

MEDICARE PAYMENT ADVISORY COMMISSION

PUBLIC MEETING

Ronald Reagan Building
International Trade Center
Horizon Ballroom
1300 13th Street, N.W.
Washington, D.C.

Thursday, April 24, 2003
9:40 a.m.

COMMISSIONERS PRESENT:

GLENN M. HACKBARTH, Chair
ROBERT D. REISCHAUER, Ph.D., Vice Chair
SHEILA P. BURKE
AUTRY O.V. "PETE" DeBUSK
NANCY-ANN DePARLE
DAVID F. DURENBERGER
ALLEN FEEZOR
RALPH W. MULLER
ALAN R. NELSON, M.D.
JOSEPH P. NEWHOUSE, Ph.D.
CAROL RAPHAEL
ALICE ROSENBLATT
DAVID A. SMITH
RAY A. STOWERS, D.O.
MARY K. WAKEFIELD, Ph.D.
NICHOLAS J. WOLTER, M.D.

AGENDA ITEM:

Estimate of CMS's update for physician services
-- Kevin Hayes

MR. HACKBARTH: Let's get started with the next section. As you'll recall, the purpose here is to review and comment on CMS' letter on the projected update for physician services.

Kevin?

DR. HAYES: That estimate is based on the statutory formula is an update of a minus 4.2 percent. the Commission is required to review that estimate and provide the results of the review in our June report to the Congress.

I'm going to skip through all the details here and just get right to the key number, which is this minus 4.2 percent. And I'll note the components of it which is an increase in the import prices for physician services of 2 percent.

This figure is comparable to what the Commission recommended in the March 2003 report, which was an update of 2.5 percent. The way CMS reports changes in input prices, they include a productivity adjustment. We break that out separately.

When you combine our estimate of changes, or the estimate that we used on changes in input prices and our productivity adjustment, we came up with 2.5 percent.

The reason for the difference between their 2 percent and our 2.5 percent was really two reasons. One is their productivity adjustment is 1/10 of a percentage point higher. It's 1.0 percent instead of 0.9 percent. They've used newer information on productivity growth in the national economy.

The other is the difference in their estimate of input prices. Long history here, something that the Commission has dealt with in the past. They choose to use input prices from a retrospective standpoint, changes in input prices up through June of the previous year, before the update actually occurs. So they're using an estimate of the change in input prices through June 30th of 2003, whereas we looked at an estimate for calendar year 2004.

But the big point here is the update adjustment factor of minus 5.9 percent. That's the reason for the negative payment update. And it has to do with a difference between actual spending and the target that is determined by the sustainable growth rate. The difference between the two has widened to the point now where a negative adjustment is required to bring actual spending in line with the target.

There's a small legislative adjustment here you can see which was required by the Balance Budget Act of 1999, but the total then works out to be his minus 4.2 percent.

MR. HACKBARTH: So the immediate task before us is simply to comment on the estimate and their approached. And the bottom line is that we think this is a reasonable estimate, given the currently available information, but it is subject to change as new data come in, potentially quite large change as I recall from the CMS letter.

DR. HAYES: That's right. They were innovative this time and use stochastic forecasting techniques to identify a possible range for the update and calculated that to be -- they said there was a 95 percent probability that the update would be in a range of minus 5.8 to plus 0.6, I believe. But the biggest probability here is that there will be a negative update.

MR. HACKBARTH: Any questions?

DR. NEWHOUSE: I don't have any questions but I was wondering if we could should make a positive remark about they're providing a range through using this modeling. I think that's a step forward.

MR. HACKBARTH: Other comments or questions?

Okay. Since this isn't a recommendation, I can't remember if we actually voted on this last year. I think we did, we just included it.

DR. HAYES: So as long as you're comfortable with the draft that we sent you, then that's what will appear in the report.

MR. HACKBARTH: Comfortable with the analysis, not necessarily the result.

And we will add Joe's comment applauding the use of a range.