Key Terms for Completing a Cost Analysis

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This job aid defines common terms utilized in completing a cost analysis.

Key Term	Description
Centers for Medicare & Medicaid Services (CMS)	A federal agency housed within the U.S. Department of Health and Human Services. CMS sets and updates the Medicare Fee Schedule.
Conversion Factor (CF)	A value used in Medicare's payment formula that converts relative value units (RVUs) into Medicare-allowed payment amounts. The sum of geographically-adjusted RVUs is multiplied by the CF for each procedure. Centers for Medicare and Medicaid Services (CMS) updates the CF annually and publishes it with RVUs. Managed care plans generally develop their fee schedules by either choosing a relative value scale and CF(s), or paying at a multiple of the Medicare Fee Schedule (e.g., 110% of Medicare, 90% of Medicare, etc.).
Current Procedural Terminology (CPT) Code	A numeric universal system that identifies medical services and procedures. Each procedure has a unique five digit code.
Direct Costs	Direct costs generally include salaries (with vacations, holidays, sick leave, and other excused absences of employees working specifically on a grant or contract); fringe benefits; consultant services contracted to accomplish grant/contract objectives; employee travel; materials, supplies, and equipment purchased for use on a grant or contract; and communication costs such as phone and internet.
Geographic Practice Cost Indices (GPCI)	RVU-specific adjustments that account for geographic variation in the cost of practicing medicine in the U.S.
Indirect Costs	Indirect costs are the expenses of doing business that are not readily identified with a particular grant, contract, project function, or activity, but are necessary for an organization's general operations. Cost allocation plans or indirect cost rates are used to distribute those costs to benefiting revenue sources.
Relative Value Unit (RVU)	The value, expressed in units of one procedure in relation to other procedures based on the time, materials, and skill level of the personnel involved in providing that procedure. Each CPT code has a published relative value. The RVU is comprised of three factors—physician (or physician assistant, PA, or nurse practitioner, NP) RVU, practice expense RVU, and malpractice expense RVU. • **Physician (or PA or NP) Expense (Work) RVU:** The value of a physician's (or PA or NP) time, technical skill, effort, judgment, and stress to provide a service. • **Practice Expense (PE) or Overhead RVU:** The value of a practice's expense/administrative overhead. This includes the costs of maintaining a practice including rent, equipment, supplies, and non-physician staff costs. • **Malpractice Expense (MP) RVU:** The value of professional liability or malpractice insurance. Typically the MP RVU is the smallest RVU factor.

Key Term	Description
Resource-Based Relative Value Scale (RBRVS)	The RBRVS is the physician payment system used by CMS and most other payers. The RBRVS is based on the principle that payments for physician (or PA or NP) services (procedures) should vary with the resource costs for providing them. The RBRVS provides a single set of relative values by which all services are scaled and consists of three elements: physician (or PA or NP) work; practice or overhead expenses; and cost of malpractice insurance.
Usual, Customary, and Reasonable (UCR)	The amount paid for a medical service in a geographic area based on what providers in the area usually charge for the same medical service. A charge is considered usual, customary, and reasonable if it matches the general prevailing cost of that service within a geographic area, which is calculated by private insurance. The payer then uses this information to determine how much it is willing to pay for a given service in an area.

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