



Highlights of [GAO-05-119](#), a report to congressional committees

## Why GAO Did This Study

The Medicare physician fee schedule adjusts physician fees for area differences in physicians' costs of operating a private medical practice. Three separate indices, known as geographic practice cost indices (GPCI), raise or lower Medicare fees in an area, depending on whether the area's physician practice costs are above or below the national average. The three GPCIs correspond to the three components of a Medicare fee: physician work, practice expense, and malpractice expense.

Advocates for rural physicians have criticized the GPCIs, which lower fees in areas where costs are below the national average. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 directed GAO to evaluate Medicare's method of geographic adjustment. This report examines the extent to which Medicare's GPCIs are valid in their design and appropriate in the data and methods used in their construction, and affect physician incomes, location, recruitment, and retention.

## What GAO Recommends

GAO recommends that HHS improve the GPCIs by augmenting the data and refining the methods used to construct them. HHS characterized GAO's findings as important but disagreed with most of the recommendations, citing concerns about when they could be implemented. GAO holds that its recommendations account for these timing issues.

[www.gao.gov/cgi-bin/getrpt?GAO-05-119](http://www.gao.gov/cgi-bin/getrpt?GAO-05-119).

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7119.

# MEDICARE PHYSICIAN FEES

## Geographic Adjustment Indices Are Valid in Design, but Data and Methods Need Refinement

### What GAO Found

The physician work GPCI, the practice expense GPCI, and the malpractice expense GPCI are valid in their fundamental design as tools to account for geographic cost differences. The three GPCIs as implemented appropriately reflect broad patterns of geographic differences in the costs of running a medical practice. For example, nurses' wages, which constitute a substantial share of physicians' practice expenses, vary across the nation and contribute to differences in practice expenses. (See table.)

**Geographic Differences in Hourly Wage for Registered Nurses, 2000**

Medicare payment locality	Median hourly wage for registered nurses
Oakland/Berkeley, California	\$29.16
Massachusetts, excluding metropolitan Boston	22.06
Fort Worth, Texas	21.26
New Mexico	19.83
South Carolina	19.60

Source: GAO analysis of data from CMS and U.S. Census Bureau.

In addition to adjusting for cost differences, the work GPCI is valid in that it also reflects a goal of protecting physician fees in low-cost areas from dropping to levels that could be considered unfair relative to fees in high-cost areas. The work GPCI does so by limiting downward cost adjustments. Despite the GPCIs' validity, however, data and methodology problems may detract from the GPCIs as measures of cost differences. For example, the wage data used in the work and practice expense GPCIs are not current, and the data used in the malpractice GPCI are incomplete. The Centers for Medicare & Medicaid Services (CMS) in the Department of Health and Human Services (HHS) has options to remedy some of these flaws.

GPCIs appear to have a negligible bearing on physicians' decisions to locate in rural areas. Because Medicare revenue constitutes only part of a physician's income—typically 25 percent—the secondary impact of the GPCIs on a physician's income is generally modest, raising or lowering income by no more than 2 to 3 percent in most localities. GAO's interviews with physician recruitment experts and GAO's review of the literature indicate that income is only one of several factors—such as a spouse's employment opportunities, the quality of local schools, and the availability of other physicians to share night and weekend calls—that drive physicians' decisions to locate in rural areas.