How a Medicare Physician Payment Is Calculated

Medicare Physician Fee Schedule (MPFS) — the payment formula, step by step

Payment = [(Work RVU × Work GPCI) + (Practice Expense RVU × PE GPCI) + (Malpractice RVU × MP GPCI)] × Conversion Factor

WORK

Component 1

Work RVU × Work GPCI

The physician's time, skill, and effort to perform the service.

+

PRACTICE EXPENSE

Component 2

PE RVU × PE GPCI

Clinical staff, rent, supplies, and equipment used to deliver care.

+

MALPRACTICE

Component 3

MP RVU × MP GPCI

Professional liability (malpractice) insurance cost.

Add the three geographically adjusted components → a bracketed subtotal

[Sum of the 3 components]
total adjusted RVUs

×

Conversion Factor
national $ per RVU, set yearly

=

PAYMENT
amount Medicare pays

RVU = Relative Value Unit **GPCI** = Geographic Practice Cost Index **PE** = Practice Expense **MP** = Malpractice

Medicare Physician Fee Schedule CY207

- CMS released the CY2027 Medicare Physician Fee Schedule (MPFS) Proposed Rule on July 14
  - The qualifying APM CF will be $33.1693 (**a -1.19 percent reduction** from CY 2026)
  - The nonqualifying APM CF will be $32.8409 (**a -1.68 percent reduction** from CY 2026)
- According to CMS's specialty impact table, this rule will have an outsized impact on orthos

TABLE D-B5: CY 2027 PFS ESTIMATED IMPACT ON TOTAL ALLOWED CHARGES BY SPECIALTY

(A) Specialty	(B) Total: Non-Facility/Facility	(C) Allowed Charges (mil)				(D) Impact of Work RVU Changes	(E) Impact of PE RVU Changes	(F) Impact of MP RVU Changes	(G) Combined Impact
ORTHOPEDIC SURGERY	*TOTAL*	$3,296	-3%	-4%	-1%	-7%			
	Non-Facility	$1,549	-2%	-4%	0%	-5%			
	Facility	$1,747	-4%	-4%	-1%	-8%			

Medicare Physician Fee Schedule

We will be closely examining several policies and how they contribute to this cut:

- CMS is proposing to reduce payment when a separately identifiable office/outpatient evaluation and management (E/M) visit is furnished by the same physician (or a physician in the same practice) on the same day as a 0-, 10-, or 90-day global procedure. The most expensive service (either surgical or E/M visit) would be paid at 100% and all other surgical procedure(s) or E/M visit(s) furnished on the same day would be paid at 50%.

- Changes to the final step of the PE RVU calculation methodology that would reduce reliance on the 2007 practice expense per hour (PE/HR) data by phasing in a PE stabilizer.

- CMS valuation reductions to key orthopaedic CPT codes (see table of the top 10 highest volume ortho codes attached from our consultants at **Hart Health Strategies**).

Selected Codes (High Volume Ortho) – Changes from CY 2026 to CY 2027

(Based on CY 2027 MPFS Proposed Rule Addendum B - as of July 14 , 2026)

CPT Code	Short Descriptor	wRVU % Change	PE RVU % Change	MP RVU % Change	Total RVUs (2026)	Total RVUs (2027)	Total 2027 Pmt	Pmt % Change cf. 2026
20600	*Drain/inj joint/bursa w/o us*	0.0%	-4.5%	+13.0%	0.94	0.94	$30.38	***-1.68%***
	Non-Facility (Office)		-2.1%		1.68	1.67	$53.97	***-2.26%***
27447	*Total knee arthroplasty*	-16.6%	-23.0%	-20.0%	34.72	28.08	$907.42	***-20.48%***
27130	*Total hip arthroplasty*	-19.6%	-16.9%	-22.0%	34.78	28.18	$910.65	***-20.33%***
20551	*Njx 1 tendon origin/insj*	0.0%	-5.6%	+13.0%	0.99	0.99	$31.99	***-1.68%***
	Non-Facility (Office)		-6.0%		1.81	1.76	$56.88	***-4.39%***
64721	*Carpal tunnel surgery*	0.0%	-5.0%	-5.0%	12.67	12.28	$396.83	***-4.70%***
	Non-Facility (Office)		-5.0%		14.45	13.97	$451.45	***-4.94%***
26055	*Incise finger tendon sheath*	0.0%	-5.0%	-5.0%	8.61	8.33	$269.19	***-4.87%***
	Non-Facility (Office)		-5.1%		18.85	18.05	$583.29	***-5.85%***
20526	*Ther injection carp tunnel*	0.0%	-2.6%	-12.0%	1.48	1.45	$46.86	***-3.67%***
	Non-Facility (Office)		-5.2%		2.64	2.54	$82.08%	***-5.40%***
64640	*Injection treatment of nerve*	0.0%	-5.0%	-5.0%	3.34	3.27	$105.67	***-3.74%***
	Non-Facility (Office)		-5.1%		8.02	7.71	$249.15	***-5.48%***
23472	*Reconstruct shoulder joint*	-19.0%	-18.1%	-22.0%	38.93	31.53	$1018.91	***-20.37%***

Analysis is an estimate calculated by Hart Health Strategies based on CY 2027 proposed RVUs and non-QP conversion factor and is subject to change

*"**Pmt % Change cf. 2026**" includes changes to each codes RVUs and the proposed CF, including the proposed cut to the non-QP conversion factor of -1.68%, but does not account for individual practice calculations for GPCIs, MIPS, or APM bonuses.*

Total payment calculations will differ for services paid based on QP conversion factor

MPS: Advocacy Strategy

AAOS will be

- drafting a robust comment letter pushing back hard on these policies (due September 14)
- requesting meetings with the Administration to discuss our concerns with the total joint arthroplasty codes devaluations and the modifier 25 proposal
- educating Capitol Hill on these impacts and asking them to weigh in with CMS

Individual AAOS members can

- write Congress and CMS at this link
- Access our toolkit at this link