

The Medicare Economic Index: What Is It and What Is Its Role In Updating Medicare Physician Payments

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The Medicare Physician Fee Schedule

- Consists of a complete listing of (maximum) fees used by Medicare to pay doctors or other providers
- Is updated annually based on the Sustainable Growth Rate Formula (SGR)

The SGR Formula (and where the MEI fits in)

- Section 1848(f)(2) of the Social Security Act specifies the formula for establishing yearly SGR targets for physicians' services under Medicare. The use of SGR targets is intended to control the growth in aggregate Medicare expenditures for physicians' services.
- Four components determine the target spending level for the update year:
 - Medicare Fee-for-Service Enrollment (Use Measure)
 - Changes in Real Per Capita GDP (Use & Intensity Measure)
 - Weighted Average Change in the **MEI** and the Clinical Laboratory Fee Schedule Update (Price Measure)
 - Applicable Changes in Law

Where We Need Your Help...

- All technical aspects of the MEI including:
 - The selection of appropriate cost categories
 - The calculation of accurate cost weights
 - The assignment of relevant price proxies
 - The application of an appropriate measure of productivity
- Anything else related to Medicare physician payments, including issues related to the SGR, are matters of policy and not within the scope of our panel.

The Medicare Economic Index (MEI): An Overview

- Required by section 1842(b)(3) of the Act, which states that “prevailing charge levels beginning after June 30, 1973 may not exceed the level from the previous year except to the extent that the Secretary finds, on the basis ***of appropriate economic index data***, that such higher level is justified by year-to-year economic changes.”
- MEI reflects the ***weighted-average annual price change for various inputs*** needed to furnish physicians' services.
- MEI is a ***fixed-weight input price index, with an adjustment for productivity***. The productivity adjustment acts to convert the input price index to be more analogous to an output price index, similar to the CPI.


When Nixon and Ford Were in the Oval Office!

- The Medicare Economic Index (MEI) was required by § 224 of the 1972 amendments to the Social Security Act
- The MEI was first published on June 16, 1975 and became effective for services furnished beginning July 1, 1975
- We are fortunate to be joined by one of the original architects...

Many Administrations Later...

- 1975 - MEI first published on June 16, 1975 (1971=100) (updated customary charge levels annually) (Zach Dyckman, Dyckman & Associates)
- 1981 – Rebasing and revision of MEI (1977=100)
- 1993 - Comprehensive rebasing and revision to the MEI (1989=100) (MVPS instituted in 1992 replacing customary charge reimbursement)
- 1999 - Rebasing and revision of the MEI (1996=100) (In 1999 the SGR replaced the MVPS)
- 2003 - Updated productivity adjustment from a labor productivity adjustment (applied to the labor components) to a MFP adjustment (applied to all components)
- 2004 - Rebasing and revision of the MEI (2000=100)
- 2011 - Rebasing and revision of the MEI (2006=100)
 - Data Sources (Kurt Gillis, American Medical Association)
 - Cost Categories
 - Cost Weights
 - Price Proxies
 - Productivity Adjustment

MEI Cost Categories

- Physician Compensation
 - Wages & Salaries
 - Benefits

Including employed physicians
- Practice Expenses
 - Non-physician compensation
 - Office expenses
 - Professional Liability Insurance
 - Medical Equipment, Supplies, & Materials
 - Other Professional Expenses
- No Rx or Separately-Billable Supplies (CY11)

2006-Based Medicare Economic Index – Cost Categories

Cost Categories	Price Proxies	Cost Weights 2006=100
2006-based Medicare Economic index		100.000
Physician Compensation		48.266
Wages and Salaries	AHE Total Nonfarm Private for Production & Nonsupervisory Employees	43.880
Benefits	ECI - Benefits Total Nonfarm Private	4.386
Practice Expenses		51.734
Non-physician Compensation		19.153
Non-physician Wages		13.752
Professional & Technical Wages	ECI - Wages & Salaries: Private Professional & Technical	6.006
Managerial Wages	ECI - Wages & Salaries: Private Managerial	1.446
Clerical Wages	ECI - Wages & Salaries: Private Clerical	4.466
Services Wages	ECI - Wages & Salaries: Private Service	1.834
Non-physician Benefits	ECI - Benefits: Private Blend	5.401
Other Practice Expenses		26.308
Office Expenses		20.035
Utilities	CPI U for Fuel & Utilities	1.266
Chemicals	PPI for Other Basic Organic Chemical Manufacturing	0.723
Paper	PPI for Converted Paper	0.657
Rubber & Plastics	PPI for Rubber and Plastics	0.598
Telephone	CPI U for Telephone Services	1.501
Postage	CPI U for Postage	0.898
All Other Services	ECI Compensation: Services Occupations	3.582
All Other Products	CPI U for All Items Less Food and Energy	0.500
Fixed Capital	CPI U for Owner's Equivalent Rent	8.957
Moveable Capital	PPI for Machinery and Equipment	1.353
Professional Liability Insurance	CMS - Professional Liability Physician Premiums	4.295
Medical Equipment	PPI Medical Instruments & Equipment	1.978
Medical Materials and Supplies	PPI Surgical Appliances and Supplies/ CPI U Medical Supplies	1.760
Other Professional Expenses	CPI U for All Items Less Food and Energy	4.513

Cost Category Questions for the Panel

- Do the cost categories in the MEI reflect 21st-century delivery of physician care?
- Are there any missing categories?

MEI Cost Category Weights

- Using data primarily from the PPIS, cost weights are estimated
- Other sources allow for further disaggregation:
 - 2002 Bureau of Economic Analysis (BEA) Benchmark Input-Output table (I/O)
 - 2006 Bureau of the Census Current Population Survey (CPS)
 - 2006 Bureau of Labor Statistics (BLS) Occupational Employment Survey (OES)
 - 2006 Employment Cost for Employee Compensation Survey (ECEC)
 - 2006 Internal Revenue Service (IRS) Statistics of Income (SOI) data

2006-Based Medicare Economic Index - Weights

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Cost Weight Questions for the Panel

- Are the weights associated with the cost categories reasonable?
- Should the weights remained fixed?
- Are there other data sources that could be used that would be an improvement over those used for the 2006-based index?
- Are there concerns with using self-employed physician data?
- How regularly should the MEI be rebased?

MEI Price Proxies

- Producer Price Indices (PPIs):
 - Measure price changes at the intermediate or final stage of production
 - They are the preferred proxies for physician purchases as these prices appropriately reflect the product's first commercial transaction
- Consumer Price Indices (CPIs):
 - Measure changes in the prices of final goods and services bought by consumers
 - Used if there are no appropriate PPIs, or if the expenditure category contains purchases made at the final point of sale
- Average Hourly Earnings (AHEs):
 - AHEs are available for production and nonsupervisory workers for specific industries, as well as for the nonfarm business economy
 - Calculated by dividing gross payrolls for wages & salaries by total hours
 - The series reflects shifts in employment mix and, thus, is representative of actual changes in hourly earnings for industries and for the nonfarm business economy

MEI Price Proxies Continued...

- Employment Cost Indexes (ECIs) for Wages & Salaries:
 - These ECIs measure the rate of change in employee wage rates per hour worked
 - They are not affected by employment shifts among the aggregated industries or occupations and, thus, measure only the pure rate of change in wages by industry/occupation
- ECIs for Employee Benefits:
 - These ECIs measure the rate of change in employer costs of employee benefits, such as the employer's share of Social Security taxes, pension and other retirement plans, insurance benefits (life, health, disability, and accident), and paid leave
 - Like ECIs for wages & salaries, the ECIs for employee benefits are not affected by employment shifts among the aggregated industries or occupations

2006-Based Medicare Economic Index – Price Proxies

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Price Proxy Questions for the Panel

- Are the price proxies used in the index appropriate? Are there other proxies that should be considered?
- Are the proxies used for physicians' earnings reasonable and consistent with Congressional intent?
- Does the method used for determining PLI price changes seem reasonable? Are there concerns only commercial data is used for determining price changes (assumes rate of price change for PLI is similar for commercial and self-insured)?

MEI Productivity Adjustment

- The index has included a productivity adjustment since its inception
- Removes double-counting of productivity
 - That which is reflected in price proxies and that which the individual physician achieves in producing services
- Always used an economy-wide measure
 - Consistent with use of economy-wide wage measure
 - In 2003, changed from labor measure (applied to labor categories) to multi-factor measure (applied to all categories)
 - Most recent evaluation found that productivity growth amongst physicians approximated that of the rest of the economy (Fisher, 2007)

Productivity Adjustment Questions for the Panel

- Is it reasonable to continue to expect physicians to achieve approximately full economy-wide MFP, and thus reasonable to continue to adjust the index accordingly?
- Are there other measures that should be considered?

MEI Update Factors & CPI: 2003-2012

	Medicare Economic Index Update Factors	Consumer Price Index (All Urban Consumers)
CY 03	3	2.3
CY 04	2.9	2.7
CY 05	3.1	3.4
CY 06	2.8	3.2
CY 07	2.1	2.9
CY 08	1.8	3.8
CY 09	1.6	-0.4
CY 10	1.2	1.6
CY 11	0.4	3.2
CY 12	0.6	

Today's Focus...

- *The selection of appropriate cost categories*
- *The calculation of accurate cost weights*

We will closely examine the remaining components at our subsequent meeting(s)

- The assignment of relevant price proxies
- The application of an appropriate measure of productivity