

² Sources: Physician Socioeconomic Statistics, 2000–2002 Edition (SMS Survey), Physician Socioeconomic Statistics, 2003 Edition (PCPS Survey), Center for Health Policy Research, American Medical Association; 2003 Employment Cost Index, U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis 1997 Benchmark Input Output Tables, and U.S. Department of Commerce, Bureau of the Census, 2002 Current Population Survey.

³ Includes employee physician payroll.

⁴ Includes paid leave.

To determine the expenditure weights for the proposed rebased and revised MEI, we used currently available and statistically valid data sources on physician earnings and practice expenses. While we consulted numerous data sources, we used five data sources to determine proposed MEI expenditure weights: (1) The 2003 AMA Physician Socioeconomic Statistics (2000 survey data) for self-employed physicians, (2) the 2000–2002 AMA Physician Socioeconomic Statistics (1998 data) for self-employed physicians, (3) the March 2003 BLS Employment Cost Index, (4) the 2002 Bureau of the Census CPS, and (5) the Bureau of Economic Analysis (BEA) 1997 Benchmark Input-Output tables (I/O). No one data source provided all of the information needed to determine expenditure weights according to our criteria. The development of each of the cost categories using these sources is described in detail below.

b. Physician Earnings

Like the current MEI, the proposed rebased and revised MEI will use AMA data on mean physician net income (physician earnings) for self-employed physicians to develop a weight for physician earnings. The weight for this expense category was based on AMA data for 2000 and was calculated as a percentage of total mean expenses (physician earnings and practice expenses, including malpractice). The physician earnings expenditure category also includes employee physician compensation. Currently, physician earnings and overhead expenses generated by employee physicians are included in the AMA practice expenses category. However, we believe it is appropriate, for our purposes, to place employee physician compensation in the MEI cost category of physician earnings since employee physician compensation represents actual expenditures made in the delivery of services. In addition, including employee physician payroll in physician earnings in the MEI is consistent with the current payment methodologies in accordance with the physician fee schedule, where the work RVU is computed based on what service is provided and not on who provides the service. Since employee physicians perform the same services as self-employed physicians, employee

physician time is reflected in the work RVU. By including the compensation of employee physicians in the physician earnings expense category, these expenses will be adjusted by the appropriate price proxies for a physician's own time.

To obtain further detail for both wages/salaries and benefits, the ratio between these categories for 1996 (based on current MEI) was updated to 2000 using the growth in the overall employment cost index for private employees for wages/salaries and benefits. Alternative data for determining this split were not readily available from any other source. The main shortcoming of this method is that any changes in quantity and intensity (mix of physicians) are not reflected. However, faced with the lack of alternative data, we deemed this approach to be the most feasible, and the results appear to be consistent with anecdotal evidence on this ratio. Its application resulted in a wage-fringe benefit split of 81.4 and 18.6 percent, respectively, in the proposed revised and rebased MEI compared with a wage-fringe benefit split of 81.2 and 18.8 percent, respectively in the 1996-based MEI.

c. Physician Practice Expenses

To determine the remaining individual practice expense weights, we updated AMA expense data from 1998 to 2000 using the relative price change in an appropriate price index. After the levels were updated to 2000 values, it was necessary to normalize these levels to equal the 2000 mean total expense data provided by the 2003 AMA survey. The detailed explanations for the derivation of the individual weights are listed below.

(i) Nonphysician Employee Compensation

The cost share for nonphysician employee compensation was developed by updating the 1998 AMA Socioeconomic Survey data on nonphysician employee compensation costs for self-employed physicians to 2000, using the current proxy for this category, and dividing the resulting amount into total expenses (physician earnings plus practice expenses) for 2000 from the AMA survey. We further divided this cost share into wages/salaries and benefits using BLS

Employment Cost Index data. The ECI survey contains data on the proportion of total compensation accounted for by wages/salaries and benefits (including paid leave) by private industry health services occupational category. These proportions can be used to distribute the total non-physician employee compensation weight to wages/salaries and benefits for non-physician employees. We used 2000 data from the March 2003 publication. Although this survey does not contain data specifically for offices of physicians, data are available on wage/fringe shares for private industry health services, which include hospitals, nursing homes, offices of physicians, and offices of dentists. We believe the data for health services from the survey do provide a reasonable estimate of the split between wages and fringe benefits for employees in physicians' offices. Data for 2000 in the ECI survey for total health services indicate that wages and fringe benefits are 74.02 percent and 25.98 percent of compensation, respectively.

As in the 1996-based MEI, we are proposing to use CPS data on earnings by occupation to develop cost shares for wages for nonphysician occupational groups shown in Table 6. To arrive at a distribution for these separate categories, we multiplied the overall share for nonphysician employee wages/salaries by each of the occupational proportions from the 2000 CPS. The proposed distribution and the distribution in the current MEI are presented in Table 6.

TABLE 6.—PERCENT DISTRIBUTION OF NONPHYSICIAN PAYROLL EXPENSE BY OCCUPATIONAL GROUP: 2000 AND 1996

BLS Occupational Group	2000 Expenditure Shares	1996 Expenditure Shares
Total	100.000	100.000
Professional & Technical Workers	42.635	45.573
Managers	24.138	19.398
Clerical Workers	28.187	30.827
Service Workers	5.040	4.202

Note: Values may not sum to 100 due to rounding.