**AMA Analysis of Proposed Changes to Geographic Indexes**

The proposed rule that the Centers for Medicare and Medicaid Services (CMS) published in the *Federal Register* on July 13, 2010, makes a number of changes to the geographic practice cost indexes (GPCIs) in the Medicare physician payment schedule. Some of these changes can be attributed to the Affordable Care Act (ACA), some involve use of more recent data, and others are being driven by revisions that CMS is proposing to make in the Medicare Economic Index (MEI). The proposed MEI changes involve changing the cost inputs that are recognized in the MEI as well as the weight assigned to each input. When these MEI changes carry through to the geographic adjustments, they change the relative weight assigned to each of the three GPCIs for work, practice expense and professional liability insurance, and they also change the components included in the practice expense GPCI.

**Implementation of ACA GPCI Provisions**

The ACA extends the floor of 1.0 on the work GPCI only until the end of 2010, so the 2011 proposed GPCIs do not incorporate this floor. The ACA also requires that the practice expense GPCIs only reflect one-half of the geographic differences in employee wages and office rents for the years 2010 and 2011. Recognizing one-half of geographic differences boosts payments in localities with a practice expense GPCI below 1.0. The ACA holds harmless localities that are above 1.0 and would have faced cuts in 2010 and 2011. The ACA also establishes a permanent, non-budget neutral floor of 1.0 on the practice expense GPCI for five “frontier” states.

In addition, the ACA also required CMS to evaluate certain aspects of the practice expense GPCI and implement indicated revisions in a budget neutral manner no later than January 1, 2012. Specifically, CMS is required to analyze the office expense component of the GPCI, including the extent to which types of office expenses are determined in local markets instead of national markets, the weights assigned to each of the components of the practice expense GPCI, and the feasibility of using actual data, for example, physician office rent data, in place of proxies like apartment rental data.

**Interaction between Proposed GPCI and MEI Revisions**

**Instead of waiting until the proposed payment rule for 2012, CMS has completed the ACA-required review of the practice expense GPCI and proposed to implement the indicated changes in 2011.** As a first step, CMS has proposed to rebase the MEI to 2006 using data from the Physician Practice Information (PPI) survey, which decreases the weight for the work component of the payment schedule and increases the weights for the practice expense and liability insurance cost components. When these MEI changes are applied to the GPCIs, they give the work GPCI less weight and the other two GPCIs more weight in the geographic adjustment factors for each locality.

Second, CMS proposes to disaggregate the office expense component of the MEI by creating separate categories for utilities, chemical, paper, rubber and plastics, telephone, postage, "all other labor-related" expenses, fixed capital and moveable capital. **No rationale is provided in the rule for the separation of office expenses into these categories.** When these MEI changes are applied to the practice expense GPCI, it leads to different weights being assigned to different components of the practice expense GPCI, as the ACA required for 2012. The new "fixed capital" category is viewed as the office rental expense, so the weight of 8.4% assigned to this category in the rebased MEI becomes the weight for office rent in the revised GPCI. Under the current MEI and GPCI, office rent has a weight of 12.2%.

Many of the new categories that have been separated out in the MEI office expense category are being grouped with medical equipment, materials and supplies which are treated in the GPCI as having national prices rather than local prices. As a result, another change that occurs in the translation of the MEI changes to the practice expense GPCI is that the portion of the practice expense GPCI that is the same everywhere in the country instead of varying by locality grows from 29% currently up to 42% in the proposal.

These changes in the MEI and GPCI components, their weights, and the proportion of national vs. local pricing in the GPCI heighten the 2011 impact of the ACA requirement that only one-half of the geographic differences in rent be recognized. Localities with a practice expense GPCI below 1.0 see payment increases in 2011 because only half the geographic differences in rent are recognized, and these localities see further increases because the weight assigned to rent is reduced. The ACA holds harmless localities with practice expense GPCIs above 1.0 because they would see payment cuts if only half the geographic differences in rent were recognized. They will face cuts in 2011; however, due to the reduced weight for physician office rent. CMS does not view the new weights as being subject to the ACA hold-harmless provision.

## The 6th GPCI Update

The original law establishing the Medicare payment schedule required CMS to update the GPCIs every three years. With this proposed rule, CMS is initiating its sixth regular update of the GPCIs. Among the proposed updates is the use of 2006 through 2008 Bureau of Labor Statistics (BLS) Occupational Employment Statistics data in place of the professional earnings data from the 2000 Census. As also required by law, the GPCI update is being phased in over two years, in 2011 and 2012. CMS has posted a draft report from its contractor, Acumen LLC, explaining the proposed GPCI updates at the following link:
http://www.cms.gov/PhysicianFeeSched/downloads/Draft_Geographic_Practice_Cost_Indices_Update_Report.pdf

As the Acumen report is still a draft, medical societies may comment on it, and some aspects of the report do need to be revised. For example, Table 2.3 indicates that all the new cost share weights are derived from the PPI survey but, as noted above, while the PPI survey data is being used as the basis for changes in the shares assigned to work, practice expense, and liability insurance, the PPI data are not the basis for the changes CMS proposes *within* the practice expense component. CMS has indicated that it is using data from the Bureau of Economic Analysis for the sub-categories of office expense, but it has not provided a link to these data.

## Impact of the Proposed GPCI Changes

The percentage changes from the 2010 to 2011 geographic adjustment factors are displayed in Addendum D of the proposed rule, which is on page 40643. The 2010 work, practice expense

and liability insurance GPCIs and the 2011 and 2012 proposed GPCIs are shown in Addendum E, which starts on page 40646. Because there are so many different changes to the GPCIs occurring at one time, it is hard to differentiate their various effects on locality payments. The proposed rule does not separately display the effects of the expiration of the work GPCI floor, the ACA provision recognizing half the practice expense GPCI in 2010 and 2011, the change to BLS and other updated data sources, or the new office expense components and their weights.

For 2011, the AMA estimates that for most localities, if the effects of the work GPCI floor expiring and the provision recognizing half the practice expense GPCI were removed, the impacts of the other proposed changes to the GPCIs would be very modest, with percentage changes in the work and practice expense GPCIs between +1% and -1%. **A few urban localities with relatively high practice expense GPCIs, however, could face significant reductions.** For example, the practice expense GPCIs for metropolitan Boston, Los Angeles, New Orleans, New York and San Francisco could be reduced by 3% to 6% in 2011 if the proposed GPCI changes are finalized. Additional reductions would occur in 2012, as that would be the second year of the transition.

CMS has now posted supplemental GPCI information to Addenda D and E to the CMS web site at:
http://www.cms.gov/PhysicianFeeSched/downloads/Supplemental-CY2011-Proposed-Rule.zip

The information includes the proposed rule Addenda D and E in Excel, the percentage changes to the geographic adjustment factors for 2012 (in addition to the percentage changes for 2011 as already displayed in the proposed rule Addendum D), and the 2010, 2011 and 2012 practice expense, work, and liability insurance GPCIs that exclude the provisions of the ACA for those years.