EPSTEIN BECKER GREEN

Attorneys at Law

AAHKS AMERICAN ASSOCIATION OF HIP AND KNEE SURGEONS

MEMORANDUM

To: AAHKS **From:** Epstein Becker & Green, P.C.

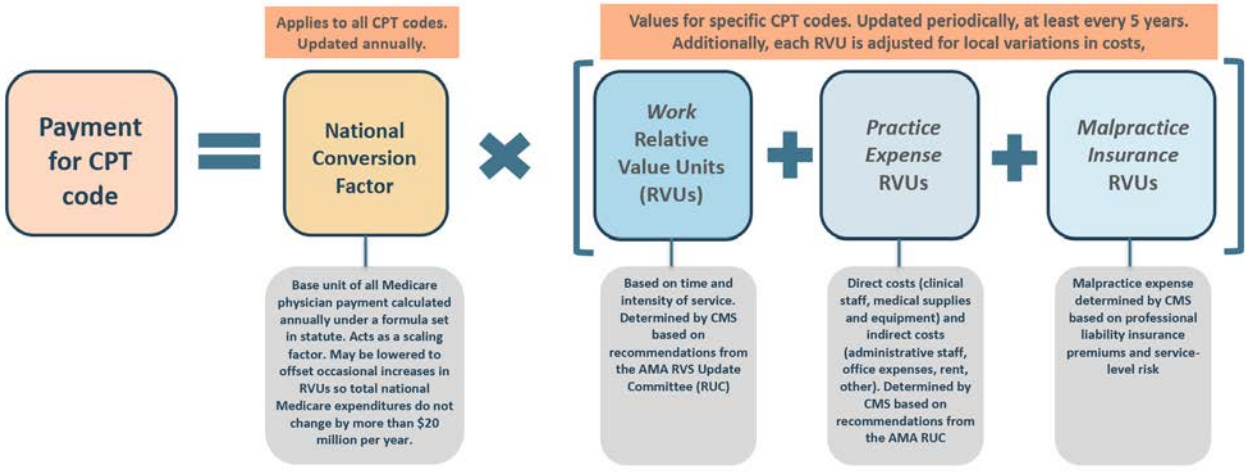
Date: November 13, 2025

Re: **Summary of the 2026 Medicare Physician Fee Schedule Final Rule Payment Provisions**

On November 5, 2025, the Centers for Medicare & Medicaid Services (CMS) published the 2026 Medicare Physician Fee Schedule (PFS) final rule. 2026 outpatient and ASC rates are expected to be released within 4 weeks, delayed due to the government shutdown. The following is a summary of finalized payment policies in the final rule.

I. BACKGROUND

As a refresher, Medicare PFS payments, for covered services identified by a CPT code, are based upon code specific **relative value units (RVUs)** developed by CMS. All RVUs are comprised of three components: (1) **work** (reflecting the practitioner's time and intensity in furnishing the service); (2) **practice expense** (direct costs in clinical labor, medical equipment, and disposable supplies and indirect costs including office expenses, administrative labor and other costs); and (3) **malpractice insurance premiums**. The final payment amount is determined by summing the adjusted RVU weights and multiplying the total by a national standard dollar amount, known as the **Medicare conversion factor**. The Medicare PFS is the annual process by which CMS updates the conversion factor and periodically updates RVUs for each service.



II. Deliberate Policy to Shift Funding from Specialties to Primary Care

The Trump administration is implementing extraordinary changes in 2026 to how Medicare physician payments are calculated. Many rationales and data-based justifications were proffered by CMS for these changes but perhaps it was put most directly as follows:

> ***"We think primary care is underfunded. Investing in primary care is shown to drive down health care costs. Therefore, we took money from specialties and gave it to primary care."***
>
> - Dr. Mehmet Oz, CMS Administrator
> Speaking to America's Physician Groups Fall Conference, Nov. 5, 2025

During nomination for HHS Secretary, RFK Jr. told press that he wants to shift Medicare incentives "toward primary care and prevention" and away from AMA RUC values that "reward providers for surgeries or other costly procedures."

III. "Efficiency Adjustment" Applied to Cut Work RVUs of Most Codes

CMS is finalizing a new negative productivity adjustment, called the "Efficiency Adjustment" to cut the intraservice time of the work RVUs by 2.5%. This adjustment applies to all codes **except time-based codes, such as evaluation and management (E/M) services, care management services, behavioral health services, services on the Medicare telehealth list.**

The "Efficiency Adjustment" is alleged to adjust for efficiencies and improvements over time in the performance of procedures. As Dr. Oz recently said, "We took 2.5% from specialties for efficiency. I've gotten better as a surgeon over 20 years. It doesn't take me as much time as it used to." CMS plans to apply a similar efficiency adjustment approximately every 3 years.

CPT	2025 WORK RVU	TOTAL TIME	2026 ADJUSTED WORK RVU	ADJUSTED TIME
27130	19.60	377	19.11	374.50
27447	19.60	374	19.11	371.58

a. "Site of Service Differential" to Reduce Practice Expense RVUs for Facility-Based Procedures

CMS is implementing a new PE methodology to "recognize greater indirect costs for practitioners in office-based settings compared to facility settings." CMS argues that because significantly more physicians are hospital employed, they are not maintaining separate offices and therefore have lower costs. Facility-based PE RVUs will be reduced to half the amount

allocated to non-facility PE RVUs. CMS calls practice expense (PE) RVU values, based on AMA surveys, are also unreliable. CMS points to "small sample sizes and sampling variation, low response rates and representativeness, potential measurement error, and incomplete data submission" and therefore will not use the AMA submitted values.

PE RVUs are therefore increased for all office-based procedures and decreased for all facility-based procedures.

CPT	2025 Practice Expense RVUs	2026 ADJUSTED Practice Expense RVUs
27130	15.34	11.63
27447	15.30	11.59

IV. Conversion Factor Increases

Cuts to RVUs for facility-based specialties are only partially offset by increases in the conversion factor in 2026. The increase is due to 3 separate policies:

a. 2 Separate Conversion Factors Based on APM Status

Under the MACRA Act of 2015, Congress requires CMS to implement 2 different CFs beginning in 2026 based on a doctor's "QP status". (To become a QP, doctors must receive at least 75% of Medicare payments or see at least 50% of Medicare patients through an "Advanced APM Entity" (**i.e., BPCI-A, CJR, TEAM, MSSP (ACO), or certain managed care contracts[1], etc.**)) Under law, the QP conversion factor is increased **0.75%** in 2026. The non-QP conversion factor is increased by **0.25%.**

b. One-Time Congressionally Mandated Increase

The One Big Beautiful Bill Act of 2025 directs CMS to increase the conversion factor by **2.5%** for 2026 only.

c. Budget Neutrality Adjustment

In order to prevent total national Medicare payments from changing too much year-to-year, the budget neutrality adjustment increases the conversion factor by **0.49%** to offset the reductions in practice expense RVUs for facility-based procedures and the work RVU reductions from the "efficiency adjustment".

[1] This includes most Medicare Advantage plans if the MA plan has obtained formal certification as an APM.

V. Final Impact on Arthroplasty Rates

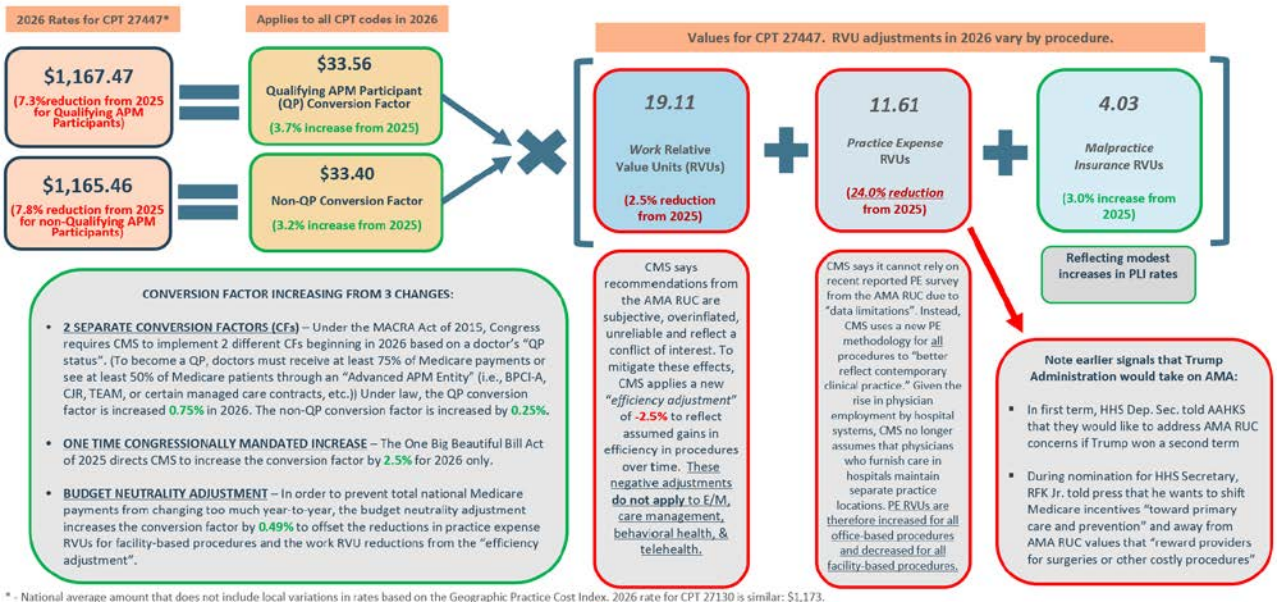
Final 2026 Rate Inputs for 27130 & 27447		
QP Conversion Factor	**$33.56**	**+3.7%**
Non-QP Conversion Fct.	**$33.40**	**+3.2%**
Work RVU	**19.11**	**-2.5%**
Practice Expense RVU	**11.61**	**-24.0%**
MedMal RVU	**4.03**	**+0.1%**

Final 2026 Rates for 27130 & 27447[2] [3]		
Qualifying APM Participant		
27130	**$1,167.47**	**- 7.3%**
27447	**$1,165.46**	**- 7.3%**
Non-Qualifying APM Participant		
27130	**$1,161.65**	**- 7.8%**
27447	**$1,159.64**	**- 7.8%**

In contrast, consistent with the Administration's focus on supporting primary health, the following classes of codes will see increases attributable to the conversion factor: evaluation and management (E/M) services, care management services, behavioral health services, services on the Medicare telehealth list.

Consistent with the 2 conversion factors, if these primary care services are performed by a physician participating in an Advanced APM (i.e., BPCI-A, CJR, TEAM, MSSP (ACO), or certain managed care contracts, etc.), the rates will increase 3.74%. Otherwise the rates will increase only 3.24%.

VI. Graphic Summary



[2] National Average Payment Amount – Local variations in the Medicare Geographic Practice Cost Index (GPCI) applied to procedure RVUs lead to higher or lower amounts depending on region.

[3] 2026 local rates have not yet been released by CMS.

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