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APA Practice Organization

Information Alert

Date: November 24, 2009

To: SPTA and Division Federal Advocacy Coordinators
APAGS Coordinators

From: Marilyn Richmond, J.D., Assistant Executive Director for Government Relations
American Psychological Association Practice Organization

Cc: Katherine Nordal, Ph.D., Executive Director for Professional Practice
SPTA Executive Directors
SPTA Directors of Professional Affairs
CAPP

Re: **2010 Medicare Payment Changes: Questions and Answers**

The Centers for Medicare and Medicaid Services (CMS) recently released its final rule on the 2010 fee schedule. The rule includes changes to Medicare payments for the practice expense portion of all covered services, including those commonly billed by psychologists.

Based on the final rule, Medicare payments for psychological services are scheduled to be reduced an average of 2 percent per year for the four-year period beginning January 1, 2010 and lasting through 2013.

Why are practice expense values changing?

Practice expense relative values are the portion of the Medicare fee schedule that recognizes the direct and indirect costs of providing services -- including rent, utilities, supplies, equipment and staff.

CMS began utilizing resource-based practice expense relative value units in the Medicare fee schedule in 1998. In 2005, the agency revised its methodology for calculating practice expense values, an action that stemmed in part from requirements under the Balanced Budget Refinement Act of 1999 and was designed to make practice expense values more specific to the service provided. The effects of that change have been phased in over the past three years with the transition scheduled to conclude with the 2010 fee schedule. Under the 2005 methodology, practice expense values were reduced by approximately 2 percent each year from 2006 to 2009.

Amid concerns that CMS was using outdated information, a multi-specialty survey was launched in 2007-2008 to obtain current data about the *indirect* costs of providing services. Prior to this survey, there was no baseline indirect practice expense data for a number of specialties, including psychology. Since 1998,

psychologists' overhead expenses per hour had been linked to those reported by psychiatrists. The recent survey provides more specific indirect cost data for psychology and the other specialties.

CMS will now make payment determinations based on survey data that more accurately reflect the indirect costs associated with practice expense. For psychology, the survey data indicate that indirect practice expenses are lower. See the Q and A below about the involvement of the American Psychological Association (APA) in this process for further information.

Who is affected by the changes?

All providers of Medicare services will be affected by the changes. Beyond psychology, other specialties also will experience significant reductions in practice expense – and, therefore, in their Medicare payments. For example, practice expense values for cardiologists are cut by 10 percent, while radiologists will lose 14 percent and nuclear medicine will drop 15 percent.

What does the new rule mean for me and what can I expect in 2010?

CMS will begin to implement the changes to practice expense values for services provided on or after January 1, 2010. While the rule proposed by CMS last summer planned to reduce Medicare payments for psychological services by an average of 7 percent, the final rule will phase in reductions over four years -- resulting in a lesser immediate impact of an average of 2 percent for services in 2010. Medicare payments are expected to be reduced by 2 percent on average in 2011, 2012 and 2013 as well -- resulting in a total reduction of 8 percent when fully phased in. The average impact on psychological services increased from 7 to 8 percent because CMS adjusted its formula so that indirect costs represent a higher proportion of the final payment. Further, to maintain budget neutrality as required for Medicare, the higher reduction in payment for psychological services resulted from other services having increases in practice expenses.

Importantly, the changes will not equally affect all services. The chart below projects payment changes for the most commonly billed psychological services.

Average 2010 fees* for the Most Commonly Billed Services

CPT Code	Descriptor	2009 Average Fee	2010 Average Fee	% Change 2010 v. 2009
90801	Psych. diag. intvw.	\$152.92	\$153.64	0.47%
90806**	45-50 min. outpt. psychtx	\$ 89.08	\$88.00	-1.21%
90818	45-50 mins. inpt. psychtx	\$ 85.84	\$86.56	0.84%
96101	Psych testing by psych	\$ 84.40	\$82.95	-1.71%
96102	Psych testing by tech	\$ 51.21	\$53.02	3.53%
96103	Psych testing by comp.	\$ 46.17	\$49.77	7.80%
96118	Neuropsych testing by psych	\$108.20	\$100.63	-7.00%
96119	Neuropsych testing by tech	\$ 74.30	\$67.81	-8.74%
96120	Neuropsych testing by comp.	\$ 68.52	\$72.85	6.33%
96150	Health/Beh. assmt.	\$ 22.72	\$22.36	-1.58%
96152	Health/Beh. interv.	\$ 20.92	\$20.56	-1.73%

* 2010 fees are based on the 2009 conversion factor and do not reflect the projected SGR cut.

** The 5% restoration for psychotherapy services is not included in these calculations.

How are the changes calculated?

Practice expense values are expected to change for all services provided by psychologists. Not all psychological services will see the same rate of change in their practice expense values because of the way the values are calculated. The practice expense value for a code is based on multiple factors used to calculate both the direct and indirect costs of the service. Factors included in the formula used by CMS are:

Direct Costs

- Supplies, equipment, clinical staff time/cost;
- Utilization rate for each service plus the sites-of-service (in-office or in a facility);
- Current pool of practice expense values allocated to direct costs for all services in the fee schedule;
- Conversion factor; and
- Budget neutrality factor.

Indirect Costs

- Survey data of rent, utilities, administrative staff and numbers of hours per year that the practice is open;
- Current pool of practice expense values allocated to indirect costs for all services in the fee schedule;
- Conversion factor; and
- Budget neutrality adjustment.

The direct and indirect costs are calculated separately and then blended into the final practice expense value. In most cases, the practice expense values account for approximately 30 percent of the total payment for psychological services.

The Medicare payment formula consists of three types of relative value units (RVUs) and the conversion factor that translates those units into a dollar amount. The average Medicare fee is derived by adding together each of the relative values – work, practice expense, and malpractice expense – and then multiplying that sum by the conversion factor. A geographic price adjustment may also be made to reflect the added costs of providing services in some areas.

How was the APA involved in the survey process?

Following the implementation of the 2005 revised methodology that resulted in annual reductions in practice expense values from 2006 to 2009, the American Medical Association, the APA and fifty other physician and non-physician organizations were concerned that CMS was using outdated information that was resulting in lower practice expense values. Together the organizations sought an independent, multi-specialty survey to obtain current data about the *indirect* costs of providing services, and the APA arranged for psychologists to participate in the survey.

Independent research firm DMR Kynetec administered the surveys and The Lewin Group analyzed the non-physician survey data, which was then sent to CMS for use in the calculation of practice expense values. CMS projected changes to practice expense based on the survey data when it issued the proposed rule on the 2010 fee schedule on July 13.

The APA was greatly concerned that the proposed rule from CMS projected a 7 percent cut on average for services provided by psychologists and immediately sought the survey data to examine for flaws in its administration, approach and findings. Because the APA and other specialty societies kept pressing for the data, AMA finally released important details about the survey on September 8, followed by additional information including the data specific to psychology on September 29.

The APA utilized the services of its actuary to review the practice expense data obtained in the survey. After confirming the validity of the data, our actuary noted some possible explanations for why the results indicated that psychologists had lower indirect practice expenses. Psychologists tend to have small practices with few administrative and clinical staff. Also, in response to the economic downturn over the past few years, psychologists likely have improved their productivity and/or reduced spending for items such as technology and office supplies.

If we had determined that an element of the survey was flawed, we would have exhausted every option to persuade and/or force CMS to revisit the changes.

Based on the this survey data, CMS promulgated the final rule on October 30, projecting a phased-in 8 percent cut through 2013 (2 percent per year beginning in 2010) on average for services provided by psychologists.

Why are certain services, such as neuropsychological testing, hit harder than others?

Neuropsychological testing is unique because of the supplies and equipment that are used to provide these assessments. Due to the costs for supplies and equipment, the practice expense values for neuropsychological testing services account for a larger percentage of the total fee than they do for psychotherapy or psychological testing. As a result, reductions in the practice expense values for neuropsychological testing -- including changes in indirect costs such as rent, utilities and administrative staff -- have a greater impact on the final payment than do practice expense reductions for other psychological services.

One additional factor reflected in these reductions is that the percentage of direct and indirect costs in the total payment is changing. Currently, direct costs represent 63 percent of the total practice expense relative value, while indirect costs represent 37 percent. Effective January 1, 2010, the direct costs will represent just 51 percent of the total value, while the indirect costs will rise to 49 percent. CMS is making this change having concluded that the data from the multi-specialty survey indicate that direct costs make up a smaller percentage of the total practice expense costs for almost every single specialty surveyed.

In summary, neuropsychological testing is harder hit because:

- (1) The indirect practice expense costs applied to all of psychology will be lower for 2010;
- (2) The lower indirect costs will make up a *larger* percentage of the total payment; and
- (3) Direct costs, which are higher for neuropsychological testing than other psychological services, now represent a *smaller* portion of the total payment.

Services for psychological and neuropsychological testing by a computer will have their practice expense values raised. These changes are due in part to the new data about the licensing fee costs for these services that the APA provided to CMS in late 2007.

What are the APA and the APA Practice Organization doing to advocate for increased Medicare reimbursement for psychologists, and what other Medicare changes could occur in 2010?

Seeking appropriate reimbursement levels for psychological services remains a top advocacy priority of the APA Practice Organization (APAPO). While the APA's options are limited in response to the new rule on practice expense values, we continue to do all we can to influence those aspects of the reimbursement formula upon which we can have the maximum impact.

The APAPO is actively lobbying Congress to extend the restoration we won in 2008 providing an extra 5 percent for psychotherapy services for an additional two years to 2012. The restoration extender was

included in the recently House-passed Affordable Health Care for America Act (H.R. 3962), as well as the Senate Finance Committee's America's Healthy Future Act. The APAPO continues to work to ensure the provision is included in the Senate's health care reform bill and the final bill that ultimately emerges from the conference committee.

Final payment amounts for 2010 will not be known until Congress decides if and how to address the Sustainable Growth Rate (SGR) cut currently projected by CMS to reduce all payments by 21.2 percent. Congress is expected to prevent the SGR cuts through legislation later this fall, and the APAPO is working with other providers to ensure passage of this critical measure.

In addition, coinsurance parity in Medicare will be phased in starting in 2010 when Medicare's payment rises to 55 percent and the beneficiary's portion drops to 45 percent. Full parity -- with 80 percent paid directly by Medicare, just as for physical health services -- will take effect in 2014.