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March 1, 2009

Mr. Glenn M. Hackbarth, Chair  
Medicare Payment Advisory Commission  
601 New Jersey Avenue, N.W., Suite 9000  
Washington, D.C. 20001

Dear Mr. Hackbarth:

Pursuant to section 1848(d)(1)(E)(ii) of the Social Security Act (the Act), I am writing to provide the Medicare Payment Advisory Commission (MedPAC) with the Centers for Medicare & Medicaid Services' (CMS) estimates of the 2010 physician fee schedule conversion factor (CF) update, conversion factor, and sustainable growth rate (SGR), together with the data used in making these estimates.

The physician fee schedule update is set under a formula specified in section 1848(d)(4) of the Act. We currently estimate that the statutory formula used to determine the physician update will result in a 2010 conversion factor of \$28.3208 and a physician fee schedule update of -21.5 percent. Attachments 1 and 2 provide detailed information for how the -21.5 percent conversion factor update was determined.

Section 1848(d)(1)(E)(ii) also requires that we provide an estimate of the following year's SGR. Our current estimate of the SGR for calendar year 2010 is -8.2 percent. The SGR is the product of the Secretary's estimate of four factors. We have provided more detail on our estimates of the factors included in the SGR for 2010 in Attachment 3. These estimates are based on the best data available to us at this time and may be revised later.

We will be providing a more detailed explanation of the SGR and physician fee schedule updates on the CMS web site (<http://www.cms.hhs.gov/SustainableGRatesConFact/>). SGR-related data and other information are available to the public in the web site document.

Sincerely,

Elizabeth Richter  
Acting Director  
Center for Medicare Management

## Attachment 1

### Estimate of the 2010 Update Adjustment Factor

Under section 1848(d)(4) of the Act, the update for 2010 is equal to the Secretary's estimate of the increase in the Medicare Economic Index adjusted by an update adjustment factor.

Section 101 of the Tax Relief and Health Care Act of 2006 (MIEA-TRHCA) provided a 1-year update of 0 percent for the conversion factor (CF) for CY 2007 and specified that the CF for CY 2008 must be computed as if the 1-year update had never applied.

Section 101 of the Medicare, Medicaid, and SCHIP Extension Act of 2007 (MMSEA) provided a 6-month increase of 0.5 percent in the CY 2008 CF, from January 1, 2008, through June 30, 2008, and specified that the CF for the remaining portion of 2008 and the CFs for CY 2009 and subsequent years must be computed as if the 6-month increase had never applied.

Section 131 of the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) extended the increase in the CY 2008 CF that was applicable for the first half of the year to the entire year, provided for a 1.1 percent increase to the CY 2009 CF, and specified that the CFs for CY 2010 and subsequent years must be computed as if the increases for CYs 2007, 2008, and 2009 had never applied.

The formula for the calculation of the CY 2010 update adjustment factor is shown below. The calculation of the update is detailed on the next page.

$$UAF_{10} = \frac{Target_{09} - Actual_{09}}{Actual_{09}} \times .75 + \frac{Target_{4/96-12/09} - Actual_{4/96-12/09}}{Actual_{09} \times (1 + SGR_{10})} \times .33$$

$UAF_{10}$  = Update Adjustment Factor for 2010 = -29.6 percent

$Target_{09}$  = Allowed Expenditures for CY 2009 = \$93.9 billion

$Actual_{09}$  = Estimated Actual Expenditures for CY 2009 = \$99.9 billion

$Target_{4/96-12/09}$  = Allowed Expenditures from 4/1/1996 - 12/31/2009 = \$959.1 billion

$Actual_{4/96-12/09}$  = Estimated Actual Expenditures from 4/1/1996 - 12/31/2009 = \$1,028.8 billion

$SGR_{10}$  = -8.2 percent

$$\frac{\$93.9 - \$99.9}{\$99.9} \times (.75) + \frac{\$959.1 - \$1,028.8}{\$99.9 \times 0.918} \times (.33) = -29.6\%$$

Our current estimate of the update adjustment factor is -29.6 percent. Section 1848(d)(4)(D) of the Act indicates that the update adjustment factor may not be less than -7 percentage points. Consistent with the statute, we limit the update adjustment factor to -7 percentage points when, as in the current instance, the above formula produces an update adjustment factor that would be less than -7 percentage points.

Attachment 2

Estimate of the 2010 Physician Fee Schedule Conversion Factor Update

In order to estimate the 2010 Physician Fee Schedule Conversion Factor Update, the conversion factors for 2007, 2008, and 2009 must be determined as if the various legislative changes to the conversion factors for those years had not occurred:

(1)	CY 2006 Conversion Factor		\$37.8975
(2)	CY 2007 Pre-legislation Conversion Factor Update	-5.0% (.94953)	
(3)	CY 2007 Pre-legislation Conversion Factor		\$35.9848
(4)	CY 2008 Pre-legislation Conversion Factor Update	-5.3% (.94674)	
(5)	CY 2008 Pre-legislation Conversion Factor		\$34.0682
(6)	CY 2009 Pre-legislation Total	-11.5% (.88502)	
(7)	CY 2009 Pre-legislation Conversion Factor		\$30.1510

Note: (6) and (7) include the impact of budget neutrality adjustments totaling -6.3 percent.

To determine the CY 2010 Conversion Factor, the product of the Medicare Economic Index and the Update Adjustment Factor is applied to the CY 2009 Pre-legislation Conversion Factor:

(7)	CY 2009 Pre-legislation Conversion Factor		\$30.1510
(8)	CY 2010 Medicare Economic Index	1.0% (1.01)	
(9)	CY 2010 Update Adjustment Factor	-7.0% (.930)	
(10)	CY 2010 Total	-6.1% (.93930)	
(11)	CY 2010 Conversion Factor		\$28.3208

CY 2010 Conversion Factor Update:

(12)	CY 2009 Conversion Factor		\$36.0666
(13)	CY 2010 Conversion Factor		\$28.3208
(14)	CY 2010 Update (Percent Change)		-21.5% (0.78524)

Attachment 3

Estimate of the 2010 Sustainable Growth Rate (SGR)\*

(1) Estimated Change in Fees	1.2% (1.012)
(2) Estimated Change in Fee-for-Service Enrollment	-0.3% (0.997)
(3) Estimated Change in Real GDP Per Capita	0.8% (1.008)
(4) Estimated Change in Law or Regulation	-9.7% (0.903)
(5) Estimated 2010 SGR	-8.2% (0.918)

Note: The figures on lines 1-4 are multiplied to produce the estimated SGR value of -8.2 percent on line 5.

\* These figures represent current estimates only and may change based on new information in a Federal Register notice that we expect to publish no later than November 1, 2009.