

While we agree that it would be optimal to develop MEI weights based on more recent data, we recognize the lack of data to do so. We also recognize that an alternative would be to use price changes in each of the proxies to update the weights to a more recent base year, similar to the methodology we used to develop the distribution of detailed practice expense categories in the current structure. In that case, we used price changes from 1998 to 2000 to develop weights for 2000.

However, as we indicated in the proposed rule, this method has a major drawback in that it assumes that the quantity of inputs would increase at the same rate as the price of those inputs.

This may not be the case over longer time periods (for instance, 2000–2004) where there is likely to be substitution away from more costly inputs toward those which are less costly. Our experience with rebasing indexes has also shown that the weights for major categories do not change very much over time, even though the individual price changes for those categories can differ significantly. In addition, because the MEI is a Laspeyres-type index, the price changes between the base period and the current period are reflected in the relative importance of each category in determining the overall increase. Therefore, we feel that basing the index on CY 2000 data and reflecting current

price changes likely represents a reasonable estimate of physicians' current experience.

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 10 lists the set of mutually exclusive and exhaustive cost categories that make up the rebased and revised MEI.

TABLE 10.—REBASED AND REVISED MEDICARE ECONOMIC INDEX EXPENDITURE CATEGORIES, WEIGHTS, AND PRICE PROXIES

Expense category	2000—Expense weights <sup>1 2</sup>	1996—Expense weights	Price proxy
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 .....	18.653	16.812	
Employee Wages and Salaries .....	13.808	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.
Other Practice Expenses .....	18.129		
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.	4.319	4.516	
Medical Materials and Supplies .....	2.011		PPI Surg. Appliances and Supplies/CPI (U) Med Supplies.
Pharmaceuticals .....	2.308		PPI Pharmaceutical Preparations.
Other 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.

<sup>2</sup> 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.

<sup>3</sup> Includes employee physician payroll.

<sup>4</sup> Includes paid leave.

To determine the expenditure weights for the 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 the 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 Current Population Survey, 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*

The rebased and revised MEI uses 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 is based on AMA data for 2000 and is 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.