

**Chairman Frank Pallone, Jr.
Opening Statement**

**Health Subcommittee Hearing:
Exploring Options for Improving the Medicare Physician Payment System**

March 6, 2007

The Subcommittee will come to order. Today we are holding a hearing on "Exploring Options for Improving the Medicare Physician Payment System".

Since we are talking about physicians services today, I figured I would try to couch my statement in medical terms. So let me begin with the diagnosis.

For the past several years, physicians participating in Medicare have been threatened with payment cuts. These payment cuts are the result of the complex formula used to reimburse physicians. Specifically, physician payments are tied to an expenditure target known as the Sustainable Growth Rate (SGR). If spending for physician services exceeds this spending target then payments are reduced.

Congress, however, has stepped in each time to prevent these cuts from taking place. Instead, we have provided physicians with a freeze in payments or a slight increase.

At the same time, we are grossly overpaying managed care plans that participate in Medicare. According to the MedPAC report released last week, payments to Medicare Advantage plans are 12 percent higher than payments for physicians in traditional fee for service. These over-payments haven't bought us much either. There is no discernable difference in the quality of care or health outcomes for beneficiaries enrolled in private plans versus those who are enrolled in traditional fee for service.

If the current system is left unchanged, the prognosis is grim.

Physicians are already slated to receive annual payment cuts over the next 10 years. Each year that Congress steps in to avert these payment cuts from going into effect increases the size of the cuts that doctors face in later years. As a result of previous interventions, doctors will face a cut of 10 percent in 2008, and additional cuts over the next 10 years.

The predicted payment cuts could have serious implications for beneficiaries, including jeopardizing their access to medical services. While doctors don't seem to be refusing Medicare patients yet, I have little doubt that if Congress were to allow these payment cuts to go into place many doctors would drop out of the program altogether.

Furthermore, if we do not correct the payment inequities between Medicare Advantage plans and traditional fee for services, seniors are going to be forced into private managed care, where their choice of doctors and their access to services will be severely constrained. We must preserve the right of beneficiaries to select a doctor of their choosing, which has been the hallmark of the Medicare program since it was created over forty years ago.

Beneficiaries will face access problems also if they can no longer afford the growing cost of their Part B premium. Our seniors have already faced three years of record premium increases under Medicare. Currently, the Part B premium is \$93.50 per month. In 2008, the Part B premium is expected to increase by approximately \$15.00 to \$109.40 per month. These increases are eating up a larger share of seniors' social security checks, and forcing them to make tough choices between medical care they need and other necessities.

So what is the course of treatment?

First and foremost, we need to level the playing field between Medicare Advantage Plans and traditional fee for service Medicare by establishing neutral payment systems. We should also eliminate the "slush fund" used to provide extra payments for preferred provider organizations. These two steps alone will go a long way at reducing unnecessary costs in the program and preserving access for seniors.

The harder part is deciding how to fix the payment structure. The MedPAC report that we will hear about today will hopefully provide us with a good starting point as we examine our options. From what I have seen so far, I think that there are some good ideas included in this report and I am eager to learn more about them.

I think it's important to note, however, that the task before us is a difficult one. The commissioners themselves admit that they could not agree on a single approach on how to fix the problems associated with the SGR. That should be some indication of the challenges that Congress faces as we attempt to come up with a solution. Needless to say we have our work cut out for us. But that should not deter us. I have said before, and I will say it again, we need a permanent solution to this problem. We should no longer settle for short-term fixes that simply kick the can down the road.

In sum, we need to roll up our sleeves and get to work. I am looking forward to hearing from our witnesses today, and working with all interested parties, including my colleagues on both sides of the aisle to find a solution. I think that it is important for us to work in a bi-partisan fashion to help provide physicians with a stable and predictable payment system, as well as preserve beneficiaries' access to care. Thank you.

