

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

ISSUE: CMS recently provided MedPAC with a preliminary estimate of the 2004 payment update for physician services. Based on a formula specified in law, CMS's estimate is an update of -4.2 percent. MedPAC is required to review this estimate in the Commission's June 2003 report to the Congress.

KEY POINTS: CMS's estimate follows the recent enactment of the Consolidated Appropriations Resolution of 2003 (CAR), which gave the agency the authority to correct some of the historical data used to calculate the update of physician services. The 10-year cost of this provision was estimated by the Congressional Budget Office to be \$54 billion.

Previously, the CAR was estimated to result in a positive update in 2004. CMS cites two reasons for the change in the estimate from a positive to a negative update:

- higher spending for physician services in 2002 despite a negative payment update, and
- lower projected growth in real gross domestic product per capita for 2002 and 2003.

Both of these factors are used in the formula for calculating the update for physician services.

Overall, there appears to be no reason to question CMS's calculations.

- Estimates of the factors that determine the update are generally consistent with recent trends.
- CMS emphasizes that the estimate is preliminary and likely to change by November 2003, which is when the agency will issue a final rule on the update.

Clearly, the preliminary estimate of the update for 2004 is inconsistent with the recommendation that MedPAC made in its March 2003 report to the Congress, which is an update of about 2.5 percent. The purpose of MedPAC's review for the June report, however, is limited to the technical issues of how CMS estimated the update with the statutory formula.

ACTION: At the meeting, Commissioners will discuss a draft of the review for the June report.

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