

- What should be the composition of a panel of experts? How could such a panel provide expertise on services that clinician group members do not furnish?
- How would such a panel relate to the RUC and existing Secretarial advisory panels such as the Practicing Physician Advisory Committee?

The Commission addressed these questions in detail on pages 142-145 of our March 2006 report. For example, on the question of incorporating input from the expert panel into existing processes, the panel should be involved at the outset of the five-year review to identify services that may be misvalued and that warrant consideration by the RUC. Later in the review process, CMS would use the panel to help evaluate RUC recommendations. We would be happy to discuss these questions with your staff and to provide additional clarifications if that would be helpful.

Equipment utilization rate

To calculate the per service cost of medical equipment, CMS multiplies the number of minutes the equipment is used for that service by its cost per minute. To derive a machine's cost per minute, CMS uses a formula to spread the machine's purchase price over the number of minutes it is projected to be used during its useful life, taking into account the cost of capital, maintenance costs, and other factors. To estimate the amount of time equipment is expected to be used, CMS multiplies the number of hours that providers are open for business by the percent of time the equipment is operated. CMS assumes that providers are open 50 hours per week, on average, and that all medical equipment is operated 50 percent of the time that practices are open, or 25 hours per week. However, if machines are used more frequently, their fixed costs are spread across more units of service, resulting in a lower cost per service. In this instance, such equipment would be overvalued by CMS.

CMS proposes to increase the equipment use rate for all equipment priced over \$1 million from 50 percent to 90 percent (equivalent to 45 hours per week). This change would affect expensive diagnostic imaging and radiation therapy machines. In support of this proposal, CMS cites evidence discussed in our March 2009 report that computed tomography (CT) and MRI machines are used much more than 25 hours per week.⁴ According to a survey of imaging providers in 6 markets conducted by NORC in 2006 for the Commission, MRI scanners are used 52 hours per week, on average, and CT machines are used 42 hours per week, on average. According to data from a 2007 survey of CT providers by IMV, a market research firm, CT scanners are used 50 hours per week, on average. CMS states that this evidence suggests that providers only make large capital investments in equipment if that equipment is going to be used more than half the time.

The Commission supports CMS's proposal as it applies to diagnostic imaging machines that cost more than \$1 million, and we encourage CMS to explore increasing the equipment use factor for diagnostic imaging machines that cost less than \$1 million. MedPAC did not contemplate applying this policy to radiation therapy machines.

The Commission is concerned that the rapid volume growth of costly diagnostic imaging services in recent years may signal that they are mispriced. Setting the equipment use rate at 50 percent—rather than at a higher level—has led to higher practice expense RVUs for these services, thereby

⁴ Medicare Payment Advisory Commission. 2009. *Report to the Congress: Medicare payment policy*. Washington, DC: MedPAC.