Part B Insider (Multispecialty) Coding Alert

Drug Reimbursement: Physicians Face Seven Lean Years Starting 2006

Can Congress agree on a way to avert $90 billion in cuts?

Congress built this house, now doctors may have to live in it. That's the message two watchdog agencies gave in congressional testimony recently.

In a May 5 hearing of the House Committee on Energy and Commerce, both the **Congressional Budget Office** and the **General Accounting Office** warned that fixing physician payments wouldn't come cheap. Congress set up the Sustainable Growth Rate formula to keep docs' reimbursement under control, and now legislators may have to live with the consequences.

CBO Director **Douglas Holtz-Eakin** warned that the aging of the baby boom generation could spark a fiscal crisis. If Medicare spending per beneficiary remains the same amount, Medicare's share of GDP could double or even triple by 2030.

Physicians avoided a 4.4 percent cut in 2003 and a 4.5 percent cut in 2004, thanks to Congressional intervention. But because the baseline figures for calculating updates weren't changed, physicians still face a massive cut in 2006. The 2004 Medicare Trustees Report predicted a 5 percent annual reduction in physician spending starting in 2006, noted **Bruce Steinwald**, the GAO's director of health care -- Medicare payments issues.

The Medicare Modernization Act "added to the excess spending by specifying minimum fee updates for 2004 and 2005 without resetting the spending targets for those years," said Steinwald. This postponed physician fee cuts, but didn't eliminate them. He reminded the legislators that Congress set the spending limits in the SGR to enforce fiscal discipline, and these cuts would achieve that impact -- but at the cost of "uncertain" consequences for physicians.

There are three problems with the SGR, according to **Medicare Payments Advisory Commission** Chairman **Glenn Hackbarth**. It isn't based on the cost of providing services, it's national and doesn't provide any incentives for individual physicians to control spending, and it treats all physicians the same regardless of their behavior, he explains.

The SGR includes services provided incident to a physician visit, including drugs and laboratory services. The CBO projects that spending for incident-to services will rise faster than the SGR targets, accounting for 20 percent of the target in 2004 to 23 percent of the target in 2014. That means actual physician spending will be constrained to only 77 percent of the target.

The CBO considered a few approaches to reforming the SGR, including:

1. Adjusting SGR targets to recognize the 1.5 percent increases in 2004 and 2005 as a new baseline, which would boost spending in following years. This would cost $45 billion through 2014.

2. Take drugs out of the SGR, which would cost Medicare an extra $15 billion through 2014. This would still leave physicians with 5 percent cuts in 2006 and 2007, but might have an impact on the 5 percent cut scheduled for 2008.

3. Change the SGR to the increase in gross domestic product plus one percent. Like taking out drugs, this wouldn't avert the 5 percent cuts each year in 2006 and 2007, but might dent the 5 percent cut in 2008. And it would cost Medicare $35 billion.

4. Base future updates to physician payments on the change in input prices minus a productivity adjustment, as **MedPAC**

recommended. A Sense of the Senate provision in the pending budget resolution endorsed this idea, which would do away with the seven lean years. If Congress followed this route starting 2006, however, it would cost an extra $90 billion through 2014, warned the CBO. Average spending increases would rise to $7.6 billion per year.

Read more at energycommerce. house.gov/108/Hearings/05052004hearing1263/hearing.htm.