

# Combined impacts of 2007 Medicare physician payment changes

In addition to the 5 percent cut in 2007 due to the sustainable growth rate (SGR) formula, physicians face an array of other payment changes in 2007. Some of these changes further reduce total Medicare funding for physician services, thus compounding the SGR cuts for particular specialties and geographic areas. Others redistribute money among physician services such that they mitigate the SGR cuts for some specialties while exacerbating them for others.

**When the impacts of all the Medicare physician payment changes for 2007 are combined, 44 percent of physicians face total cuts of 6-20 percent.**

## Cuts that remove money from the system include:

### SGR cut

- SGR cut will be Medicare Economic Index (MEI) minus 7 percentage points, which results in a 5 percent cut in the conversion factor. This is an across-the-board cut that affects all physicians.

### The end of the Medicare Modernization Act's (MMA) three-year floor on geographic practice cost index (GPCI) for work, which

- Boosted average Medicare physician payment rates by almost 1 percent.
  - Fifty-three of the 89 payment localities got some benefit.
  - Eleven localities saw payment increases of 2 percent or more.
  - North and South Dakota had increases greater than 3 percent.

### Imaging cuts from the Deficit Reduction Act (DRA)

- The DRA stipulated that payment rates for technical component imaging services cannot exceed the hospital payment rate for the same service, making the cuts steeper for radiologists (-5 percent), vascular surgeons (-4 percent) and others.

### Payment redistributions that will offset SGR cuts for some physicians but deepen them for others include:

- A **budget neutrality adjustment** to reflect payment increases for visits and other evaluation and management (E/M) services recommended as part of the most recent five-year review of work relative values.
  - The RVS Update Committee (RUC) recommended and the Centers for Medicare & Medicaid Services (CMS) has proposed significant increases in the E/M relative values. These increases also would be carried over into the relative values assigned to the pre- and post-operative components of global surgical packages.
  - CMS is required to apply a budget neutrality reduction of about 5.5 percent to offset the cost of the proposed increases in E/M and surgical services. For some specialties, the benefits of the relative value increases will outweigh the impact of a negative budget neutrality adjustment but for others, the adjustment will exacerbate the impact of the SGR and other cuts.

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**Supplemental surveys**

- For most specialties, practice expense values are based on the AMA's Socioeconomic Monitoring Survey (SMS) survey, last done in 1999. Some specialties took advantage of a law requiring CMS to accept supplemental surveys, which increases practice expense values for some services while requiring cuts in others to maintain budget neutrality.

**Changes in CMS's practice expense methodology**

- CMS also has proposed to revise its methodology for determining practice expense values. This proposed change, to be phased in over four years, also benefits some specialties while requiring budget neutrality cuts for others.

**CMS estimates that the combined work and practice expense changes** will provide increases large enough to offset the impact of the SGR cut for 5 specialties, most of which would barely break even, and exacerbate the SGR cut for 17 specialties.

**When the impacts of all these different changes are combined, the final rule released on Nov. 1, 2006, shows significant 2007 payment changes for every specialty:**

- Because the negative update due to the SGR affects all physicians, only four specialties, infectious disease (+4 percent), emergency medicine (+2 percent), pulmonary disease (+1 percent) and endocrinology (+1 percent) will see net positive payment changes in 2007.
- Family physicians will see no net change in payment.
- Most specialties will see cuts, with five specialties facing double-digit cuts of 10-14 percent. Radiologists face the steepest reductions of any specialty, with a total cut in 2007 of 14 percent.
- When the elimination of the work GPCI floor is combined with the specialty impacts, cuts will be more than 17 percent in some payment localities, such as North and South Dakota.