



AMERICAN
PSYCHOLOGICAL
ASSOCIATION
PRACTICE ORGANIZATION

October 14, 2014

Sean Cavanaugh
Deputy Administrator and Director
Center for Medicare
Centers for Medicare and Medicaid Services
Department of Health and Human Services
7500 Security Boulevard
Baltimore, MD 21244-1850

Dear Deputy Administrator Cavanaugh:

I am writing on behalf of the American Psychological Association Practice Organization (APAPO), the companion organization to the American Psychological Association (APA). APA represents more than 137,000 members and associates engaged in the practice, research and teaching of psychology, and APAPO advances the interests of psychologists who practice in all settings.

APAPO is writing to ask the Centers for Medicare and Medicaid Services (CMS) to address a problem that threatens Medicare beneficiaries' access to mental health services:

- **The structure of Medicare's physician payment system has resulted in several years of declining reimbursement rates for psychologists' services.** Psychologists' reimbursement rates are more than one-third below where they were 7 years ago, accounting for inflation, and are now 17% below private indemnity market rates for psychologists' services.ⁱ
- **Psychologists are the predominant provider of behavioral mental health services to Medicare beneficiaries.** Unfortunately, Medicare's steadily declining reimbursement rates have led many psychologists to leave the program or limit their participation, at a time when the program is suffering from a dire shortage of mental health providers.
- **APAPO asks CMS to increase reimbursement rates for psychological services by addressing biases embedded in the Medicare physician payment formula which uniquely disadvantage these services.** Doing so will improve beneficiaries' access to mental health services by increasing psychologists' and other mental health providers' ability to participate in the program.

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Even with the adoption of new work relative value units (RVUs) for psychotherapy services in 2013, payment rates for psychologists' services have fallen by more than 36% since 2007, accounting for inflation.^{ii,iii} APAPO is greatly concerned about the impact that the continual reductions in Medicare reimbursement are having on psychologists and their ability to serve Medicare beneficiaries. An August 2013 survey of our membership found that 26% of respondents who were Medicare providers had left the program, primarily due to low reimbursement rates. Of this number, nearly half had left the program since 2008.

This should concern CMS, because Medicare's success in meeting the mental health treatment needs of its beneficiaries, both now and in the years ahead, depends upon increasing psychologists' participation in the program. Psychologists are the primary provider of behavioral mental health services for Medicare beneficiaries. Psychologists provide 40% of outpatient psychotherapy services and 70% of inpatient psychotherapy services, according to Medicare utilization data, and the majority of the mental health diagnostic, testing, and assessment services for Medicare beneficiaries. These behavioral health services are an essential tool for the successful treatment of mental disorders, and psychotherapy is the preferred treatment modality for many mental disorders and for many patients. Since there is a shortage of psychiatrists, and since psychiatrists are less likely to participate in Medicare than members of any other physician specialty,^{iv} many beneficiaries receive mental health treatment only from general physicians. Unfortunately, research suggests that mental health and substance use disorders are not well identified and managed in the primary care environment.^{v, vi, vii, viii}

The erosion of psychologists' Medicare payment rates coincides with deepening concern over beneficiaries' access to mental health care. In a 2012 report, the Institute of Medicine stated that "MH/SU [mental health and substance use] health care delivery is inadequate and of poor quality for most older adults."^{ix} IOM's report states that "the rate of specialized [mental health and substance use] providers entering the workforce is dwarfed by the pace at which the population is growing."^x Inadequate access to mental health specialists directly impacts beneficiaries in need of treatment; a large body of research also shows that it results in higher program spending. Across eight common medical conditions, elderly Medicare beneficiaries diagnosed with comorbid depressive syndrome were consistently at least twice as likely to use emergency medical services and to experience a preventable hospitalization compared with those without depression.^{xi} A comparison of treatment costs for Medicare beneficiaries with depression and a comorbid diagnosis of either diabetes and/or congestive heart failure (CHF), with treatment costs for those with only the diabetes/CHF diagnosis, found that beneficiaries with depression had 67% higher healthcare costs.^{xii} For the sake of both beneficiaries and taxpayers, Medicare must strengthen its investment in mental health services.

APAPO has worked with Avalere Health to identify two potential adjustments to the Medicare physician payment system which would increase reimbursement rates for psychologists, and stop the program's slide away from adequately investing in mental health services. Each would work by limiting the unintended effects of Medicare's practice expense payment formula on psychologists' services. Both changes would

involve directly adjusting psychologists' payments for indirect practice expenses. APAPO hopes to work with CMS to implement adjustments to the Medicare physician payment system to restore and expand beneficiaries' access to psychological services.

Background

Three factors combine to disadvantage psychologists under Medicare's physician payment formula:

1. Psychologists have practice expenses (PE) that are low, consist almost entirely of indirect costs (such as for office space, instead of direct costs for tangible medical supplies), and that have not and will not change significantly over time. The cost of providing cognitive services does not rise the same way it does for services that require medical equipment, clinical labor, and supplies. Since Medicare's payment formula reallocates indirect practice expenses across specialties each year to constrain the program's total indirect practice expense payments, psychologists payments are continually reduced to cover the increased indirect practice expense costs of other health care professions and newly developed health care technologies.
2. Psychologists are the predominant providers of the few procedures (and corresponding current procedural terminology (CPT) codes) for which they bill Medicare. Although Medicare pays the same amount for a service regardless of what type of health professional provides it, the indirect practice expense payment associated with a service is based on the weighted average indirect practice expense costs of all of the various specialties providing the service. Most Medicare services are provided by more than one specialty, and a lower-paid specialty can have its payment rates lifted when the higher practice expenses incurred by other specialties providing the same service are factored into the payment formula. Since almost no other health care professionals provide the services that psychologists provide, there are seldom other specialties with higher IPCIs that would raise the payment rates for the service. The "rising tide" effect of the practice expense relative value unit (PERVU) formula works to the benefit of other specialties, but not psychologists.
3. Psychologists bill Medicare for a smaller number of different procedures than most health care professionals. Many specialties benefit from billing for a wide range of services, because the impact of a decrease in payment for one code is offset by increases in payment for other codes billed. Psychologists have no such protection. Just three CPT codes account for two-thirds of the Medicare services provided by psychologists, and the typical Medicare-participating psychologist bills the program for only two different CPT codes. In addition, most of these services are explicitly time-based; psychotherapy, the most commonly provided service, requires a specified amount of time (30, 45 or 60 minutes) for each patient. Consequently, declines in Medicare reimbursement rates for psychologists' core services cannot be offset by increases in payments for other services, or by increasing the number of patients seen each day.

Working together, these three biases within the current Medicare physician payment system virtually ensure that psychologists' reimbursement rates will decline. As providers of low-technology but cost-efficient services, psychologists have experienced several years of shrinking payments, as Medicare spends more for expensive, technology-driven services with higher PERVU scores. Lower-cost cognitive services such as mental and behavioral health assessment and treatment are consistently being devalued in comparison.

Since most psychologists work in solo or small group practices, continuing to participate in Medicare while having their payments repeatedly cut puts their entire practice at risk. Those who remain are more likely to limit the number of Medicare beneficiaries they see in favor of patients who privately pay or whose insurance provides more competitive reimbursement. As noted above, Medicare payment rates for psychologists' services are estimated to be 17% below private sector indemnity rates. Consequently, psychologists are losing money each time they see a Medicare beneficiary instead of a patient with private insurance. Thus, shrinking reimbursement rates for psychologists are increasingly placing Medicare beneficiaries who need mental health treatment in the dire situation of not being able to find a mental health provider.

To better understand these losses, APAPO retained the services of Avalere Health (Avalere), a leading quantitative and qualitative research analysis firm known for its work on healthcare issues including the Medicare payment formula. After examining several years of Medicare data, Avalere identified changes to the practice expense relative value unit (RVU) methodology as the primary cause of the reductions in payment for psychologists. This started in 2007 when CMS revised the way it estimated direct costs for each billing code and applied an indirect cost assumption based on data that included the many physician specialties.

Avalere found that it was the implementation of the indirect practice cost index (IPCI) that had the greatest impact on psychologists' Medicare payments. As you are aware, CMS develops a ratio for each specialty by taking the total indirect costs reflected in the PPIS survey data and comparing them to the total indirect costs calculated through the Practice Expense Relative Value Unit (PERVU) methodology. This ratio for each provider specialty is then compared to a national average ratio for all specialties. This final ratio for each specialty—the indirect practice cost index (IPCI)—is then multiplied by the specialty's indirect practice expense relative value units to determine the specialty's indirect expense payments. Consequently, if the IPCI is below the national average (i.e., less than 1.0) the indirect practice expense relative value units are decreased, while specialties with ratios above the national average (greater than 1.0) have their indirect PERVUs increased. (For 2014, IPCI values ranged from 0.38 for social workers, up to 1.82 for registered dietitians; the IPCI for clinical psychologists was near the bottom of this scale, at 0.396.) While the purpose of the IPCI is to ensure adequate support for specialties with high indirect costs, an unintentional but unavoidable side effect is that payments to specialties with low practice expense costs are reduced.

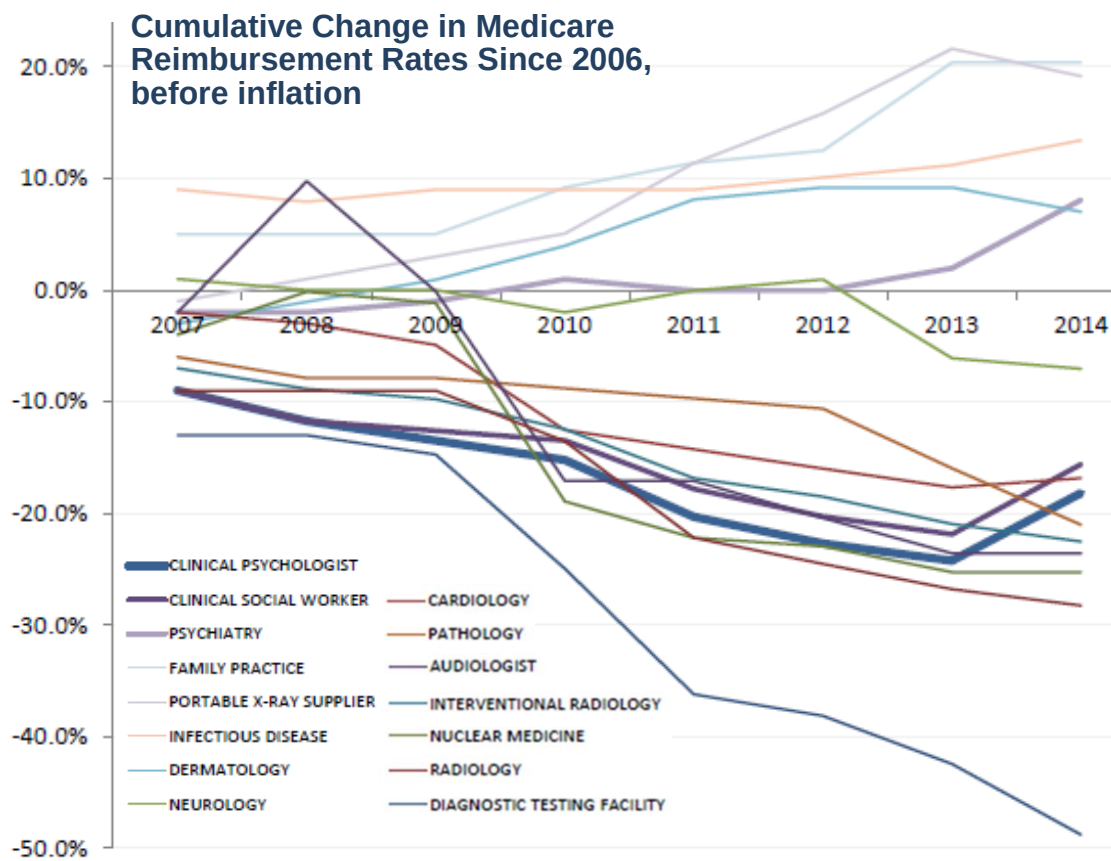
Here are how psychologists' average reimbursement rates have changed over the last eight years, mostly due to changes related to practice expense calculations.

Changes to psychologists' reimbursement rates, 2007-2014, before inflation

Year	Estimated change in Medicare payments to clinical psychologists due to fee schedule modifications	Reason
2007	-9%	Work RVU revisions, 1 st year of new PERVU methodology
2008	-3%	Continued phase-in of PERVU
2009	-2%	Continued phase-in of PERVU
2010	-2%	Final phase-in of PERVU, new PPIS data
2011	-6%	Continued phase-in of PPIS, MEI rebasing
2012	-3%	Continued phase-in of PPIS
2013	-2%	Final phase-in of PPIS
2014	+8%	MEI rebasing, Work RVU revisions
2007-2014	-18%	

Source: Avalere Health analysis of the 2007-2014 Medicare physician fee schedules

As the agency will note, psychologists have been particularly impacted by the physician payment system.



Source: Avalere Health analysis of the 2007-2014 Medicare physician fee schedules

APAPO has previously raised the issue of reductions in practice expense with CMS. On August 23, 2013 we met with Jonathan D. “Jon” Blum, Deputy Administrator at CMS in an effort to address our concern that the payment formula is failing to appropriately reimburse psychologists for the services they provide to Medicare beneficiaries. At that time we requested that CMS maintain the 2012 PERVU values temporarily assigned to the new psychotherapy codes, since the new PERVU values were expected to significantly lower payment for key diagnostic and psychotherapy services. We appreciate that the agency took this potentially negative result into consideration, and that the final PERVU values for 2014 resulted in an increase in reimbursement rates for many services provided by psychologists. Even with the new 2014 values, however, psychologists continue to lag far behind other providers, and according to the proposed rule issued this July, CMS is projecting yet another 1% loss in average reimbursement rates for psychology for 2015.

Addressing the problem

Equipment and technology costs under Medicare will always trend upward, as specialties develop and begin billing for new and improved treatments. However, with the current Medicare physician fee schedule and its PERVU methodology—and particularly including the Indirect Practice Cost Index—this general trend will penalize psychologists; effectively, specialties with very low and very stable practice expenses have their payment rates reduced in order that Medicare can pay more to specialties with larger or more volatile practice expenses.

The declining rates for psychological services paid by Medicare are likely to place downward pressure on the private insurance market reimbursement rates paid to psychologists. Medicare is the country’s largest third-party payer of healthcare services and decisions made by CMS have implications for the entire market as many private payers look to the Medicare fee schedule when determining their reimbursement rates. If this problem is not addressed soon, more psychologists will leave Medicare, depriving beneficiaries of the treatment they need. To prevent this from happening, the current payment methodology must be amended so that psychologists in Medicare are appropriately reimbursed. Research conducted by Avalere Health suggests two possible ways of accomplishing this.

Option #1- Calculate the Indirect Practice Cost Index separately for psychology services

Under this approach, the current RBRVS valuation and methodology would be maintained, with the exception of the broad system-level adjustments made in calculating direct and indirect practice expenses. For two dozen codes representing psychology services for psychotherapy, testing, and health and behavior, the IPCI would be calculated only through comparisons with the specialties billing these codes, instead of with the entire Medicare provider population.

Avalere calculates that adopting this methodology would increase the IPCI for psychologists’ services from 0.396 to 0.932. This would protect psychologists and other

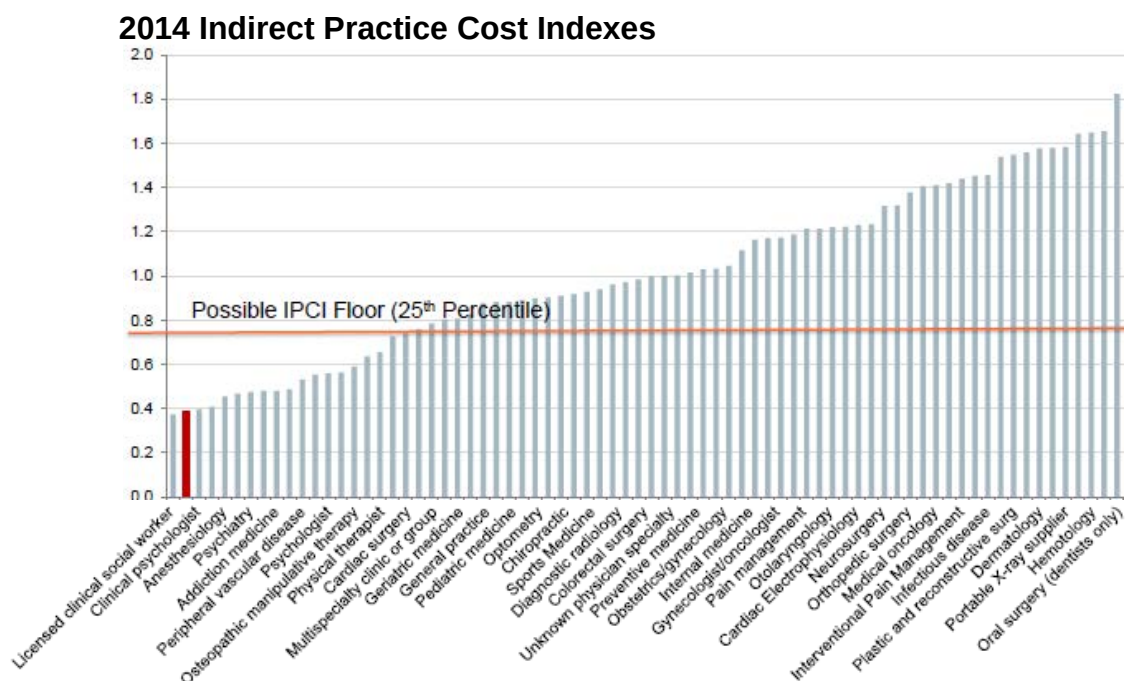
providers who bill these services from losses in reimbursement due to changes in Medicare’s payment methodology, and improvements in medical technology, that bear no connection to psychology services. Payments under this new methodology would remain stable over time due to the limited number of specialties who use the codes.

Avalere estimates that this approach would increase total payments to all specialties billing the targeted CPT codes by approximately \$210 million this year.

Option #2 – Set a floor on the IPCI for psychologists and other mental health specialties

A second approach would be to protect psychologists from having the specialty’s IPCI fall below a designated level by establishing a floor on their IPCI, thus raising payments covering indirect expenses. This approach would be similar to the floor set on the geographical price cost index which protects providers in lower-cost areas of the country. A value of 0.75 for the IPCI is at the 25th percentile for all specialties; as mentioned above, clinical psychologists have a smaller IPCI, at 0.396, than almost all other health specialties.

Current IPCIs and Possible Floor



Source: Avalere Health analysis of the 2014 Medicare physician fee schedules

Avalere estimates that psychologists would see average reimbursement rate increases of 13.2% with an IPCI floor set at the 25th percentile. This IPCI floor should also be applied to the other two mental health professions of clinical social work and psychiatry. As with Option 1, a floor on the IPCI would protect all three professions from future downward adjustments, and help stabilize their Medicare payments. Avalere estimates that

implementing a floor for the IPCI at 0.75 for all three mental health professions would result in an increased annual cost to Medicare of \$232 million.

Conclusion

Determining Medicare payments for providers is a complicated process involving a large number of factors, components, and data sources. APAPO recognizes that CMS devotes significant time and resources to implementing and improving the payment formula. But despite the agency's best efforts, the payment formula simply does not adequately reimburse psychologists, who are the primary provider of behavioral health services to Medicare beneficiaries. APAPO looks forward to working with CMS on this issue. Absent effective action to address the present inequities, Medicare beneficiaries will be at increased risk of losing access to the valuable and unique mental health services psychologists provide.

Thank you for your consideration. If you have any questions, please contact our Director of Regulatory Affairs, Diane M. Pedulla, J.D. by telephone at 202-336-5889 or by email at dpedulla@apa.org.

Sincerely,



Katherine C. Nordal, Ph.D.
Executive Director for Professional Practice
American Psychological Association Practice Organization

ⁱ R. Bachman (personal communication, February 26, 2014)

ⁱⁱ E. Hammelman (personal communication, August 5, 2014)

ⁱⁱⁱ Bureau of Labor Statistics, Consumer Price Index, All Urban Consumers. Downloaded at <http://www.bls.gov/cpi/cpid1406.pdf>

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^v Mitchell, A. J., Vaze, A., & Rao, S. (2009). Clinical diagnosis of depression in primary care: a meta-analysis. *The Lancet*, 374(9690), 609-619.

^{vi} Mojtabai, R., & Olfson, M. (2011). Proportion of antidepressants prescribed without a psychiatric diagnosis is growing. *Health Affairs*, 30(8), 1434-1442.

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^{viii} Weisberg, R., Dyck, I., Culpepper, L., & Keller, M. (2007). Psychiatric treatment in primary care patients with anxiety disorders: a comparison of care received from primary care providers and psychiatrists. *American Journal of Psychiatry*, 164(2), 276-282.

^{ix} IOM (Institute of Medicine). 2012. *The mental health and substance use workforce for older adults: In whose hands?* Washington, DC: The National Academies Press. p. 23.

^x *ibid.* p.7

^{xi} Himelhoch, S. et al. (2004). Chronic medical illness, depression, and use of acute medical services among Medicare beneficiaries. *Medical Care*, 42, 512-521.

^{xii} Unutzer, J. et al. (2009). Healthcare costs associated with depression in medically ill fee-for-service Medicare participants. *Journal of the American Geriatrics Society*, 57, 506-510.