

to produce physicians' services. As such, the MEI attempts to be an equitable measure of price changes associated with physician time and operating expenses.

The current form of the MEI was detailed in the November 25, 1992 **Federal Register** (57 FR 55896) and was based in part on the recommendations of a Congressionally-mandated meeting of experts held in March 1987. Since that time, the structure of the MEI has remained essentially unchanged, with two exceptions. First, the MEI was rebased in 1998 (63 FR 58845), which moved the cost structure of the index from 1992 data to 1996 data. Second, the methodology for the productivity adjustment was revised in 2002 (67 FR 80019) to reflect the percentage change in the 10-year moving average of economy-wide multifactor productivity.

We are proposing to rebase and revise the MEI for the 2004 physician fee schedule update. The terms "rebasings" and "revising", while often used interchangeably, actually denote different activities. Rebasings means moving the base year for the structure of costs of an input price index, while revising means changing data sources, cost categories, or price proxies used in the input price index. As is always the case with a rebasing and revising exercise, we have attempted to use the most recently available, relevant, and appropriate information to develop the MEI cost category weights and price proxies. We detail below the updated cost weights for the MEI expense

categories, our rationale for selecting the price proxies in the MEI, and the results of the proposed rebasing and revising of the MEI.

## 2. Use of More Current Data

The MEI was last rebased and revised in 1998 for the 1999 physician fee schedule update (63 FR 58845). The current base year for the MEI is 1996, which means that the cost weights in the index reflect physicians' expenses in 1996. However, we believe it is desirable to periodically rebase and revise the index so that the expense shares and proxies reflect more current conditions. For this reason, we propose to rebase the MEI to reflect physicians' expenses in 2000. In addition, we are proposing to revise the cost categories in the MEI and to change three of the proxies we currently use to ensure that the index is appropriately reflecting price changes. We will continue to adjust the MEI for economy-wide multifactor productivity.

The expense categories in the proposed MEI were primarily derived from the 2003 AMA Physician Socioeconomic Characteristics publication (2003 Patient Care Physician Survey data), which measures physicians' earnings and overall practice expenses for 2000. The AMA data were used to determine expenditure weights for total expenses, physicians' earnings, and malpractice expenses, the only information detailed in this survey. To further disaggregate into subcategories reflecting more detailed expenses, we used data from

previous AMA surveys, the 1997 Bureau of Economic Analysis Benchmark Input-Output table (I/O), the 2003 Bureau of Labor Statistics (BLS) Employment Cost Index (ECI), and the 2002 Bureau of the Census Current Population Survey (CPS).

## 3. Rebasings and Revising Expense Categories in the MEI

### a. Developing the Weights For Use in the MEI

Developing a rebased and revised MEI requires selecting a base year and determining the number and composition of expense categories. We are proposing to rebase the MEI to CY 2000. CY 2000 was chosen as the base year for two main reasons: (1) CY 2000 was the most recent year for which data were available from the AMA, and (2) we believed that the CY 2000 data were representative of the changing distribution of physicians' earnings and practice expenses over time.

We determined the number and composition of expense categories based on the criteria used to develop the current MEI and other CMS input price index expenditure weights. These criteria are timeliness, reliability, relevance, and public availability. For more information on these criteria, see the May 9, 2002 **Federal Register** (67 FR 31444) and the detail later in this preamble. Table 5 lists the set of mutually exclusive and exhaustive cost categories that make up the proposed rebased and revised MEI.

TABLE 5.—PROPOSED REVISED MEDICARE ECONOMIC INDEX EXPENDITURE CATEGORIES, WEIGHTS, AND PRICE PROXIES

Expense category	Proposed 2000—Expense weights <sup>1 2</sup>	1996 Expense weights	Proposed price proxies
Total .....	100.000	100.000	
Physician Earnings <sup>3</sup> .....	52.466	54.460	
Wages and Salaries .....	42.730	44.197	AHE—Private.
Benefits <sup>4</sup> .....	9.735	10.263	ECI—Ben: Private.
Physician Practice Expenses .....	47.534	45.540	
Nonphysician Employee Compensation .....	18.654	16.812	
Employee Wages and Salaries .....	13.809	12.424	
Prof/Tech Wages .....	5.887	5.662	ECI—W/S: Private P&T.
Managerial Wages .....	3.333	2.410	ECI—W/S: Private Admin.
Clerical Wages .....	3.892	3.830	ECI—W/S: Private Clerical.
Services Wages .....	0.696	0.522	ECI—W/S: Private Service.
Employee Benefits <sup>4</sup> .....	4.845	4.388	ECI—Ben: Priv. White Collar.
Office Expenses .....	12.209	11.581	CPI(U)—Housing
Professional Liability Insurance .....	3.865	3.152	CMS—Prof. Liab. Phys. Premiums.
Medical Equipment .....	2.055	1.878	PPI—Medical Instruments & Equip.
Pharmaceuticals and Medical Materials and Supplies .....	4.320	4.516	
Medical Materials and Supplies .....	2.011	.....	PPI Surg. Appliances and Supplies/CPI(U) Med Supplies.
Pharmaceuticals .....	2.308	.....	PPI Ethical Prescription Preparations.
Other Professional Expenses .....	6.433	7.601	CPI—U All Items Less Food and Energy.

<sup>1</sup> Due to rounding, weights may not sum to 100.000 percent.