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What is an RVU and why does it matter?

In gaining an understanding of work relative value units (wRVUs), it is important to understand the function of wRVUs in qualifying physician productivity and in turn physician compensation.

Medicare establishes the base reimbursement levels for CPT® codes. Each CPT® code has a Relative Value Unit (RVU) assigned to it; the RVU is multiplied by a geographical adjustment (GPCI) and the conversion factor (CF). The total creates the compensation level for a particular service.

RVUs

There are three key factors that go into the determination of RVUs: Physician work; Practice expenses; Malpractice.

1. Physician work is the most important factor, accounting for approximately fifty two percent (52%) of the wRVU value. This factor encompasses the services rendered to the patient by the physician, including time spent in active treatment, evaluation of test results, and any other effort expended by the physician to create an effective treatment plan. A code with a higher RVU work takes more time, more intensity or some combination of these two.
2. Practice expenses account for forty four percent (44%) of the RVU value and include the maintenance of equipment and facilities, as well as the costs for staff necessary for the rendering of quality medical services. The practice expense RVU is calculated using a methodology whereby the direct costs of providing a service are calculated (staff time, supplies and equipment time) and indirect costs are allocated. Indirect costs are those that cannot be directly attributed to the provision of a specific service, but to the provisions of services generally, such as having a waiting room or a billing service. Direct costs are those that can be assigned to a specific service; such as the actual supplies, equipment and staff time used for a given CPT code. Frequently, a CPT® code will be assigned a practice expense RVU for a facility setting, such as a hospital, and a different practice expense RVU for a nonfacility setting, such as a freestanding center, with the latter receiving a higher RVU. This is because free standing centers, such as ambulatory surgical centers, have higher practice expenses compared to hospitals, as hospitals have the benefit of higher volume and in turn a greater allocation of costs across departments.
3. Malpractice insurance premiums are the least substantial factor, accounting for only four percent (4%) of the RVU value. This factor is measured by the common cost of malpractice insurance for a provider engaged in the specialty or subspecialty.

Geographic Practice Cost Indices (GPCI)

GPCI accounts for the geographic differences in the cost of practice across the country.¹ Medicare calculates an individual GPCI for each of the RVU components -- physician work, practice expense and malpractice. Medicare recognizes that it costs more to practice in Manhattan, for example, than in Memphis, and it adjusts payments accordingly. If, for instance, you are practicing in Manhattan, Medicare's Geographic Practice Cost Index assigns a work GPCI value of 1.065, a practice expense GPCI value of 1.300 and a malpractice expense GPCI value of 1.480. Since the RVUs for each category are multiplied by their respective GPCI value (as shown in the equation below), the fact that these three GPCI values are greater than 1.00 increases both the RVU values and the resulting reimbursement. However, if you practice in Memphis you could have a work GPCI value of 1.00, a practice expense GPCI value of 0.908 and a malpractice expense GPCI value of 0.429. Those last two GPCI values are less than 1.00 and will therefore reduce their corresponding RVU values, and hence your reimbursement.

Conversion Factor

As noted above, the wRVU is then multiplied by the Conversion Factor (CF), which converts the RVU into an actual dollar amount. The dollar multiplier is updated on an annual basis according to a formula specified by statute.

The general formula for calculating Medicare payment amounts for 2013 is expressed as:

$$\begin{array}{r} \text{Work RVU} \times \text{Work (GPCI)} \\ + \text{Practice Expense (PE) RVU} \times \text{PE GPCI} \\ + \text{Malpractice (PLI) RVU} \times \text{PLI GPCI} \\ \hline = \text{Total RVU} \\ \times \text{CY 2013 Conversion Factor of } \$34.023 \\ \hline = \text{Medicare Payment} \end{array}$$

If you are seeking assistance with a wRVU related matter, please do not hesitate to contact us. We can be reached directly by phone at 202.572.1000 or email at info@hollomanlawgroup.com.

¹ GPCIs are reviewed every three years.