

A P P E N D I X

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**Review of CMS's preliminary
estimate of the 2015 update
for physician and other
professional services**

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In CMS's annual letter to the Commission on the update for physician and other professional services, the agency's preliminary estimated update of 4.2 percent was the payment update that would have been implemented on January 1, 2015 (Blum 2014). This update would have followed a 24.1 percent reduction in payment rates required by law that was to occur on April 1, 2014, after a series of temporary increases enacted over several years expired. Such 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. Combined, the expired temporary increases and the statutory update would have reduced payment rates by 20.9 percent, relative to the level of payments on March 31, 2014.¹ After CMS sent the letter, another temporary increase was enacted that delayed the reduction until April 1, 2015.²

This appendix is the Commission's mandated review of CMS's estimate. At the time CMS sent its estimate, the expiration of the temporary increases and the formula's update for 2015 would have been very unlikely to produce a change in payment rates that differed substantially from -20.9 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formula update of 4.2 percent for 2015 was accurate at the time CMS made its calculation, but this estimate has been superseded

by the SGR legislation that held the fee schedule rates constant through March 2015.

While this appendix is limited to reviewing the preliminary update estimate, the Commission has concerns about the SGR formula as a payment policy. The 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 and 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). ■

Endnotes

- 1 In CMS's update calculations, percentages are combined multiplicatively. For instance, the decrease in payment rates of 20.9 percent is the arithmetic product of the 2015 update (4.2 percent, or 1.042) and the expiration of the temporary increases (-24.1 percent, or 0.759). The multiplication is $1.042 \times 0.759 = 0.791$, or -20.9 percent. This amount would represent the combined effect of the expired temporary increases and the statutory update.
- 2 The temporary increase was in the Protecting Access to Medicare Act of 2014.

References

Blum, J. D. 2014. Letter from Jonathan Blum, Centers for Medicare & Medicaid Services, Department of Health and Human Services to Glenn Hackbarth, Medicare Payment Advisory Commission, March 10.

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

