REPORT: Medicare Physician Fee-For-Service Payments: Adjusting for Variation in Geographic Practice Costs and Challenges for Hawai'i

PROJECT SUMMARY

Medicare uses a formula to calculate certain physician reimbursements that, according to this **analysis from the University of Hawai'i Rural Health Research and Policy Center (UH RHRPC)**, does not accurately reflect the geographic and economic circumstances unique to Hawai'i. Such undervaluing of physician work **contributes to significant health provider shortages.** Alaska, the only other non-contiguous state, receives a special adjustment of 1.5 for its Physician Work (PW) Geographic Practice Cost Index (GPCI) (compared to the national average of 1.000) while Hawai'i has no such similar adjustment despite significant statutory and regulatory precedents for treating non-contiguous states alike. This report provides policy options to address this discrepancy, particularly for Congress or CMS to **provide a 1.5 PW GPCI to the Medicare Hawai'i fee schedule locality for parity with Alaska.**

BACKGROUND

- Medicare's Physician Fee Schedule (PFS) uses a "Geographic Practice Cost Index" (GPCI) to adjust physician reimbursement based on regional differences in physician work (PW), practice expense (PE), and malpractice premium (MP).
- There have been longstanding concerns that Medicare payments do not reflect Hawai'i's very high cost of living and geographic isolation.
- Unlike Alaska (the only other non-contiguous state), which benefits from a statutory 1.5 floor for its PW GPCI,[1] Hawai'i remains at the national average (1.000),[2] resulting in comparatively lower reimbursement for the same services.
- There are significant statutory and regulatory precedents for treating non-contiguous states alike.

RHRPC REPORT

- **Background and Context:** Explains the PFS payment method, the role of the GPCI in adjustments, and the history and statutory foundation of the PW GPCI.
- **PW GPCI Methodology:** Details how the index is calculated, including the 25% adjustment limit, use of proxy professional wages, and reliance on Bureau of Labor Statistics (BLS) data.
- **Challenges for Hawai'i:** Analyzes how the PW GPCI undervalues physician work in Hawai'i, highlighting the gap between cost of living and reimbursement rates, and comparing Hawai'i's wage–cost relationship to other high-cost states.
- **Policy Options:** Strategic and actionable policy options are presented, which are also outlined below.

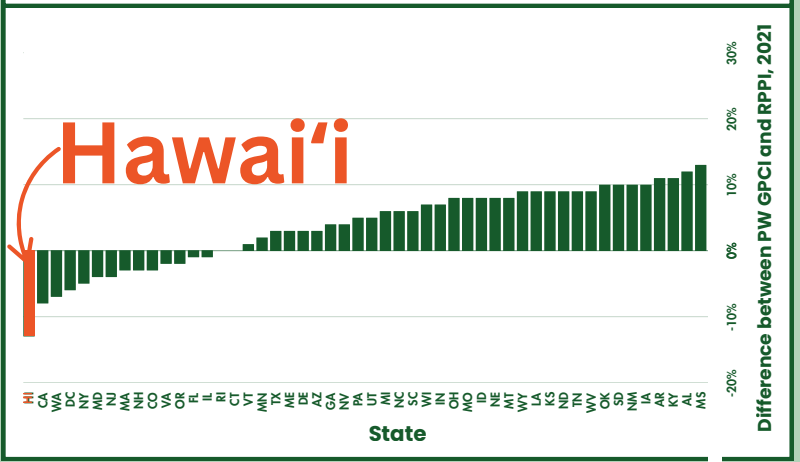
THE FORMULA[3]

(MP Base Rate x MP GPCI) + (PW Base Rate x PW GPCI) + (PE Base Rate x PE GPCI) x Conversion Factor = PFS PAYMENT

PW GPCI FAILING HAWAI'I

In 2023, Hawai'i had the highest cost of living in the country,[4,5] a **shortage of 768 physicians** (21% of total need),[6] and **unique challenges as a non-contiguous state**. However, as shown below, the PW GPCI formula is flawed for Hawai'i.

The PW GPCI is calculated using wages of 9 proxy professions,[7] which are compressed in Hawai'i and do not accurately reflect the cost of living in the state.[8] This graph shows our analysis of the difference in every state's GPCI adjustment[9] compared to regional price parities,[10] which measure average prices in each state. Hawai'i has the highest negative difference between adjustment and prices (in orange) at one end of the graph.



POLICY OPTIONS PRESENTED BY RHRPC

Congress could pass the Protecting Access to Care in Hawai'i (**PATCH Act**) (H.R. 3263/S. 1624), which would **provide parity for non-contiguous states** by adjusting the Physician Work Geographic Practice Cost Index (PW GPCI)for Hawai'i to a 1.5 floor in line with Alaska's existing floor.

Through regulation, the Centers for Medicare and Medicaid Services (CMS) could ensure parity between non-contiguous states by **providing Hawai'i with a 1.5 PW GPCI floor** (by directly adjusting its GPCI or by adding Hawai'i to the Alaska fee schedule locality).

CMS could incorporate **cost of living through the Regional Price Parity (RPP) measure into the GPCI calculation** for the Hawai'i/Guam locality and/or nationally.

Congress could enact a statutory change to **implement a predetermined bonus in Physician Fee Schedule (PFS) payments** for non-contiguous states to compensate for wage and cost of living disparities in these areas.

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OUR VISION

Good policy for good health.

OUR MISSION

Inspired by community needs, we use policy strategies to improve health across geographies.

OUR WORK

Hawai'i-Wide Rural Health Landscape

Through a literature review and stakeholder engagement, RHRPC is exploring rural health care in the state to highlight policy options for improving cancer care, telehealth access, behavioral health care, emergency medical services, cardiac care, health workforce, and inter- and off-island transfers.

Transportation

RHRPC's most recent project, "How Transportation and Travel Access Affects Rural Health Outcomes in Hawai'i," involved a literature review, 40 stakeholder interviews with analysis, and policy options for the areas of emergency medical services, non-emergent medical transportation, insurance reimbursement, and maternal-fetal health.

Workforce Shortages

RHRPC is assessing the appropriateness of national Health Professional Shortage Area (HPSA) formulas for Hawai'i as a non-contiguous state and for programs such as loan repayment that rely on HPSA scores.

Medicare Reimbursement

RHRPC has studied the adequacy of Medicare reimbursement formulas, particularly the Geographic Practice Cost Index (GPCI), given Hawai'i's unique non-contiguous nature. RHRPC has proposed policy solutions to improve the GPCI in Hawai'i.

Read this report and more at **https://research.hawaii.edu/rhrpc//projects-initiatives/** or contact us at **rhrpc@hawaii.edu**

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1. "H.R. 6331—110th Congress: Medicare Improvements for Patients and Providers Act of 2008." Congress.gov. Last modified July 15, 2008. https://www.congress.gov/bill/110th-congress/house-bill/6331.
2. Centers for Medicare and Medicaid Services. 2023. "Medicare Monthly Enrollment Data." https://data.cms.gov/summary-statistics-on-beneficiary-enrollment/medicare-and-medicaid-reports/medicare-monthly-enrollment.
3. Modified based on: Hammond, Jackson. 2021. "Primer: Geographic Adjustment of Medicare Rates." American Action Forum. https://www.americanactionforum.org/insight/geographic_adjustment/.
4. Missouri Economic Research and Information Center. "Cost of Living Data Series," 2023. https://meric.mo.gov/data/cost-living-data-series.
5. "Real Personal Consumption Expenditures by State and Real Personal Income by State and Metropolitan Area." Bureau of Economic Analysis. December 2022. https://www.bea.gov/news/2022/real-personal-consumption-expenditures-state-and-real-personal-income-state-and.
6. Hawai'i Area Health Education Center, "2024 Physician Workforce Report," https://ahec.hawaii.edu/_docs/2024-physician-workforce-report.pdf.
7. The proxy professions are determined by CMS and include:
   a. Architecture and Engineering;
   b. Computer, Mathematical, Life and Physical Science;
   c. Social Science, Community and Social Service and Legal;
   d. Education, Training and Library;
   e. Registered Nurses;
   f. Pharmacists;
   g. Art, Design, Entertainment, Sports, and Media;
   h. Management; and
   i. Business and Financial Operations.
8. Bond-Smith, Steven, and Daniela Bond-Smith. 2024. "How Does Hawai'i's Economic Geography Affect Its Healthcare in Hawai'i?" The Economic Research Organization at the University of Hawai'i. https://uhero.hawaii.edu/how-does-hawaiis-economic-geography-affect-its-healthcare-in-hawaii/.
9. The PW GPCI is an indicator of wage variation from the U.S. average for the nine occupations included in the CMS calculations. As the raw wage data utilized is not available from CMS, UH RHRPC created a "Proxy Professional Wage Index" (PPWI) derived from 2021 PW GPCI data. (Note: The PPWI was created for this research, as the CMS Wage Index was not available.) UH RHRPC took the PW GPCI for all localities with a PW GPCI score over 1.0 and reversed the 25% reduction included in the GPCI calculation, resulting in a PPWI for states with GPCI scores above 1.0 (excluding Alaska). As no specific price parity data is available by FFS locality level, we aggregated the PW GPCIs to state level by averaging all locality PW GPCIs for each state. The PPWI measures the differences in wage levels across states for a given year and is expressed as a percentage of the overall national wage level.
10. U.S. Bureau of Economic Analysis, "Real Personal Income by State and Metropolitan Area, 2022: Regional Price Parities" Suitland, MD: U.S. Department of Commerce, https://www.bea.gov/news/2023/real-personal-income-state-and-metropolitan-area-2022.

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