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Jessica L. Bailey-Wheaton, Esq., Editor
Todd A. Zigrang, MBA, MHA, FACHE, CVA, ASA, ABV, Publisher

Valuation of Cardiovascular Services: Reimbursement Environment

The U.S. government is the largest payor of medical costs, through Medicare and Medicaid, and has a strong influence on reimbursement to hospitals. In 2023, Medicare and Medicaid accounted for an estimated $1.03 trillion and $871.8 billion in healthcare spending, respectively.[1] The prevalence of these public payors in the healthcare marketplace often results in their acting as a price setter, and being used as a benchmark for private reimbursement rates.[2]

Medicare pays for physician services, including cardiovascular services, through the Physician Fee Schedule (MPFS), which calculates payments according to Medicare's Resource Based Relative Value Scales (RBRVS) system, which assigns relative value units (RVUs) to individual procedures based on the resources required to perform each procedure. Under this system, each procedure in the MPFS is assigned RVUs for three categories of resources: (1) physician work (wRVUs); (2) practice expense (PE RVUs); and, (3) malpractice expense (MP RVUs). Further, each procedure's RVUs are adjusted for local geographic differences using Geographic Practice Cost Indexes (GPCIs) for each RVU component. Once the procedure's RVUs have been modified for geographic variance, they are summed, and the total is then multiplied by a conversion factor (CF) to obtain the dollar amount of governmental reimbursement.

The methodology for calculating the Medicare physician reimbursement amount for a specific procedure and location is illustrated below in Exhibit 1.

The wRVU component represents the physician's contribution of time and effort to the completion of a procedure. The higher the value of the code, the more skill, time, and work it takes to complete.

The PE RVU is based on direct and indirect physician practice expenses involved in providing healthcare services. Direct expense categories include: clinical labor, medical supplies, and medical equipment. Indirect expenses include: administrative labor, office expenses, and all other expenses.

MP RVUs correspond to the relative malpractice practice expenses for medical procedures.[3] These values are updated at least every five years and typically comprise the smallest component of the RVU.[4] Due to the variation in malpractice costs among states and specialties, the malpractice component must be weighted geographically and across specialties.[5]

The GPCI accounts for the geographic differences in the costs of maintaining a practice. Every Medicare payment locality has a GPCI for the work, practice, and malpractice component.[6] A locality's GPCI is determined by taking into consideration median hourly earnings of workers in the area, office rents, medical equipment and supplies, and other miscellaneous expenses.[7] There are currently 109 GPCI payment localities.[8]

The CF is a monetary amount that is multiplied by the RVU from a locality to determine the payment amount for a given service.[9] This CF is updated yearly by a formula that takes into account: (1) the previous year's CF; (2) the estimated percentage increase in the Medicare Economic Index (MEI) for the year (which accounts for inflationary changes in office expenses and physician earnings); and (3) an update adjustment factor.[10] All physician services, except anesthesia services, use a single CF.[11]

The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) contains a predetermined schedule of updates to the CF. However, these annual updates have been 0% since 2020, and will continue through 2025.[12] It should be noted that, although the annual updates to the MPFS will be stagnant for at least the next couple of years, MACRA includes several provisions related to financial rewards for providers who furnish efficient, high quality healthcare services.

For 2025, payment amounts were cut for the fifth straight year, with the MPFS conversion factor decreasing by 2.83%.[13] For cardiovascular providers specifically, the American College of Cardiology (ACC) stated that "Overall reimbursement for cardiovascular services is projected to remain flat compared to 2024, with changes to policies and individual services roughly balancing out. However, individuals and groups will see different impacts depending on patient populations and services offered."[14] Reimbursement may be ameliorated for 2025 if the *Medicare Patient Access and Practice Stabilization Act* (H.R. 879) is passed. The bipartisan bill, which is supported by the ACC, would increase Medicare physician payments by 6.62% from April through December 2025, which increase would also serve to offset the pay cut physicians experienced between January and March.[15]

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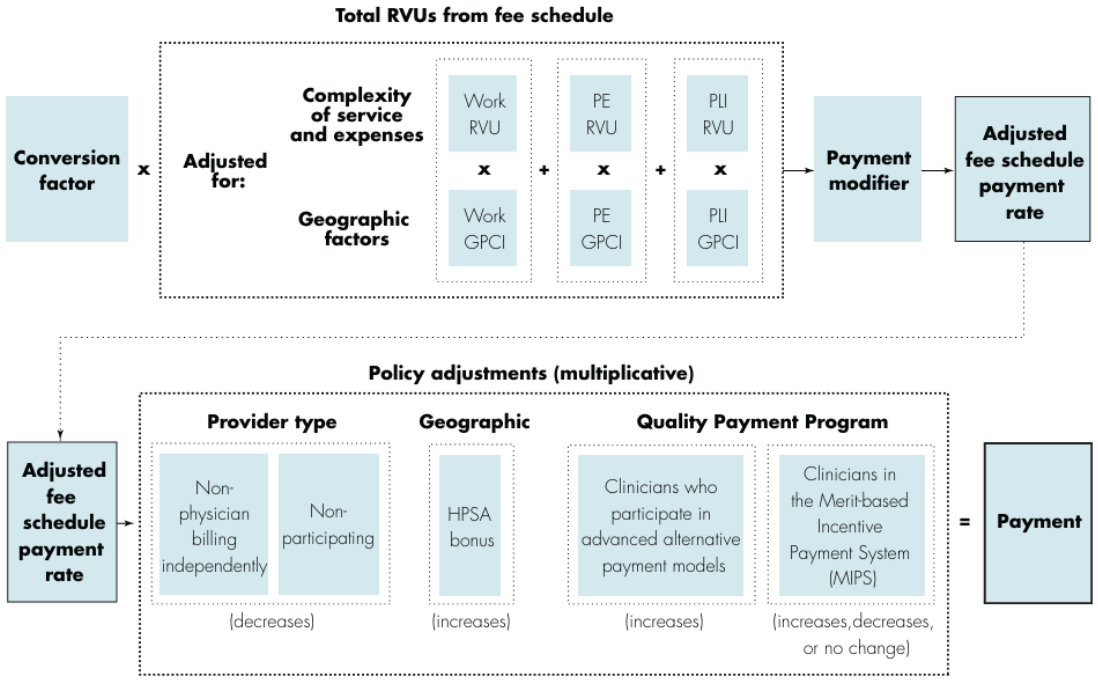
As alluded to above, the reimbursement environment is strongly driven by the complex regulatory environment, with both the executive and legislative branches at the mercy of shifting political tides. Accordingly, the current state of the regulatory environment in which cardiovascular providers operate will be addressed in the next installment of this five-part series.

Exhibit 1: Calculation of the MPFS Payment[16]



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Todd A. Zigrang, MBA, MHA, FACHE, CVA, ASA, ABV, is the President of **HEALTH CAPITAL CONSULTANTS** (HCC), where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 30 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 2,500 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of "*The Adviser's Guide to Healthcare - 2nd Edition*" [AICPA - 2015], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Guide to Valuing Physician Compensation and Healthcare Service Arrangements* (BVR/AHLA); *The Accountant's Business Manual* (AICPA); V*aluing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies; Business Appraisal Practice*; and, *NACVA QuickRead*. Additionally, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); the National Association of Certified Valuators and Analysts (NACVA); the American Health Lawyers Association (AHLA); the American Bar Association (ABA); the Association of International Certified Professional Accountants (AICPA); the Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute. He also serves on the Editorial Board of The Value Examiner and QuickRead, both of which are published by NACVA.

Mr. Zigrang holds a Master of Science in Health Administration (MHA) and a Master of Business Administration (MBA) from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives (FACHE) and holds the Certified Valuation Analyst (CVA) designation from NACVA. Mr. Zigrang also holds the Accredited in Business Valuation (ABV) designation from AICPA, and the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, where he has served as President of the St. Louis Chapter. He is also a member of the America Association of Provider Compensation Professionals (AAPCP), AHLA, AICPA, NACVA, NSCHBC, and, the Society of OMS Administrators (SOMSA).

Jessica L. Bailey-Wheaton, Esq., is Senior Vice President and General Counsel of HCC. Her work focuses on the areas of Certificate of Need (CON) preparation and consulting, as well as project management and consulting services related to the impact of both federal and state regulations on healthcare transactions. In that role, Ms. Bailey-Wheaton provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services.

Additionally, Ms. Bailey-Wheaton heads HCC's CON and regulatory consulting service line. In this role, she prepares CON applications, including providing services such as: health planning; researching, developing, documenting, and reporting the market utilization demand and "need" for the proposed services in the subject market service area(s); researching and assisting legal counsel in meeting regulatory requirements relating to licensing and CON application development; and, providing any requested support services required in litigation challenging rules or decisions promulgated by a state agency. Ms. Bailey-Wheaton has also been engaged by both state government agencies and CON applicants to conduct an independent review of one or more CON applications and provide opinions on a variety of areas related to healthcare planning. She has been certified as an expert in healthcare planning in the State of Alabama.

Ms. Bailey-Wheaton is the co-author of numerous peer-reviewed and industry articles in publications such as: The Health Lawyer (American Bar Association); Physician Leadership Journal (American Association for Physician Leadership); The Journal of Vascular Surgery; St. Louis Metropolitan Medicine; Chicago Medicine; The Value Examiner (NACVA); and QuickRead (NACVA). She has previously presented before the American Bar Association (ABA), the American Health Law Association (AHLA), the National Association of Certified Valuators & Analysts (NACVA), the National Society of Certified Healthcare Business Consultants (NSCHBC), and the American College of Surgeons (ACS).

Janvi R. Shah, MBA, MSF, CVA, serves as Senior Financial Analyst of HCC. Mrs. Shah holds a M.S. in Finance from Washington University Saint Louis and the Certified Valuation Analyst (CVA) designation from NACVA. She develops fair market value and commercial reasonableness opinions related to healthcare enterprises, assets, and services. In addition she prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams.

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