

A P P E N D I X

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

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

The Balanced Budget Refinement Act of 1999 (BBRA) requires the Centers for Medicare & Medicaid Services (CMS) to use the sustainable growth rate (SGR) system to prepare, by March 1 of each year, a preliminary estimate of the next year's payment update for physician services. The BBRA also requires MedPAC to include a review of that estimate in our June report.

In MedPAC's March 2002 report to the Congress, the Commission recommended that the Congress repeal the SGR system and replace it with an update method based on the estimated change in the cost of providing physician services for the

coming year. Nonetheless, to meet our statutory obligation, we have reviewed the CMS estimate.

CMS projects an update for 2003 of  $-5.7$  percent. This estimate is the product of a change in input prices of  $1.6$  percent, an update adjustment factor of  $-7.0$  percent, and a legislative adjustment of  $-0.2$  percent. The update adjustment factor of  $-7.0$  percent is the maximum negative adjustment permitted under current law.

This year, MedPAC has no reason to doubt the preliminary estimate of the update. In the past, the Commission has

raised questions about CMS's estimates of the update adjustment factor because two of its components—growth in the national economy and changes in enrollment in traditional Medicare—have been volatile and difficult to estimate. For 2003, however, CMS estimates that the update adjustment factor would be  $-13.1$  percent if it were not held to a maximum reduction of  $-7.0$  percent. Even if components of the update adjustment factor change during the coming months, the update under the SGR system is unlikely to change.

