

Medicare physician payment: Q&A

Physicians face sharp Medicare payment cuts.

Seniors' access to physician care in jeopardy.

The problem: cuts imminent

Q: *How much will Medicare physician payments be cut?*

A: The 2006 Medicare Trustees Report projects cuts in physician payment rates totaling 37 percent through 2015; these cuts would result from the flawed Medicare physician payment formula (called the sustainable growth rate, or SGR).

Q: *Since Congress froze physician payment rates in 2006 at 2005 levels, when will more cuts hit?*

A: An across-the-board cut of about 5 percent is projected to take effect Jan. 1, 2007, and more steep cuts will follow through 2015.

The impact on patients

Q: *Who will be hurt by these cuts?*

A: Patients—access to care for elderly and disabled patients, as well as military families and retirees will be in jeopardy. Physicians, already faced with escalating practice costs and payments that haven't kept up with these costs, cannot absorb additional Medicare cuts of about 5 percent per year. Continued cuts are likely to force physicians to limit the number of new Medicare and TRICARE patients they serve or potentially stop treating them entirely. These cuts could hasten retirements among the 35 percent of physicians who are 55 or older, and exacerbate physician shortages already predicted to occur when the baby boomers begin to enter Medicare in a few years.

Q: *Will non-Medicare patients be affected by the cuts?*

A: Yes. All patients will be affected if the cuts force physicians out of patient care. Many health programs link their payment system directly to Medicare rates, affecting millions of non-Medicare patients, including:

- TRICARE patients (affecting millions of military families and retirees)

- Medicaid patients (in states that link Medicaid payments to Medicare payments)
- Patients of private insurers (that frequently use Medicare as a benchmark for paying physicians)

The inequity: formula flawed

Q: *Why do the Medicare physician cuts continue?*

A: The Medicare physician payment formula, the SGR, is fatally flawed because it penalizes physicians with lower payments when the growth in utilization of medical care is greater than growth in the gross domestic product. Linking the SGR to the gross domestic product (GDP) is flawed because growth in medical care is driven by factors other than GDP, such as patient health needs, new technology and public policies that encourage patients to seek certain medical services—none of which physicians control. As a result, the SGR continues to cause steep payment cuts over consecutive years. There is widespread consensus among policymakers that the SGR is unsustainable and must be replaced with a formula that accurately reflects increases in the cost of practicing medicine.

Q: *Will hospitals, Medicare Advantage and other providers experience steep cuts?*

A: No. Only physicians and other practitioners are subject to the SGR, a formula that leads to automatic pay cuts. During the same period that physicians are projected to experience cuts of 5 percent a year, hospital payment rates are expected to increase more than 3 percent a year. In 2006, for example, hospital payment rates were increased by 3.7 percent and Medicare Advantage plans (which are already paid at 107 percent of fee-for-service costs) received average updates of 4.8 percent.

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The solution: payment updates equal to practice cost increases

Q: *What's the solution?*

A: Physicians must receive Medicare payments that keep pace with the cost of treating seniors. Like MedPAC, the AMA advocates for elimination of the unfair SGR formula and its replacement with an annual system that reflects increases in physicians' medical practice costs.

Q: *If physicians are experiencing payment cuts, then why does Medicare spending for physicians' services keep going up?*

A: Spending on physician services is growing because the number of elderly Americans is increasing and because more of them suffer from obesity, diabetes, kidney failure, heart disease and other serious chronic conditions. New technology and drugs have made it possible to treat more people for more diseases and to provide this treatment in physicians' offices rather than in more expensive hospital settings. Quality improvement initiatives have increased the number of beneficiaries receiving physician care. This has led to fewer hospital admissions, shorter lengths of stay, longer life spans and fewer restrictions in activities of daily living among the elderly and disabled. In fact, MedPAC recently reported that, based on its 38 quality tracking measures, more Medicare beneficiaries received necessary services in 2004 than in 2002, and potentially avoidable hospitalizations declined as well.

Q: *Is it true that Medicare spending on physicians' services is driving Part B premium increases?*

A: No. Part B premium increases are due as much or more to increased spending on other health benefits, including Medicare Advantage plans and hospital outpatient services. In addition, according to the Centers for Medicare and Medicaid Services, many beneficiaries are protected from premium increases because one in four is eligible for Medicare premium subsidies.

