

# 2023 Changes to the Physician Fee Schedule: Considerations for Production-Based Compensation Plans

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## BACKGROUND

The Centers for Medicare and Medicaid Services (CMS) implemented sweeping changes to the Physician Fee Schedule (PFS) in 2021. This included modifications to the office-based Evaluation and Management (E&M) Current Procedural Terminology (CPT) code documentation requirements and Work Relative Value Units (wRVUs) – which had the effect of impacting reimbursement and wRVU production values for nearly every physician specialty. Experience in navigating the impact of these changes to compensation plans, particularly production-based plans, is particularly relevant as CMS embarks upon another set of PFS revisions in 2023.

## UNDERSTANDING THE NEXT WAVE

CMS published the Final Rule for the 2023 PFS in the *Federal Register* on November 18, 2022. This includes the next set of revisions to E&M coding guidelines that are intended to reduce administrative burden, primarily in inpatient settings and skilled nursing facilities. These changes, like those implemented in 2021, will further impact:

- E&M CPT code documentation requirements,
- wRVU values,
- Reimbursement, and
- Resulting wRVU production levels for physicians and advanced practice providers (APPs) providing these services in inpatient and skilled nursing facility settings.

In addition to the aforementioned changes, the 2023 PFS Final Rule originally set the Medicare conversion factor at \$33.06, a 4.5% decrease from the 2022 Medicare conversion factor of \$34.61, in order to maintain budget neutrality. The Consolidated Appropriations Act of 2023, signed into law on December 29, 2022, subsequently provided additional funding for physicians and APPs serving Medicare beneficiaries. This change resulted in a smaller 2.1% (\$0.72) Medicare conversion factor reduction from 2022, for a final 2023 Medicare conversion factor of \$33.89 per RVU.

There are also changes beyond E&M coding and reimbursement which will impact some specialties more than others – such as the increase in reimbursement and wRVU values for immunization administration. This particular change will impact pediatric physicians and APPs due to the high volume of immunizations administered to their patients.

**Table 1** below includes the E&M code wRVU value changes in the inpatient, observation and skilled nursing settings, which are utilized more frequently by health care organizations. These changes will become effective on January 1, 2023.

**Table 1: CPT Codes and Corresponding wRVU Value Changes**

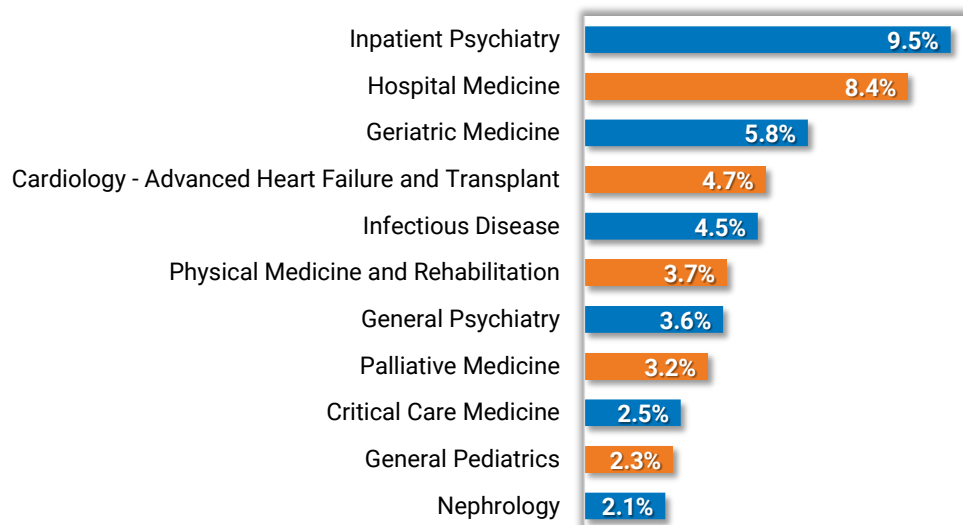
CPT Code	Description	2022 wRVU Value	2023 wRVU Value	wRVU Value Change	wRVU Value % Change
<b>Hospital Inpatient and Observation Services</b>					
99221	Initial hospital care	1.92	1.63	(0.29)	(15.1%)
99222	Initial hospital care	2.61	2.60	(0.01)	(0.4%)
99223	Initial hospital care	3.86	3.50	(0.36)	(9.3%)
99231	Subsequent hospital care	0.76	1.00	0.24	31.6%
99232	Subsequent hospital care	1.39	1.59	0.20	14.4%
99233	Subsequent hospital care	2.00	2.40	0.40	20.0%
99234	Observation/hospital same date	2.56	2.00	(0.56)	(21.9%)
99235	Observation/hospital same date	3.24	3.24	0.00	0.0%
99236	Observation/hospital same date	4.20	4.30	0.10	2.4%
99238	Hospital discharge day	1.28	1.50	0.22	17.2%
99239	Hospital discharge day	1.90	2.15	0.25	13.2%
<b>Hospital Emergency Department Services</b>					
99281	Emergency department visit	0.48	0.25	(0.23)	(47.9%)
<b>Nursing Facility Services</b>					
99304	Nursing facility care initial	1.64	1.50	(0.14)	(8.5%)
99305	Nursing facility care initial	2.35	2.50	0.15	6.4%
99306	Nursing facility care initial	3.06	3.50	0.44	14.4%
99307	Nursing facility care subsequent	0.76	0.70	(0.06)	(7.9%)
99308	Nursing facility care subsequent	1.16	1.30	0.14	12.1%
99309	Nursing facility care subsequent	1.55	1.92	0.37	23.9%
99310	Nursing facility care subsequent	2.35	2.80	0.45	19.1%
99315	Nursing facility discharge day	1.28	1.50	0.22	17.2%
99316	Nursing facility discharge day	1.90	2.50	0.60	31.6%

## THE IMPACT OF THE 2023 PFS ON wRVU REPORTING BY SPECIALTY

To help organizations evaluate the impact of the changes, SullivanCotter conducted an assessment of the 2023 wRVU values using the 2021 Large Clinic® CPT Study which collected CPT-level coding information by specialty. The assessment did not consider any potential CPT coding shifts which may result from the documentation changes.

Table 2 below includes the projected impact by specialty.

Table 2: Projected Impact of 2023 CMS Final Rule on Reported wRVUs



Regardless of the potential impact on Medicare reimbursement in 2023, there are implications for compensation professionals to consider particularly for provider compensation plans that incorporate wRVU productivity incentives within specialties practicing in inpatient and skilled nursing facility settings. The following case study illustrates those compensation considerations.

### CASE STUDY: HOSPITALIST COMPENSATION AND PRODUCTIVITY THRESHOLD FOR BONUS

Work RVUs for Hospitalists are expected to increase by approximately 8% in 2023 without additional consideration of potential coding profile changes resulting from the revised coding requirements.

SullivanCotter's 2022 Physician Compensation and Productivity Survey indicates that nearly 50% of respondents utilize wRVU productivity in compensation plans for hospital-based specialties – usually as an incentive metric. If the 2023 PFS wRVU values are utilized for bonus calculation purposes, the threshold for this incentive will likely be achieved more easily and could result in higher payments that may not be reasonable or affordable, assuming the threshold for earning a productivity bonus is not adjusted to account for the changes.

The following hypothetical case study illustrates the impact of the 2023 wRVU value changes:

- A Hospital Medicine compensation plan incorporates a production bonus of \$25 per wRVU when actual wRVUs exceed 5,000 (using the 2021 PFS wRVU scale).
- Dr. Smith has historically earned 6,000 wRVUs and receives a bonus of \$25,000. Under the 2023 PFS wRVU values, Dr. Smith's wRVU productivity is anticipated to be 108% of historical productivity or 6,480 wRVUs (6,000 wRVUs x 1.08) for identical patient volume.

- Without an increase in the wRVU threshold for earning a production bonus or a decrease in the rate paid per wRVU exceeding the threshold, Dr. Smith’s calculated bonus would be \$37,000 (1,480 wRVUs x \$25 per wRVU) – an increase of \$12,000 or 48% on the historical bonus amount.
- If the organization intends to maintain an equivalent bonus for equivalent work, the productivity threshold would need to be increased from 5,000 to 5,480 wRVUs to account for the increase in 2023 wRVU values or the rate paid per wRVU would need to be reduced to \$16.89 per wRVU (\$25,000/1,480) in order to maintain the same bonus compensation in this plan.

## ADDITIONAL CONSIDERATIONS OF THE 2023 PHYSICIAN FEE SCHEDULE CHANGES

Note that the 2.1% reduction in the 2023 Medicare conversion factor will impact Medicare reimbursement for all specialties in 2023, and may impact the financial affordability of provider compensation universally.

Additionally, CMS has delayed the implementation of the changes related to Split/Shared Visits until 2024. Beginning January 1, 2024, CMS will require the use of time-based coding and assignment of the visit to the provider (physician or APP) who spends the most time on the visit. This one-year delay in implementation will provide an opportunity to further study the impact on provider wRVU productivity and compensation. It will also allow organizations more time to address workflow considerations and optimize resources accordingly. Anticipated CMS changes to the rules for Split/Shared visits have the potential to further impact reimbursement and pay when implemented in 2024.

## CONCLUSION

In summary, the 2023 CMS PFS includes changes to E&M CPT code wRVU values in inpatient settings and other facilities. Physician compensation professionals and health systems not only need to be aware of the CMS changes impacting Medicare reimbursement and reported wRVUs but should evaluate the scope of the changes on provider compensation plans for those specialties most likely to be impacted. As always, modifications to compensation resulting from the changes should be evaluated for fair market value, commercial reasonableness and ongoing sustainability/affordability. Although the 2023 changes impact specialties on a more selective basis than in 2021, these changes should not be overlooked especially as the market’s focus on financial stewardship intensifies.

### Sources:

*CY 2023 Payment Policies Under the Physician Fee Schedule and Other Changes to Part B Payment Policies.* Federal Register. (2022, November 18). Retrieved from <https://www.federalregister.gov/documents/2022/11/18/2022-23873/medicare-and-medicaid-programs-cy-2023-payment-policies-under-the-physician-fee-schedule-and-other>

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*Physician Fee Schedule - January 2023 release, effective January 1, 2023.* Centers for Medicare & Medicaid Services. (2023, January 18). Retrieved from <https://www.cms.gov/medicare/medicare-fee-service-payment/physicianfeeschedpfs-relative-value-files/rvu23a>

SullivanCotter 2021 *Large Clinic*® CPT Study.

SullivanCotter offers advisory support and solutions to help your organization navigate the impact of Physician Fee Schedule changes.

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