



Healthcare Consulting | Valuation

2021 Physician Fee Schedule Conversion Factor Update

Legislative action provides relief for healthcare providers

The Consolidated Appropriations Act, 2021, which became law on December 27, 2020, includes provisions that mitigate the 10.2% reduction in the conversion factor included in the CMS CY 2021 Physician Fee Schedule (PFS) Final Rule released on December 1. The law exempts the PFS from budget neutrality requirements for 2021. The two key provisions impacting the conversion factor are:

1. A 3.75% adjustment to fee schedules for services rendered during calendar year 2021, and
2. A moratorium on payment for HCPCS Code G2211, which was a new add-on code in the 2021 PFS for complexity that was intended to be billed along with certain office/outpatient evaluation and management (E&M) codes, until 2024.

Using the additional funding created by the 3.75% adjustment and the cost savings resulting from the moratorium on payment for HCPCS Code G2211, **CMS updated the conversion factor for 2021 to \$34.8931**. While this amount reflects a reduction of 3.3% from the 2020 conversion factor, it is a 7.7% increase from the rate of \$32.41 reflected in the Final Rule published on December 1. Additionally, the suspension on Medicare sequestration was extended through March 31, 2021.

From a high-level perspective, we believe the impact of the change in the conversion factor will result in overall increases in reimbursement for primary care physicians, given the significant increases in Work RVUs associated with office E&M codes which will more than offset the decreased reimbursement rate. For office-based specialists (e.g., oncology, endocrinology, cardiology, orthopedic surgery, GI), we expect a varied impact depending on service mix and payer mix but anticipate that wRVUs are likely to be neutral or increased. For hospital-based specialists (radiology, pathology, anesthesiology, intensivists, hospitalists), we expect an overall reduction in reimbursement given that these specialties will not receive the benefit of the increase in wRVUs and therefore there will not be an offset for the reduced conversion factor.

While the adjustment to the conversion factor helps to mitigate the impact of the significant 2021 PFS changes, it does not eliminate the impact on physician compensation for high E&M users (primary care and other office-based physicians) on a productivity-based compensation model. Accordingly, we continue to advise physician practices to evaluate their physician contracts and determine if modifications are required to avoid significant compensation increases with no corresponding increase in activity.
