

Key Terms for Completing a Cost Analysis



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.
Comparison Ratio	Comparison of the cost/RVU to the Conversion Factor (CF).
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.).
Cost/RVU	Total family planning expenditures divided by the grand total of family planning RVUs. This ratio is calculated using expense and utilization data for the same specific time period. For every RVU reported, this calculation represents the cost of that RVU.
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.
In-kind Contributions	In-kind contributions include any non-cash items given to an organization to be used in the pursuit of a family planning project's goals. These can include volunteer counselors, front desk staff, the medical director, or individuals assigned from another department to work periodically with an agency's family planning project. In addition to personnel, any other goods or services that are donated to the project are considered in-kind contributions. Examples of donated goods include rent for space donated by another agency or department, free medications received from pharmaceutical companies, lab services that are provided by the state lab or other reference lab at no cost to the program, etc. Depreciation expenses can also be included, if appropriate for any equipment items that have been assigned a fair market value and donated to the project in the past. Staff, services, and goods should be calculated at fair market value.
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.
Private Insurance (PI)	Refers to any health insurance coverage that is offered by a private entity instead of a state or the federal government.

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Relative Value Unit (RVU)	<p>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.</p> <ul style="list-style-type: none"> ● 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.
Resource-Based Relative Value Scale (RBRVS)	<p>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.</p>
Third Party Payer (TPP)	<p>Third party payers are those insurance carriers, including public, private, managed care, and preferred provider networks, that reimburse the cost of health care provider services fully or partially. They are the insurance company or organization (the third party) other than the client (the first party) or health care provider (the second party) that pays for medical services.</p>
Usual, Customary, and Reasonable (UCR)	<p>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.</p>