

TABLE 12.—ANNUAL PERCENT CHANGE IN THE REVISED AND REBASED MEDICARE ECONOMIC INDEX, 2004—ALL CATEGORIES

Increase in the Medicare Economic Index Update for Calendar Year 2004 ¹		
Cost categories and price measures	2000 weights ²	2004 percent changes
Medicare Economic Index Total, productivity adjusted	n/a	2.9
Productivity: 10-year moving average of Multifactor productivity, private nonfarm business sector	n/a	0.9
Medicare Economic Index Total, without productivity adjustment	100.000	3.8
1. Physician's Own Time ³	52.466	3.6
a. Wages and Salaries: Average Hourly Earnings, private Nonfarm	42.730	3.2
b. Fringe Benefits: Employment Cost Index, benefits, private nonfarm	9.735	5.4
2. Physician's Practice Expense ³	47.534	4.0
a. Nonphysician Employee Compensation	18.653	3.4
1. Wages and Salaries: Employment Cost Index, wages and salaries, weighted by occupation	13.808	2.8
2. Fringe Benefits: Employment Cost Index, fringe benefits, white collar	4.845	5.0
b. Office Expense: Consumer Price Index (CPI-U), housing	12.209	2.5
c. Drugs and Medical Materials and Supplies	4.319	3.1
1. Medical Materials and Supplies: Producer Price Index, surgical appliances and supplies/Consumer Price Index (CPI-U), medical equipment and supplies (equally weighted)	2.011	1.0
2. Pharmaceuticals: Producer Price Index (PPI pharmaceutical preparations)	2.308	4.9
d. Professional Liability Insurance: premiums ⁴	3.865	16.9
e. Medical Equipment: PPI, medical instruments and equipment	2.055	2.3
f. Other Expenses	6.433	1.9

¹ The rates of historical change are estimated for the 12-month period ending June 30, 2002, which is the period used for computing the calendar year 2004 update. The price proxy values are based upon the latest available Bureau of Labor Statistics data as of September 22, 2002.

² The weights shown for the MEI components are the 2000 base-year weights, which may not sum to subtotals or totals because of rounding. The MEI is a fixed-weight, Laspeyres-type input price index whose category weights indicate the distribution of expenditures among the inputs to physicians' services for calendar year 2000. To determine the MEI level for a given year, the price proxy level for each component is multiplied by its 2000 weight. The sum of these products (weights multiplied by the price index levels) over all cost categories yields the composite MEI level for a given year. The annual percent change in the MEI levels is an estimate of price change over time for a fixed market basket of inputs to physicians' services. Due to rounding, weights may not sum to 100.000 percent.

³ The measures of productivity, average hourly earnings, Employment Cost Indexes, as well as the various Producer and Consumer Price Indexes can be found on the Bureau of Labor Statistics Web site <http://stats.bls.gov>.

⁴ Derived from data collected from several major insurers (the latest available historical percent change data are for the period ending second quarter of 2003).

^{n/a} Productivity is factored into the MEI categories as an adjustment to the price variables; therefore, no explicit weight exists for productivity in the MEI.

As is the case with this index rebasing, our experience in previous rebasing and revising indexes has been that there is usually a very small effect on the overall percent change. The difference is typically between zero and 0.3 percentage points per year on average. The rebased and revised MEI overall percent increase for the CY 2004 update is only 0.1 percentage point higher compared to the 1996-based MEI. This is also the case for this final rule. When the MEI was last rebased, there was no difference in the average annual percentage change from 1985 to 1998. When the PPS hospital indices were rebased, the average difference in the percentage change was less than one-tenth of a percentage point from 1995 to 2002.

The first reason for this small difference between the 1996-based and 2000-based MEI percent changes is that the weight of professional liability insurance increased, giving it a higher relative importance in the index in 2000. This category also increased at a faster pace than other index categories during 2002 and projected for 2003, resulting in an even greater relative importance for this index by 2004 and

causing it to have a larger effect on the overall index compared to the 1996-based MEI.

In addition, the pharmaceuticals from the medical materials and supplies category grew faster than the overall medical materials and supplies in the 1996-based MEI. In addition, the faster growth in the aggregate medical materials and supplies category combined with a higher weight in the 2000-based index gave the category a higher relative importance. However, these increases were mostly offset by declines in weight of some of the other categories, most notably physician earnings.

6. Adjustments to RVUs To Match the New MEI Weights

As discussed in the August 15, 2003 proposed rule, section 1848(c)(2)(B)(ii)(II) of the Act requires that increases or decreases in RVUs may not cause the amount of expenditures for the year to differ by more than \$20 million from what expenditures would have been in the absence of these changes. If this threshold is exceeded, we make across-the-board adjustments to preserve budget neutrality. Therefore,

if we adjust the work, practice expense and malpractice RVUs to match the new MEI weights, we are required by statute to ensure that the adjustments do not increase or decrease Medicare expenditures by more than \$20 million. To meet the requirements of the statute and ensure that aggregate pools of RVUs match the proposed new MEI weights, we considered two options. We considered either making no adjustments to the physician work RVUs and adjusting only the practice expense and malpractice RVUs or adjusting all 3 categories of RVUs. We proposed adjusting all 3 categories of RVUs rather than adjusting only the practice expense and malpractice RVUs, which would have resulted in a reduction to the physician fee schedule conversion factor in addition to the -4.2 percent reduction that was forecasted. Specifically, we proposed to reduce the physician work RVUs by an estimated 0.35 percent (0.9965) and the practice expense RVUs by an estimated 1.15 percent (0.9885) and to increase the malpractice RVUs by an estimated 21.7 percent (1.217) to match the rebased MEI weights.