

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. 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 time spent by a physician.

To obtain further detail for both wages/salaries and benefits, the ratio between these categories for 1996 (based on the 1996-based 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 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 other than malpractice expense, 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 nonphysician 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 will 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. This distribution for the 1996-based and 2000-based MEI are presented in Table 10.

TABLE 11.—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

¹ Due to rounding, weights may not sum to 100.000 percent.

(ii) Professional Liability Expense

The weight for professional liability expense was derived from the 2003 AMA survey (2000 data) and was calculated as the mean professional liability expense expressed as a percentage of total expenses (physician earnings plus practice expenses). This calculation resulted in a 3.865 percent share of total costs in 2000 compared to a 3.152 percent share in the 1996-based index. The increase in weight for professional liability insurance represents the increases in both

premiums and the amount of coverage purchased by physicians in 2000 compared to 1996. While the weight does not reflect the cost experience for 2001 and 2002, the proxy used in the rebased and revised index does reflect the price increases associated with the recent rise in malpractice costs.

Comment: Some commenters were concerned that the rebased and revised MEI does not appropriately reflect the recent increase in professional liability insurance (PLI) premiums that physicians are experiencing.

Response: As we indicated in the proposed rule, the weights in the rebased and revised MEI reflect the distribution of physicians' costs in CY 2000 and do not reflect the more recent experience of physicians, particularly as it pertains to PLI. While it would be optimal to base the weights on more recent data, there is not a more recent, comprehensive measure that would meet our criteria for determining weights in the MEI.

We also indicated that while the weights do not reflect the more recent