

Our definition of “radiology and certain other imaging services” at § 411.351 specifically excludes any x-ray, fluoroscopy or ultrasonic procedure that requires “the insertion of a needle, catheter, tube, or probe”. The type of procedure described by CPT code 76831 involves infusion tubing and should be removed from the Code List.

Under the category of radiation therapy services and supplies, we are removing HCPCS code G0274 for radiopharmaceutical therapy for non-Hodgkin’s lymphoma because it is a nuclear medicine service. Our definition of “radiation therapy services and supplies” at § 411.351 specifically excludes nuclear medicine procedures. Thus, HCPCS code G0274 should never have appeared on the Code List.

## VI. Physician Fee Schedule Update for Calendar Year 2004

### A. Physician Fee Schedule Update

The physician fee schedule update is determined using a formula specified by statute. Under section 1848(d)(4) of the Act, the update is equal to the product of 1 plus the percentage increase in the Medicare Economic Index (MEI) (divided by 100) and 1 plus the update adjustment factor (UAF). For CY 2004, the MEI is equal to 2.9 percent (1.029). The UAF is – 7.0 percent (0.930). Section 1848(d)(4)(F) of the Act requires an additional – 0.2 percent (0.998) reduction to the update for 2004. Thus, the product of the MEI (1.029), the UAF (0.930), and the statutory adjustment factor (0.998) equals the CY 2004 update of – 4.5 percent (0.9551).

The negative physician fee schedule update occurs under a mandatory statutory formula. The law gives us no alternative to reducing the physician fee schedule rates. Only Congress can change the law and avert a reduction in 2004 physician fee schedule rates. Without a congressional act to change the law, the Department is compelled to announce a physician fee schedule update for CY 2004 of – 4.5 percent. The Department’s calculations are explained below.

### B. Rebasing and Revising of the Medicare Economic Index

#### 1. Background

The Medicare Economic Index (MEI) is required by section 1842(b)(3) of the Act, which states that prevailing charge levels beginning after June 30, 1973 may not exceed the level from the previous year except to the extent that the Secretary finds, on the basis of appropriate economic index data, that a higher level is justified by year-to-year economic changes.

Beginning July 1, 1975, and continuing through today, the MEI has met this requirement by reflecting the weighted sum of the annual price changes of the inputs used 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 adjusting for productivity 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 rebasing and revising the MEI for the 2004 physician fee schedule update. The terms “rebasing” and “revising”, while often used interchangeably, actually denote different activities. Rebasing 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 rebasing and revising 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 base year for that version of the MEI was 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 price proxies reflect more current conditions. For this reason, we are rebasing the MEI to reflect physicians’ expenses in 2000. In addition, we are revising the cost categories in the MEI and changing three of the proxies we currently use to ensure that the index is appropriately reflecting price changes. We will continue to adjust the MEI using economy-wide multifactor productivity.

The expense categories in the rebased and revised 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 the weights 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. Rebasing 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 and their associated price proxies. We are rebasing 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.

*Comment:* One commenter suggested that we update the weights in the MEI to a more recent base year, possibly CY 2004. While the commenter agreed with us that there is a lack of data to do so, the commenter suggested using the price change in each of the proxies to estimate weights for 2004 as an alternative to 2000 data.

*Response:* We selected CY 2000 as the base year for two reasons: (1) CY 2000 data were the most recent data available from the AMA, and (2) we felt the CY 2000 data were representative of the changing distribution of physician earnings and practice expenses over time. We do not expect that the experience of the past 3 or 4 years would have a significant impact on the MEI for the CY 2004 update, particularly since changing the weights from 1996 to 2000 had such a minimal effect. In addition, the price proxies that we use capture the current price changes in each of the categories that make up the MEI.