

THE EFFECT OF MACRA ON PHYSICIAN PRACTICE FMV

The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) was signed into law on April 16, 2015. Not only does MACRA fund CHIP through fiscal year 2017, it could impact the fair market value of physician practices as a result of physician reimbursement changes through several components of MACRA.

Permanent Repeal of the SGR

One of the biggest takeaways from MACRA is that it permanently repeals the sustainable growth rate (SGR) formula and stabilizes Medicare payments for physician services. Therefore, physicians will avoid the 21.2 percent Medicare physician payment cut that was scheduled to take effect on April 1, 2015 as well as any SGR cuts in future years. The SGR repeal is intended to support the transition from fee-for-service payments to value-based payments.

TWO OPTIONS FOR MEDICARE PROVIDER PAYMENT

The SGR repeal creates two options for providers: (1) enhanced fee for service or (2) accountable care. Option 1 is the Merit-Based Incentive Payment System (MIPS), or the enhanced fee for service option, and is projected to begin in 2019 as the only Medicare quality reporting program. Option 2 is the Alternative Payment Models (APM), or the accountable care option, and provides incentives and opportunities for physicians to develop and participate in new models of healthcare delivery and payment by participating in contracts with two-sided risk.

INCREASES IN PROVIDER REIMBURSEMENT

Physician payments for Medicare Physician Fee Schedule services are expected to increase at an annual rate of 0.5 percent for July 2015 through the end of 2019. From 2019 through 2026, the rate for both MIPS and APM will freeze at the accrued rate then increase annually again in 2026 and beyond. After 2026, MIPS annual payments will increase by 0.25 percent per year, which is a decrease from the 0.50 percent annual increase from 2015 to 2019, while APM annual payments will increase by 0.75 percent per year. These expected payment increases at gradual annual amounts have caused concern that the annual rates will not keep pace with inflation.

SIMPLIFICATION OF QUALITY REPORTING SYSTEMS

With the creation of the MIPS, Medicare's multiple quality reporting programs have been replaced with the new single MIPS program which is slated to begin in 2019. MIPS will combine reporting for the Physician Quality Reporting System (PQRS), Electronic Health Records/Meaningful Use (MU), and Value-Based Payment Modifier (VBM) into one budget-neutral program with single payment based on an aggregate MIPS score. PQRS, MU, and VBM will no longer function as individual reporting programs and are projected to end at the close of 2018, at which time MIPS will become the only Medicare quality reporting program. Performance and composite scores under MIPS will be based upon four categories, including quality, resource use, meaningful use, and clinical practice improvement activities. The focus is to develop and increase the current quality measures and concepts in PQRS, MU, and VBM.

PENALTIES EQUAL BONUSES

Because MIPS is a budget-neutral program, penalties on low-performing physicians equal bonuses to high-performing physicians. Physicians with MIPS composite scores below the performance threshold will incur penalties, on a sliding scale, with maximum penalties up to 4 percent in 2019, 5 percent in 2020, 7 percent in 2021, and 9 percent in 2022 and beyond. Physicians with MIPS composite scores that exceed the performance threshold will earn bonuses, on a sliding scale, with the highest bonus at least as high as the highest penalty for that year (e.g., 4 percent in

THE BOTTOM LINE

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2019). However, there are two exceptions to this rule: (1) all MIPS-eligible physicians score below the performance threshold, or (2) the highest-performing physicians reach a set payment adjustment ceiling.

Some bonuses could exceed the maximum penalty levels up to three times, but the total of these bonuses and penalties must balance one another. From 2019 through 2024, additional funding is available for separate bonuses of up to 10 percent for exceptional performance not to exceed \$500 million per year.

CONSUMER PRICE SENSITIVITY

MACRA promotes two data transparency measures and an increased Medigap deductible supported by the federal government that accelerates the trend of consumer price sensitivity. The Department of Health and Human Services (HHS) plans to create a searchable online directory, to be published on Physician Compare website, including number and type of Medicare services furnished by each physician as well as submitted charges and payments. In addition, claims data, which has been de-identified of individual patient information, will be made available to any qualified entity, including providers, insurers, employers, or HHS-approved others, for provider network design and quality improvement purposes. Qualified entities will be allowed to sell analyses based on claims data acquired through Medicare.

Beneficiary, hospital, and other offsets, which total approximately \$70 billion, cover only one-third of MACRA's total cost, which is approximately \$211 billion. Beneficiary offsets include an income-related premium adjustment for Medicare enrollees who earn over \$133,000 per year, as well as a minimal deductible of \$250 for Medigap policies beginning in 2020. Hospital offsets include a delay to 2018–2025 of Medicaid state disproportionate share hospital (DSH) allotments and a downward adjustment to payment rates for hospital inpatients starting in 2017. Other offsets include an increased levy authority on payments to Medicare providers with delinquent tax debt as well as slower growth for post-acute care reimbursement.

IMPACT ON PHYSICIAN PRACTICE FMV

Expected physician reimbursement changes as a result of MACRA could impact fair market value of physician practices in the future. With the permanent repeal of the SGR and creation of two Medicare payment provider models, physicians will have options as reimbursement shifts toward value-based payments. Also, Medicare reimbursement is projected to slowly increase into the future at set rates while quality reporting becomes less complex and more important. Bonuses and penalties will be equal because the MIPS program is budget-neutral. Consumer price sensitivity continues to be a focus of the federal government as MACRA promotes data transparency and an increased Medigap deductible.

When considering the fair market value of physician practices, it is imperative that hospitals and their legal counsel understand the components of MACRA and the impact to physician practices, especially related to reimbursement and payment model changes. With the base reimbursement increases, valuations of physician practices and physician clinical compensation arrangements will need to take into account the reimbursement impacts.

Because of MIPS, practices not reaching MIPS composite score targets will suffer reimbursement penalties, which will negatively impact practice and physician compensation values for poor performers. These MIPS penalties will result in decreased revenue, which could negatively affect the overall bottom line for practices. For example, in the practice valuation, the discounted cash flow will be impacted, which may drive down or eliminate positive cash flows and limit values to tangible and identifiable assets supportable by a cash flow analysis. With compensation valuations for hospital-employed physicians, poor performers will not project as well for normalized professional revenues, potentially impacting both clinical and quality compensation.

On the other hand, good performers will be positively impacted by earning MIPS bonuses for exceeding the performance threshold. In contrast to MIPS penalties, these MIPS bonuses will result in increased revenue, which could drive up the overall bottom line for practices. For example, in the practice valuation, the discounted cash flow will be impacted, which may increase positive cash flows and resulting practice values. With compensation valuations for hospital-employed physicians, good performers will project better for normalized professional revenues, which could positively impact both clinical and quality compensation.

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Chrissy is a manager in healthcare services at HORNE LLP. She collaborates with clients to simplify the complexity associated with payment model reform, quantify the financial impacts, and empower healthcare leaders with insights to transform MACRA from a compliance burden into an opportunity for their organizations. She has experience with group practices and several large hospital systems in the development and implementation of physician compensation modeling and fair market value contractual agreements.

