Medicare Physicians Fee Schedule (MPFS- the "Physician's Haircut") and Its Importance to Healthcare Costs

<u>What is the MPFS?</u>

"The Centers for Medicare and Medicaid Services (CMS) uses the Medicare Physician Fee Schedule (MFS) to reimburse physician services. The MPFS became effective January 1, 1992 and replaced the old "customary, prevailing, and reasonable" (CPR) charge system. The MPFS is funded by Part B and is composed of resource costs associated with physician work, practice expense and professional liability insurance.[1]"

The use of the MPFS began in 1992. Prior to the use of this schedule, 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.

The fees are 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 4 to 5% per year. 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. The converse is also true.

<u>Why is this relevant?</u>

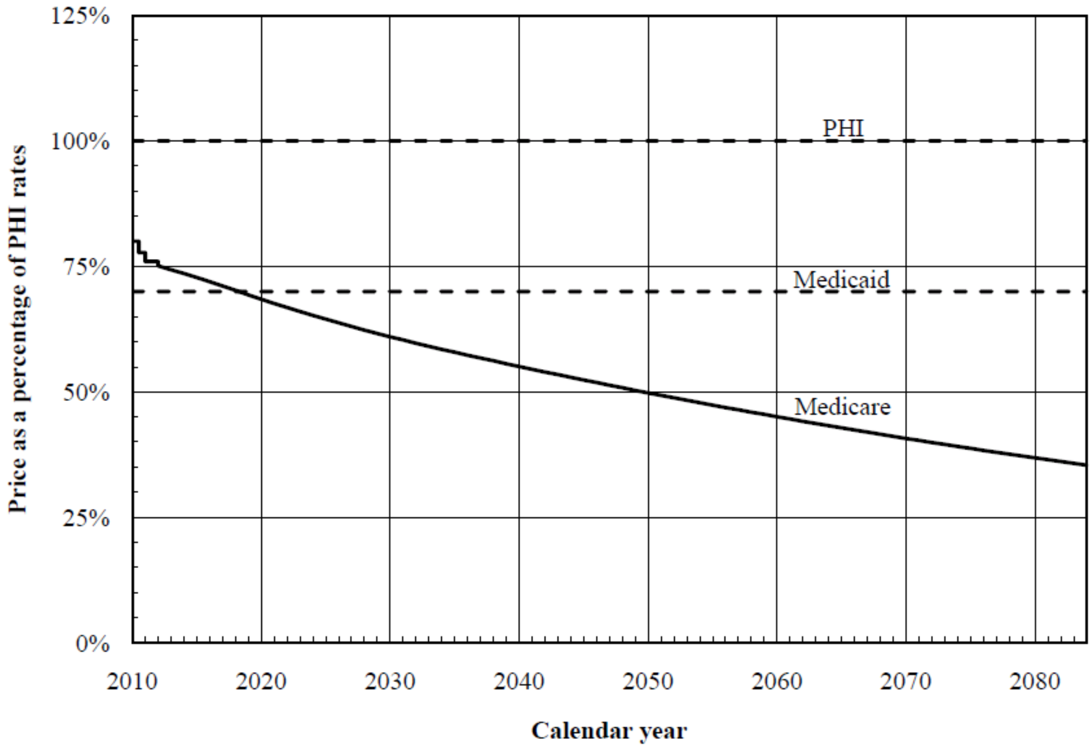
Because these decreases are cumulative, the current scheduled decrease in fees for 2010 is 21%, with another 6% decrease scheduled for 2011. For the purposes of forecast the national debt, the Congressional Budget Office assumes that these decreases will actually occur. If they don't occur, the "cost" of doing nothing should be recognized and reflected in our actual national debt.

If we allowed these decreases to occur, it is very likely that many physicians, who currently see Medicare Patients, would stop doing so. This would cause a coverage/service issue for those people who rely on Medicare as the primary source of health insurance.

> *"Under current law, the SGR system would require a reduction in the physician fee schedule of 23.0 percent in December 2010 (and further reductions in 2011 and 2012). After 2012, the Medicare update reductions and the SGR system would slow price growth by roughly 1 percent per year. By 2019 in the simulation, Medicare rates would be relatively lower than those currently paid for Medicaid, and by the end of the 75-year period, Medicare payments would be only one-third of the relative current private health insurance prices and half of those for Medicaid. If such payment differentials were allowed to occur, Medicare beneficiaries would almost certainly face increasingly severe problems with access to care.[2]"*

The graph below illustrates that how the SGR formula impact on payments to physicians compared to other benchmarks.

Figure 1. Simulated comparison of relative Medicare, Medicaid, and private health insurance prices under current law



(Source – Alternate report-Footnote 2)

SGR Historical Increases [3]

- 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), which essentially tried to compensate for the increasing volume of services provided by physicians by decreasing their reimbursement per service.
- In 1998, Congress replaced the VPS with the Sustainable Growth Rate (SGR). This was done because of highly variable payment rates under the MVPS. The SGR attempts to control spending by setting yearly and cumulative spending targets. If actual spending for a given year exceeds the spending target for that year, reimbursement rates are adjusted downward by decreasing the Conversion Factor (CF) for RBRVS RVUs.
- 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 target in the Consolidated Appropriation Resolution of 2003 (P.L. 108-7), 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%. (This number results from a 7% decrease in physician payments times a 2.8% inflation adjustment increase.) Congress overrode this decrease in the Deficit Reduction Act (P.L. 109-362), and held physician payments in 2006 at their 2005 levels. Similarly, another congressional act held 2007 payments at their 2006 levels, and HR 6331 held 2008 physician payments to their 2007 levels, and provided for a 1.1% increase in physician payments in 2009.
- Without further continuing congressional intervention, the SGR is expected to decrease physician payments from 25% to 35% over 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).
- Also see more on the history of SGR in 2010 Illustrative Alternate Projections

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 PPCA under $1 trillion.

The magnitude of the difference between current law which would implement physician fee decreases using the SGR formula versus an alternative project, as laid out by Richard Foster, Chief Actuary of Medicare and Medicaid Services, is significant.

Under the alternative Medicare projection, physician payment updates would be based on the MEI, which are estimated to be about 2% per year. Using this approach as oppose to the current SGR formula results in Medicare Part B expenditures that are nearly 22% higher in 2019 ($79 billion). Please see table 3 below from the Alternative 2010 Medicare Report [2].

Table 3. Estimated Part B expenditures under the Illustrative Alternative Scenario compared to current law, calendar years 2009-2018

	Current law		MEI physician payment updates		
Calendar year	Expenditures (billions)	Growth rate	Expenditures (billions)	Growth rate	Percent of current-law expenditures
2009	$204.2	7.9%	$204.2	7.9%	100.0%
2010	217.3	6.4	218.2	6.9	100.4
2011	211.8	-2.5	231.5	6.1	109.3
2012	223.7	5.6	257.4	11.2	115.1
2013	240.0	7.3	277.0	7.6	115.4
2014	257.8	7.4	299.0	7.9	116.0
2015	273.4	6.1	318.7	6.6	116.6
2016	290.5	6.3	341.5	7.2	117.5
2017	311.1	7.1	369.4	8.2	118.7
2018	334.9	7.6	402.3	8.9	120.1
2019	361.4	7.9	440.4	9.5	121.8

A longer view of the comparison between the current SGR formula and the alternative projection by Richard Foster compares total Part B Medicare expenditures as a percentage of GDP. Under current law, the projected expenditures as a percentage of GDP are 2.10% vs. 2.91% under the alternative projection (39% higher). Ten years later in 2040, the alternative projection is 53% higher than the current law (3.52% versus 2.30% of GDP under current law). Please see Table 4 from the alternative report below.

Table 4. Projected Part B expenditures as a percentage of Gross Domestic Product (GDP) under the Illustrative Alternative Scenario compared to the 2009 and 2010 Trustees Reports, selected years 2009-2080

	Part B expenditures as a percentage of GDP		
Calendar year	2009 Report (old law)	2010 Report (current law)	Alternative Projection
2009	1.44%	1.45%	1.45%
2010	1.38	1.49	1.50
2020	1.76	1.61	1.98
2030	2.30	2.10	2.91
2040	3.15	2.30	3.52
2050	3.47	2.33	3.89
2060	3.82	2.39	4.30
2070	4.16	2.45	4.73
2080	4.43	2.47	5.07

Alternatives
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 [4].

One set of options are

- to forgo any changes to physician payments for 1 to 3 years, and then
- reflect the cumulative update of the delayed decreases (a decrease in payments of 29 to 34%) at that point.
- The payment levels would then revert to the current law SGR formula for the remainder of the ten years.
- The costs of these "Cliff options" are between $15 and $58 billion, depending on when cumulative update takes place.
- Two other "Cliff" options that are similar to the ones above except that these options update physician payments by the MEI or 2% over the first 1 to 3 years instead of a 0% increase. The costs of these options range from $16 to $66 bn.

An alternate set of scenarios measure the additional cost using

- 0%, MEI and 2% physician payment increases for 1, 2 or 3 years (as above),
- NOT reflecting the cumulative decrease as with the "Cliff" option, and
- Using the current SGR formula for remainder of 10 years.
- The estimate of these additional costs, depending on how long the use of the SGR formula is delayed
    - 0% increase in first one, two or three years - $67 to $143 billion
    - MEI increase in first one, two or three years - $71 to $158 billion
    - 2% increase in first one, two or three years - $79 to $182 billion
- The CBO analysis calls these the "Clawback" options (with recoupment).

Another set of options replaces the current SGR formula completely with 0%, MEI or 2% increases over the entire period form 2011 – 2020.

- The estimated additional costs over the current SGR formula for these three options are $276, $330 and $374 billion, respectively.

A table summarizing the above numbers follows the Summary.

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.

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.

Cliff Options

by Fiscal year in billions of dollars

Source: CBO

	2011 - 2015	2011 - 2020
0% Update for 2011; cliff: 29% reduction in 2012	15.4	15.4
0% Update for 2011-2012; cliff: 30% reduction in 2013	35.8	35.8
0% Update for 2011-2013; cliff: 30% reduction in 2014	58.4	58.4
MEI Update in 2011; cliff: 29% reduction in 2012	15.8	15.8
MEI Update in 2011-2012; cliff: 31% reduction in 2013	37.2	37.2
MEI Update in 2011-2013; cliff: 32% reduction in 2014	61.3	61.3
2% Update for 2011; cliff: 30% reduction in 2012	16.5	16.5
2% Update for 2011-2012; cliff: 33% reduction in 2013	39.6	39.6
2% Update for 2011-2013; cliff: 34% reduction in 2014	66.4	66.4

After one year (or a few years) of overriding the reductions in payment rates for physicians' services that are scheduled under current law, those payment rates would be reduced dramatically in the year following the last override to the level they would have been if there had been no change in the payment rates during that one/few years (that is, to the level they would be under current law). The payment rates would remain at current-law levels in subsequent years.

Clawback Options

	2011 - 2015	2011 - 2020
0% Update for 2011; cliff: 29% reduction in 2012	60.4	66.6
0% Update for 2011-2012; cliff: 30% reduction in 2013	76.0	106.2
0% Update for 2011-2013; cliff: 30% reduction in 2014	87.9	143.4
MEI Update in 2011; cliff: 29% reduction in 2012	62.4	71.1
MEI Update in 2011-2012; cliff: 31% reduction in 2013	80.0	115.9
MEI Update in 2011-2013; cliff: 32% reduction in 2014	93.4	157.5
2% Update for 2011; cliff: 30% reduction in 2012	66.0	79.4
2% Update for 2011-2012; cliff: 33% reduction in 2013	86.8	132.0
2% Update for 2011-2013; cliff: 34% reduction in 2014	102.9	182.1

The limits on updates to payment rates under the sustainable growth rate (SGR) formula (which have the effect of limiting updates to payment rates to between about +4 percent and about -6 percent) would go into effect after the period of overriding the reductions in payment rates for physician services that are scheduled under current law.

Options the Replace or Restructure the SGR

	2011 - 2015	2011 - 2020
0% Update Through at Least 2020	98.7	275.8
MEI Update Through at Least 2020	106.2	329.9
2% Update Through at Least 2020	117.9	374.2
Reset SGR Targets at 2009 Spending Level [b]	92.0	193.6

[b] This option would forgive all spending that has accrued above the cumulative targets and set both the cumulative target and cumulative spending to zero as of December 31, 2009. It would use calendar year 2010 as the base period for future application of the SGR.

(Source: Congressional Budget Office - 4. http://www.cbo.gov/budget/factsheets/2010b/SGR-menu.pdf)

Footnotes

1. http://www.acr.org/hidden/economics/featuredcategories/mps/mpfs.aspx
2. https://www.cms.gov/ReportsTrustFunds/downloads/2010TRAlternativeScenario.pdf
3. 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