

Medicare physician payment: The facts

Prevent Medicare physician pay cuts in 2007 and beyond.

The forecast

- Last winter, Congress enacted a freeze in payment rates under the Medicare physician payment formula (the sustainable growth rate, or SGR), reversing the 4.4 percent cut that had taken effect for 2006.
- **Despite Congress' intervention, a crisis still looms: it is projected that on Jan. 1, 2007, payment rates will be cut across the board by about 5 percent.**
- **The 2006 Medicare Trustees report projects cuts in physician payment rates, due to the SGR, totaling about 40 percent through 2015.**
- If payments are cut in 2007, then Medicare physician payment rates will have fallen 20 percent below the government's conservative measure of inflation in medical practice costs in just six years. This gap is due to a 5.4 percent physician pay cut in 2002. In addition, scheduled cuts in 2003 through 2006 were replaced by Congress with temporary payment fixes that represented less than half the rate of medical practice cost inflation.
- These cuts also pull down payment rates from other sources. For example, TRICARE, which provides health insurance for military families and retirees, ties its physician payment rates to Medicare, as do some state Medicaid programs. Thus, Medicare cuts trigger TRICARE and Medicaid cuts as well.
- In addition to the negative 5 percent update for 2007, five other factors will have a significant impact on 2007 Medicare physician payment rates: the floor of 1.00 on geographic adjustments will expire, reducing payments by an additional 1 to 3 percent in most payment localities; the five-year review of work relative values increases payments for visits and global surgical services; a budget neutrality adjustment for the five-year review decreases payments for most services by about 5 percent; the first year of a transition to revised practice expense relative values increases payments for some services and decreases them for others; and reductions in payment for imaging services (due to a provision of the Deficit Reduction Act) further reduce payments for a number of specialties, including radiologists.

Consensus: Change is needed

- There is widespread consensus that the SGR formula needs to be replaced.
- The Medicare Payment Advisory Commission (MedPAC) has recommended that the SGR be replaced with a system that reflects increases in practice costs.
- The Centers for Medicare and Medicaid Services (CMS) Administrator has stated that the current physician payment system is not sustainable.
- The Military Officers Association of America (MOAA) has stated that payment cuts under the SGR would significantly damage military beneficiaries' access to care under TRICARE, which will have long-term retention and readiness consequences.
- The physician community is united in its support for a new Medicare physician payment system that adequately reflects increases in the cost of practicing medicine.

Problem: Patient access and quality improvement threatened

- Although many policymakers envision transforming the physician payment system to emphasize health information technology and quality improvement, that vision will never be realized as long as SGR pay cuts continue.
- A MedPAC survey found that, in 2005, 25 percent of Medicare patients looking for a new primary care physician had some problem finding one and that a growing number had a "big problem." It concluded that some beneficiaries "may be experiencing more difficulty accessing primary care physicians in recent years and to a greater degree than privately insured individuals."
- An AMA Member Connect[®] survey found that access has already deteriorated and additional cuts will create even greater problems. Of the more than 8,000 physicians respondents, almost two-thirds (65 percent) said more Medicare patients in their community are being treated in the emergency room rather than physicians' offices and three-fifths (60 percent) said more patients are putting off needed care. If payments are cut as pro-

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jected in 2007, nearly half (45 percent) will either decrease or stop accepting new Medicare patients in 2007; and 50% of physicians plan to defer the purchase of information technology.

- MOAA states that the cuts in Medicare physician rates would be devastating for access to care for military families, many of whom already have difficulty finding TRICARE providers.
- In the long-run, all patients—especially baby boomers—may find it more difficult to find a physician. The congressionally-created Council on Graduate Medical Education is already predicting a shortage of 85,000 physicians by 2020, and multi-year cuts in Medicare are nearly certain to exacerbate this shortage by making medicine a less attractive career and encouraging retirements among the 35 percent of physicians who are 55 or older.

Solution: Stop the cuts and replace the SGR formula

- As MedPAC and others have recommended, Congress should scrap the SGR formula and instead adopt the same approach for physician payment updates that is used for hospitals, nursing homes, and other Medicare providers. Under this approach, payments would accurately reflect practice cost increases.

Ask your Members of Congress to:

1. Take action this year to prevent physician payment cuts in 2007 and secure a positive payment update that accurately reflects practice cost increases as recommended by the Medicare Payment Advisory Commission.
2. Replace the unsustainable growth rate formula with a payment system that accurately reflects practice cost increases, thereby preventing the need for congressional intervention each year to avert steep cuts.

