**Relative Value Units:**

The Basis of Medicare Payments

**By John Verhovshek, MA, CPC**

It’s the foundation of payment: Medicare payments are based on a relative value unit (RVU) calculation that represents the relative work, MP (malpractice insurance), and PE (practice expense) value of a specific service. Medicare, however, is just one payer. A complete understanding of the RVU calculation is critical for success in today’s payor landscape.

1. **RVUs** account for the physicians’ work, which includes the time spent preparing for and performing the procedure. RVUs are a unit of measure that is adjusted to reflect the complexity of the service.

   - Work RVUs (RVUw) reflect the time required by the provider to perform a specific service.

2. **Practice expense (PE) RVUs** reflect the base costs of practice expense, including space, equipment, and office supplies. These RVUs are also adjusted to reflect the complexity of the service.

   - Practice expense (PE) RVUs (RVUP) reflect the direct costs of practice expense (or PE) required to provide the service.

3. **Medical malpractice (MP) RVUs** reflect the cost of malpractice insurance for each procedure.

   - Medical malpractice (MP) RVUs (RVUM) reflect the medical malpractice costs for each procedure.

Each of these categories is assigned a relative value, which is calculated using the Physician Fee Schedule (PFS) Look-Up Tool. The PFS Look-Up Tool provides a list of all codes along with the MP, RVUw, and RVUP assigned to each code. The total RVU is determined by summing the MP, RVUw, and RVUP for each code.

**Factors in Conversion Factor**

The conversion factor is the Medicare payment factor that determines the payment amount to be made to the provider. The conversion factor is used to determine the final payment. The conversion factor is determined by the following formula:

\[ \text{Conversion Factor} = \frac{\text{MP} + \text{RVUw} + \text{RVUP}}{\text{CF}} \]

Where MP = Medical Malpractice, RVUw = Relative Value Work RVUs, RVUP = Practice Expense RVUs, and CF = Conversion Factor.

**Payor Landscape**

Understanding the RVU calculation is critical for success in today’s payor landscape. Payor landscape is constantly changing, and the RVU calculation is a key component in understanding payment.

**Practical Application**

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**In the Spotlight**

**WILL YOU BE A PMB TEAM MEMBER?**

**GET TO KNOW A PMB TEAM MEMBER!**

**BY HAREL KRAUS**

**Helen Morris**

**Position:** Director, Managed Care

**Payer Focus:** Medicare

**What motivates you?**

My family. Knowing that I am making a difference in people’s lives makes me feel fulfilled. I am motivated by being involved in healthcare and making a difference.

**What would you like your legacy to be?**

Creating a legacy by being a leader in the healthcare industry. I believe in making a difference in people’s lives and I want to be remembered for that.

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