1995

Section 1848(f)(2)(A)(iii) of the Act requires the Secretary to estimate the average annual percentage growth in the volume and intensity of physicians' services or of the category of physicians' services for fiscal year 1991 through fiscal year 1995. This estimate must be based upon information contained in the most recent annual report issued by the Board of Trustees of the Supplementary Medical Insurance Trust Fund (Trustees' Report).

The data on the percentage increase in the volume and intensity of services in the Trustees' Report are based on historical trends in increases in allowed