

## Medicare Physicians Fee Schedule (MPFS- the “Physician’s Haircut”) and Its Importance to Healthcare Costs

*Note: More detail can be found by clicking on any heading which will link you to the larger document.*

### What is the MPFS?

- Prior to the use of this schedule, which began in 1992, charges for services were based on customary, prevailing and reasonable charges. With the implementation of MPFS, charges were intended to be based on resource costs required to provide the services.
- Starting in 1998, the fees began to be based on the Sustainable Growth Rate Formula (the SGR), which determines the physician fee rates for Medicare B patients. On average, one could expect an annual decrease in fees paid to physicians of about 3 to 7% per year<sup>1</sup>. If physician related expenses exceed target level spending for a given year, a decrease is to some physician fees should occur to bring spending back to target levels.

### Why is this relevant?

- The current cumulative scheduled decrease in fees through 2010 is 21%, with another 6% decrease scheduled for 2011.
- For the purposes of forecast the national debt, the Congressional Budget Office assumes that these decreases will actually occur.
- If they don’t occur, the “cost” of doing nothing will be recognized and reflected in our actual national debt as a new cost.
- If we allow these decreases to occur, there is a concern that many physicians, who currently see Medicare Patients, will stop doing so. This would cause a coverage/service issue for those people who rely on Medicare as the primary source of health insurance.

### SGR Historical Increases<sup>3</sup>

- On January 1, 1992, Medicare introduced the Medicare Fee Schedule (MFS).
- From 1992 to 1997, adjustments to physician payments were adjusted using the Medicare Economic Index (MEI) and the Medicare Volume Performance Standards (MVPS).
- In 1998, Congress replaced the VPS with the Sustainable Growth Rate (SGR).
- Since 2002, actual Medicare Part B expenditures have exceeded projections.
- In 2002, payment rates were cut by 4.8%.
- In 2003, payment rates were scheduled to be reduced by 4.4%. However, Congress boosted the cumulative SGR, allowing payments for physician services to rise 1.6%.
- In 2004 and 2005, payment rates were again scheduled to be reduced. The Medicare Modernization Act (P.L. 108-173) increased payments 1.5% for those two years.
- In 2006, the SGR mechanism was scheduled to decrease physician payments by 4.4%. Without further continuing congressional intervention, the SGR is expected to decrease physician payments from 25% at the end of 2010. Under SGR, further decreases would most likely be required in the next several years.
- Despite their improbability, the negative physician updates are scheduled to occur under current law and are therefore included in the Part B estimates shown in the 2010 Medicare Trustees Report. (See [2010 Medicare Trustee Report](#)).
- Note: On 12/6/2010, Congress decided to freeze Medicare Physician payments for one year.

## **The Numbers**

- The pending cut in physician's fee were largely ignored during the CBO accounting for the cost of the new health care law (PPACA) as it was not considered to be explicitly part of the new law. This was in part due to the desire by President Obama and Speaker Pelosi to keep the price tag of PPACA under \$1 trillion.
- The magnitude of the difference between current law which would implement physician fee decreases using the SGR formula versus an alternative projection, as laid out by Richard Foster, Chief Actuary of Medicare and Medicaid Services, is significant (\$434 billion over 2010 – 2019).

## **Alternatives**

- In the short term, Congress can continue to just delay these decreases. Because these decreases are part of the CBO's financial projections, each of these postponements will have to be paid for.
- President Obama and the Congressional Budget office recognize that the current SGR law is not going to be viable in the long term. The President has asked the Congress to come up with alternative solutions to address this growing problem.
- The CBO has projected the cost of several options for addressing this issue. All of these options estimate the additional costs over the period from 2011-2020 in billions of dollars <sup>4</sup>.
- The cost of these various options range from \$15 billion to \$374 billion, depending on the magnitude of the change.

All of this analysis can be seen in greater detail in "[CBO Estimate of Changes in Net Federal Outlays from Alternative Proposals for Changing Physician Payment Rates in Medicare](#)" on the web ([Tables](#)).

## **Summary**

The SGR formula is unworkable in its current form. Our Congress has postponed updates to the MPFS to avoid losses in physicians willing to provide Medicare Part B services. The costs to resolve are real and immediate. Actions are required to resolve this situation expeditiously.

## **Footnotes**

1. [The Sustainable Growth Rate Formula for Setting Medicare's Physician Payment Rates](#)
2. <https://www.cms.gov/ReportsTrustFunds/downloads/2010TRAlternativeScenario.pdf>
3. [http://en.wikipedia.org/wiki/Medicare\\_\(United\\_States\)](http://en.wikipedia.org/wiki/Medicare_(United_States))
4. <http://www.cbo.gov/budget/factsheets/2010b/SGR-menu.pdf>
5. <https://www.cms.gov/ReportsTrustFunds/downloads/tr2010.pdf>