

Socioeconomic tips of the month

Q. Our surgical practice has a copy of Medicare's relative value units. How can we use this information in our practice?

A. There are several ways relative value units (RVUs) can be used in your practice, according to Thomas Loughrey, consultant, Conomikes Associates, Inc., an expert in practice management whose firm conducts the practice management workshops for the College. The three most common uses are: 1) developing fee schedules, 2) determining fair physician compensation, and 3) cost accounting.

Developing fee schedules

Medicare uses RVUs to develop fee schedules and you can do the same. Each procedure is worth a certain number of units. These units are the sum of components, or resources, needed to value a service. The components that get valued are: physician work, practice overhead, and malpractice costs. Each component has a certain number of units, and the sum is the total unit value for the procedure or service. For example:

CPT™ code 49495—repair of initial inguinal hernia. The physician work component is worth 5.89 units, the overhead component is worth 4.54 units, and the malpractice units are worth 0.56, for a total unit value of 10.99 units.

By multiplying the unit values times a conversion factor, a fee can be established for the service. In the preceding example, if the conversion factor were \$50, the fee for the procedure would be \$549.50 ($\50×10.99 units).

This information can be used to establish a fee schedule for a practice as well as check on the fee schedule of third-party payors. Many third-party payors use the RVUs to develop their own allowable fees. The payors like this system because they can change the fees for thousands of procedures simply by changing the conversion factor.

Determining physician compensation

Many physician groups will determine physician compensation using productivity as the basis for some or even all of the compensation. Traditionally, the most common way to measure productivity has been to use charges or collections. The problem with this methodology is that charges are oftentimes determined quite arbitrarily and pay-

ments from different third-party payors can be arbitrary as well. It is quite possible to have very different compensation for physicians doing nearly identical amounts of work in the same group because of the way fees and payments are determined.

By using RVUs as the basis for measuring work, much of the arbitrary nature of the services is removed. The system can be even more refined for the purpose of measuring physician work by only considering the unit values for physician work rather than including the overhead and malpractice components.

The compensation formula simply uses the percentage of total RVUs earned by a physician as the percentage of revenue earned by the physician. For example, if a three-physician general surgery practice generated 30,000 RVUs during the year and physician A generated 25 percent of the units, physician B generated 35 percent of the units, and physician C generated 40 percent of the units, the total revenues being split based on production would be divided among them in the same percentages. This arrangement removes any anomalies from differences in fees for different procedures or payment rates from different payors.

This type of formula works very well in multispecialty groups and in surgical groups with different subspecialty interests and work.

Cost accounting

RVUs work extremely well as a basis for cost accounting. It is expressed as the cost per RVU. This cost is determined by taking the total cost of the practice and dividing it by the total RVUs generated by the practice. For example, if a surgical practice had \$450,000 in costs and generated 30,000 RVUs during the year, the cost per RVU is \$15 ($\$450,000 \div 30,000$).

Knowing the cost is \$15 per unit, the cost of any procedure can be determined. In the earlier example of the repair of an inguinal hernia, worth 10.99 units, the cost of providing the service is \$164.85 (10.99 units \times \$15).

By being able to determine the cost per unit, the total costs can be determined for any element of the practice that generates units. The costs could be determined for a location, a period of time, various procedures, or even the cost of a surgeon. This can be very useful information when trying to

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Amendments to ACS Bylaws approved


Several amendments to the College's official *Bylaws* were approved by the Board of Regents at their October 1999 meeting in San Francisco, CA.

The amendments were recommended in order to make the bylaws current and reflective of how the administration of the College is conducted. To view a

copy of the revised *Bylaws*, visit the ACS Web site at http://www.facs.org/about_college/acsbylaws.html.

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disparate diseases as rheumatoid arthritis,⁴ congestive failure,^{5,6} stroke,^{7,8} asthma,⁹ and acute myocardial infarction.¹⁰


The take-home message to the surgical subspecialties, which have not always functioned together, and sometimes have been more interested in fighting each other rather than working in concert, is clear: The public desires your services. It is time to get that message to the various leaders of this country, both legislative and corporate, who are controlling health care. We might even join forces with some of the medical subspecialties, particularly the proceduralists. If specialists do that, the public will benefit in terms of cost-effectiveness and better outcomes. 

References

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make decisions about opening new offices, bringing in another surgeon, or comparing the profitability of different services.

RVUs are certainly not perfect measures but they are constantly being refined and are becoming more useful measurement tools each year. 

questions from Fellows and their staff, and provides useful tips for surgical practices. Developed by College staff and consultants, this information will be accessible on our Web site for easy retrieval and future access. If there are topics you would like to see addressed in future columns, please contact the Chicago staff of the Socioeconomic Affairs Department, tel. 312/202-5150, fax 312/202-5021, or e-mail socioecon@facs.org.