Cicero Institute

How Physicians Write their Own Paycheck: The Relative Update Committee

Judge Glock | Senior Policy Analyst | Cicero Institute

APRIL 2019

Right now, in the windowless recesses of an anonymous hotel, a handful of physicians are deciding the cost of medical care in America.[1] Few people know about this meeting, and fewer understand what it does. Yet it controls how much the federal government pays for everything from a heart surgery to an eye exam.

The official name of the group is the "Specialty Society Relative Value Scale Update Committee." To those in the know, it is "The RUC." It is an offshoot of the American Medical Association — a powerful private organization — but the government treats it like an official body.

The RUC should be disbanded. There is no reason a private and self-interested group should decide what the government pays for health care. The government should instead allow different insurance plans to compete over federal health care dollars.

The first thing to understand about the RUC is that it is composed of different medical specialty groups, like the American Society of Optometric Surgeons and the American Academy of Neurology. These specialty groups have their own committees that make recommendations to the grand RUC meeting. Not surprisingly, they tend to think their specialties do not earn enough money. Their usual recommendation is that they need larger reimbursements from the federal government for their services.[2]

Technically speaking, the committees and the RUC don't recommend actual "prices" to the government. Instead, they recommend something more ineffable and Soviet called a "Relative Value Scale." According to this index, a doctor's visit is a "1", and every other type of procedure — almost 7,000 of them — is ranked by how much "effort" it requires relative to that doctor's visit. In three annual meetings, usually at some pleasant but nondescript hotel, the RUC decides how every specialty procedure ranks.[3]

Once the RUC makes its recommendation, the Center for Medicare and Medicaid Services (CMS) adopts them, almost verbatim, and turns the scale into the dollar amount that actually matters.[4] All Medicare payments to physicians ("Part B" of Medicare), which total over $300 billion a year, are thus based on the RUC scale. Many private insurers then base their rates on that scale, which means that the total effect of RUC rate-setting is even larger.[5]

Given the obvious conflict of interest, it's not surprising that the RUC often sets rates far above the cost of a procedure. Take arterial stents, for example. In the mid-2000s, the RUC and Medicare set the cost of implanting stents in peripheral arteries, that is, arteries away from the

---

[1] "CPT Editorial Panel Process — AMA/Specialty Society RVS Update (RUC) Process Calendar," *The American Medical Association,* https://www.ama-assn.org/system/files/2019-04/cpt-ruc-calendar.pdf

[2] For how these groups try to organize their members for higher RUC payments, see the Marat Moore, "Effort Builds for 'Fair and Equitable' Reimbursement: Health Care Economics Committee Prepares for AMA's Coding Review," *ASHAWire*, American-Speech-Language-Hearing Association, May 1, 2005, https://leader.pubs.asha.org/doi/10.1044/leader.AN1.10072005.1

[3] See Uwe E. Reinhardt, "The Little-Known Decision-Makers for Medicare Physicians Fees," *Economix, Nytimes.com,* December 10, 2010, https://economix.blogs.nytimes.com/2010/12/10/the-little-known-decision-makers-for-medicare-physicans-fees/; See also Anna Wilde Mathews and Tom McGinty, "Physician Panel Prescribes the Fees Paid by Medicare," *Wall Street Journal,* October 26, 2010, https://www.wsj.com/articles/SB10001424052748704657304575540440173772102

[4] A recent analysis shows that CMS accepts the RUC's recommendation's over 90% of the time. Miriam Laugesen, Roy Wada, and Eric Chen, "In Setting Doctors' Medicare Fees, CMS Almost Always Accepts the Relative Value Update Panels Advice on Work Values," *Health Affairs* 31, no. 5 (May 2012). https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2011.0557; The actual formula for conversion of these scales is, FeeZ = (Work RVUZ x Work GPCI + PE RVUZ x PE GPCI + PLI RVUZ x PLI GPCI) x CV. Uwe E. Reinhardt, "The Little-Known Decision-Makers for Medicare Physicians Fees," *Economix, Nytimes.com,* December 10, 2010, https://economix.blogs.nytimes.com/2010 /12/10/the-little-known-decision-makers-for-medicare-physicans-fees/

[5] Juliette Cubanski, "The Facts on Medicare Spending and Financing," June 22, 2018, Kaiser Family Foundation, https://www.kff.org/medicare/issue-brief/the-facts-on-medicare-spending-and-financing/; Not only do these negotiations determine Part B of Medicare, they also determine payments under Part C, the nominally "voucherized" part of Medicare, since the law sets the Medicare Part B price as the automatic rate for all "out of network" services. Robert Berenson, Jonathan H. Sunshine, David Helms, Emily Lawton, "Why Medicare Advantage Plans Pay Hospitals Traditional Medicare Prices," *Health Affairs* 34, no. 8 (August 2015), https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2014.1427. See, more generally, Miriam Laugesen, *Fixing Medical Prices: How Physicians Are Paid* (Cambridge, MA: Harvard University Press, 2016).

heart, at $12,000 per procedure, despite the fact that the stents could be easily implanted in a doctor's office.

Such unreasonably inflated pricing creates wasteful spending. After the stent rate-adjustment, the number of stent implants went up by 70% in just a few short years. Some doctors billed the government millions per year and derived the majority of their income from this single procedure. Investigators later found many of the operations were unnecessary, and some led to tragic deaths.[6] America's courts are periodically inundated with cases against doctors who performed unnecessary and deadly surgeries to get such Medicare payments.[7]

There is actually a better way.[8] For years, the Federal Employees Health Benefit Program has allowed federal workers to decide on their own which insurance plan to purchase, while mandating cost-sharing programs. Its spending has grown slower than national medical spending, and its members report that they love it.

Making Medicare more like this competitive federal insurance program would allow customers instead of physicians to set prices. If such a program reduced Medicare physician costs by just 5%, a reasonable assumption, we could save $15 billion a year.[9]

The RUC has distorted medical prices and enriched its wealthy members for almost three decades. It's time to put an end to this scandalous corruption. We can make Medicare more competitive and drive down costs. There can be no justification today for letting doctors write their own paychecks.

---

[6] Julie Creswell and Reed Abelson, "Medicare Payments Surge for Stents to Unblock Blood Vessels," *New York Times,* June 29, 2015, https://www.nytimes.com/2015/01/30/business/medicare-payments-surge-for-stents-to-unblock-blood-vessels-in-limbs.html

[7] See, e.g., Gardiner Harris, "Doctor Faces Suits Over Cardiac Stents," *New York Times,* December 5, 2010, https://www.nytimes.com/2010/12/06/health/06stent.html

[8] For an proposal to ensure more data transparency of the RUC's process, Government Accountability Office, "Medicare Physician Payment Rates: Better Data and Greater Transparency Could Improve Accuracy," GAO-15–434, May 2015, https://www.gao.gov/assets/680/670366.pdf

[9] Francis Walton, *Putting Medicare Consumers in Charge: Lessons from FEHBP* (Washington: The AEI Press, 2009).