

A P P E N D I X

A

**Review of CMS's preliminary
estimate of the 2014 update
for physician and other
professional services**



Review of CMS's preliminary estimate of the 2014 update for physician and other professional services

In CMS's annual letter to the Commission on the update for physician and other professional services, the agency's preliminary estimate of the 2014 update is -24.4 percent (Blum 2013). The prescribed reduction is due to a series of temporary increases enacted over several years that—under current law—expire at the end of 2013. Those increases have prevented a series of negative updates under the sustainable growth rate (SGR) formula—the statutory formula for annually updating Medicare's payment rates for physician and other health professional services. If the temporary increases expire, the physician fee schedule's conversion factor must decrease by 26.5 percent. The difference between this reduction and the 2013 update would be the SGR formula's update—specific to 2013—of 2.8 percent. This increase would be applied to the conversion factor after it had been reduced by 26.5 percent.¹

This appendix provides the Commission's mandated review of CMS's estimate. Absent a change in law, the expiration of the temporary increases and the formula's update for 2013 are very unlikely to produce an update that differs substantially from -24.4 percent. The temporary increases—by far, the largest factor influencing the payment reduction—were specified in law. The estimate of an SGR formula update of 2.8 percent for 2014 could change between now and when CMS would implement the update in January, but any such changes are likely to be small compared with the total reduction prescribed by law.

While this appendix is limited to review of the preliminary update estimate, the Commission has concerns about the SGR formula as a payment policy. The SGR formula may have resulted in lower updates, but it has failed to restrain volume growth; in fact, for some specialties the formula may have exacerbated growth. In addition, the temporary increases, or "fixes," to override the SGR formula are undermining the credibility of Medicare by engendering uncertainty and frustration among providers, which may be causing anxiety among beneficiaries. In an October 2011 letter to the Congress, the Commission recommended repealing the SGR formula and replacing it with legislatively specified updates that would no longer be based on an expenditure-control formula (Medicare Payment Advisory Commission 2011). We reaffirmed our position in a letter sent to the Congress on April 10, 2013, emphasizing that the time to repeal the SGR is now (Medicare Payment Advisory Commission 2013). ■

Endnotes

- 1 In CMS's update calculations, percentages are not added. Instead, they are converted to ratios and multiplied. For instance, the decrease in payment rates of 24.4 percent is the arithmetic product of the 2014 update (2.8 percent, or 1.028) and the expiration of the temporary increases (-26.5 percent, or 0.735). The multiplication is $1.028 \times 0.735 = 0.756$, or -24.4 percent.

References

Blum, J. D. 2013. Letter from Jonathan Blum, Centers for Medicare & Medicaid Services, Department of Health and Human Services, to Glenn Hackbarth, Medicare Payment Advisory Commission, March 5.

Medicare Payment Advisory Commission. 2013. Moving forward from the sustainable growth rate system. Letter to the Congress. April 10.

Medicare Payment Advisory Commission. 2011. Moving forward from the sustainable growth rate (SGR) system. Letter to the Congress. October 14.

