

Review of CMS's estimate of the 2005 payment update for physician services

ISSUE: Under current law, CMS has an annual requirement to use a statutory formula and prepare a preliminary estimate of the payment update for physician services. MedPAC then conducts a technical review of the estimate for the Commission's June report to the Congress. For 2005, CMS estimates that the payment update will be 1.5 percent.

KEY POINTS: An update of 1.5 percent is the minimum permitted under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). If the MMA had not specified this minimum, CMS would determine the update with a statutory formula which compares actual spending for physician services with a target—a target that is a function of projected changes in:

- input prices for physician services,
- enrollment in fee-for-service Medicare,
- real gross domestic product per capita, and
- spending due to law and regulation.

Using the formula, CMS calculates an update for 2005 of -3.6 percent.

- In calculating the update, CMS used estimates which are consistent with recent trends. The one exception is a projected 0.2 percent drop in enrollment in Medicare fee-for-service in 2005. This assumes that some beneficiaries will change their enrollment from Medicare fee-for-service to Medicare Advantage as a result of changes in policy in the MMA.
- The statutory formula for calculating the physician update includes limits on how much the update can differ from the change in input prices for physician services. The update cannot be more than 3 percentage points above the change in input prices, and it cannot be more than 7 percentage points below the change in input prices.
- Without the lower limit on the update, the formula produces an update for 2005 that would be three percentage points farther below the change in input prices, or an update of -6.6 percent.
- Based on our analysis, we see no reason to question whether the update for 2005 will equal the MMA minimum.

ACTION: At this meeting, Commissioners will discuss a draft of MedPAC's review of CMS's preliminary estimate.

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