July 2012

Medicare's Payments to Physicians: The Budgetary Impact of Alternative Policies Relative to CBO's March 2012 Baseline

Medicare's payment rates for physicians' services are scheduled to be reduced by 27 percent in 2013, the Congressional Budget Office (CBO) estimates, under the provisions of law known as Medicare's Sustainable Growth Rate (SGR) mechanism. The SGR mechanism consists of expenditure targets, which are established by applying a growth rate (calculated by formula) to spending for physicians' services and certain related services in a base period, and annual adjustments to the payment rates, which are designed to bring spending in line with the expenditure targets over time.[1] In each of the past several years, legislation has been enacted to override the SGR and to either maintain or increase those payment rates when they were otherwise scheduled to decrease.

The following tables show CBO's estimates of the budgetary impact over the 2013–2022 period of various alternative policies for modifying the payment rates that are scheduled to take effect under the SGR mechanism. The options below are listed in three categories: "cliff" options, "clawback" options, and others. (See the descriptions of those terms below; both "cliff" and "clawback" approaches have been adopted since the Congress began overriding scheduled reductions in physician payment updates in 2003.)

The estimates in the following tables are relative to CBO's March 2012 baseline, which is used for Congressional scorekeeping purposes. Both the scorekeeping baseline and the estimates of the impact of the policy options are likely to change when the final rule setting the physician fee schedule for 2013 is issued by the Administration in early November.

Cliff Options: Options in Table 1 would use a "cliff" mechanism to override the projected 27 percent reduction in 2013 and would specify the payment updates for that year and, in some cases, for one or two more years. The payment rate in the year *immediately* following the period of the override would be set as if the override had not happened. As a result, for each option in Table 1, there would be a significant reduction (that is, a cliff) in the first year after the specified update. The size of that reduction (or cliff) would vary from 22 percent to 26 percent, depending on the short-term update.

Table 1: Cliff Options	Estimated Increase or Decrease (-) in Outlays Billions of Dollars, by Fiscal Year										2013-2017	2013-2022
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022		
0% Update for 2013	11.1	8.5	2.6	1.1	0.0	-0.7	-1.1	-1.2	-1.0	-0.9	**23.4**	**18.5**
0% Update for 2013-2014	11.1	18.6	11.1	4.9	2.6	0.8	-0.2	-0.5	-0.4	-0.1	**48.3**	**48.0**
0% Update for 2013-2015	11.1	18.6	21.1	13.0	6.3	3.9	1.6	0.1	-0.3	0.1	**70.1**	**75.7**
MEI Update for 2013	11.3	8.7	2.7	1.1	-0.2	-1.0	-1.3	-1.4	-1.2	-1.1	**23.6**	**17.6**
MEI Update for 2013-2014	11.3	19.5	11.6	4.9	2.6	0.5	-1.0	-1.5	-1.4	-1.0	**50.0**	**45.5**
MEI Update for 2013-2015	11.3	19.5	23.6	13.9	5.9	3.5	1.0	-1.4	-2.5	-2.4	**74.3**	**72.3**
Note: CBO's MEI Projection	*0.6%*	*1.7%*	*2.5%*	*2.2%*	*2.1%*	*2.0%*	*2.1%*	*2.0%*	*2.0%*	*2.1%*		
1% Update for 2013	11.4	8.9	2.9	1.1	-0.3	-1.2	-1.5	-1.6	-1.4	-1.3	**24.0**	**17.0**
1% Update for 2013-2014	11.4	19.5	11.6	5.0	2.7	0.5	-0.9	-1.5	-1.4	-0.9	**50.2**	**46.0**
1% Update for 2013-2015	11.4	19.5	22.8	13.6	6.0	3.7	1.1	-0.8	-1.4	-1.1	**73.3**	**74.9**
2% Update for 2013	11.6	8.9	2.7	0.9	-0.5	-1.4	-1.8	-1.8	-1.7	-1.6	**23.6**	**15.3**
2% Update for 2013-2014	11.6	20.4	12.0	5.0	2.7	0.2	-1.6	-2.4	-2.3	-1.9	**51.7**	**43.7**
2% Update for 2013-2015	11.6	20.4	24.5	14.2	5.9	3.5	0.9	-1.6	-2.9	-3.0	**76.7**	**73.6**

Note:

MEI = Medicare Economic Index.

[1] For further discussion of the SGR, see: http://www.cbo.gov/publication/41512 (Appendix).

<u>Clawback Options</u>: Under a "clawback" approach, the legislation would specify that the override of reductions to payment rates is not considered a change in law or regulation for the purposes of the SGR. Accordingly, the SGR expenditure targets would remain unchanged and the difference between cumulative spending and the cumulative expenditure targets would be larger than is estimated under current law. Thus, the additional spending that results from one year (or a few years) of overriding the reductions in payment rates scheduled under current law would be offset (or "recouped") by reductions to payment rates in subsequent years. Over the long term (longer than 10 years), such a provision would have a cumulative cost of close to zero, because allowing the SGR formula to be implemented would lead to recapturing the additional spending that occurred during the period when the SGR was overridden.[2] However, during the current projection period, clawback options would cost more than cliff options because payment rates would be higher for most of the budget window (compared with those under either cliff options or current law).

Under the clawback options shown in Table 2, which are similar to legislation enacted between 2004 and 2006, the maximum adjustment factor under the SGR would apply throughout most of the budget window. That maximum annual adjustment, set in law, is the Medicare Economic Index (MEI) minus 7 percent.

Table 2: Clawback Options	**Estimated Increase or Decrease (-) in Outlays Billions of Dollars, by Fiscal Year**										**2013-2017**	**2013-2022**
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**		
0% Update for 2013	11.1	16.5	15.7	14.5	12.6	10.4	8.1	5.3	1.8	-2.3	**70.4**	**93.7**
0% Update for 2013-2014	11.1	18.6	19.1	18.1	16.3	14.2	12.2	9.5	6.2	2.3	**83.3**	**127.6**
0% Update for 2013-2015	11.1	18.6	21.1	21.4	19.7	17.7	15.8	13.3	10.1	6.4	**91.9**	**155.2**
MEI Update for 2013	11.3	16.8	16.1	14.9	13.0	10.8	8.5	5.7	2.2	-1.8	**72.0**	**97.5**
MEI Update for 2013-2014	11.3	19.5	20.6	19.7	17.9	15.8	13.8	11.2	8.0	4.2	**88.9**	**142.1**
MEI Update for 2013-2015	11.3	19.5	23.6	24.7	23.1	21.2	19.5	17.1	14.1	10.6	**102.3**	**184.8**
Note: CBO's MEI Projection	*0.6%*	*1.7%*	*2.5%*	*2.2%*	*2.1%*	*2.0%*	*2.1%*	*2.0%*	*2.0%*	*2.1%*		
1% Update for 2013	11.4	17.0	16.3	15.1	13.2	11.0	8.8	6.0	2.6	-1.5	**73.1**	**100.0**
1% Update for 2013-2014	11.4	19.5	20.4	19.5	17.7	15.6	13.6	11.0	7.8	4.0	**88.4**	**140.4**
1% Update for 2013-2015	11.4	19.5	22.8	23.5	21.9	19.9	18.1	15.7	12.6	9.0	**99.0**	**174.3**
2% Update for 2013	11.6	17.6	16.9	15.8	13.9	11.7	9.5	6.7	3.3	-0.7	**75.7**	**106.3**
2% Update for 2013-2014	11.6	20.4	21.6	20.8	19.1	17.0	15.1	12.6	9.4	5.6	**93.5**	**153.2**
2% Update for 2013-2015	11.6	20.4	24.5	25.6	24.0	22.1	20.4	18.1	15.1	11.6	**106.2**	**193.5**

Note:

MEI = Medicare Economic Index.

[2] The long-term cost might not be exactly equal to zero because of interactions with payment rates in the Medicare Advantage program.

<u>Other Options that Replace or Restructure the SGR</u>. The last set of options, shown in Table 3, would either replace or restructure the SGR. The list is not exhaustive, however. It includes options that would replace the SGR with a specified update—a freeze, the MEI, 1 percent or 2 percent—in each year through 2022.

Options that "Reset the SGR" would keep the SGR mechanism in place but would reset some of its parameters. They would forgive all spending that has accrued above the cumulative targets and set both the cumulative target and cumulative spending to zero as of December 31, 2011. Those options would use calendar year 2012 as the base period for future application of the SGR and would specify an update in 2013 equal to the MEI, or increase the expenditure target either by 1 percent or 2 percent, with other factors in the target remaining unchanged.

Table 3: Replace or Reset the SGR:	**Estimated Increase or Decrease (-) in Outlays Billions of Dollars, by Fiscal Year**										**2013-2017**	**2013-2022**
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**		
0% Update through 2022 a/	11.0	18.4	20.9	23.6	25.8	28.1	31.1	34.3	37.2	40.6	**99.7**	**271.0**
0% Update through 2022 including TRICARE interaction a/	11.1	18.6	21.1	23.8	26.0	28.3	31.4	34.6	37.5	40.9	**100.6**	**273.3**
MEI Update Through 2022	11.3	19.5	23.6	28.2	32.4	36.9	42.7	49.0	55.4	63.0	**115.1**	**362.0**
Note: CBO's MEI Projection	*0.6%*	*1.7%*	*2.5%*	*2.2%*	*2.1%*	*2.0%*	*2.1%*	*2.0%*	*2.0%*	*2.1%*		
Reset SGR Target at 2011 Spending Level b/	11.3	19.7	23.3	25.9	26.8	26.9	27.6	29.0	30.6	33.1	**107.0**	**254.2**
Reset SGR Target at 2011 Spending Level and use GDP + 1% in Target c/	11.3	20.1	24.8	28.8	31.2	33.0	35.6	38.9	42.7	47.7	**116.2**	**314.1**
Reset SGR Target at 2011 Spending Level and use GDP + 2% in Target d/	11.3	20.5	26.1	31.6	35.6	39.1	43.8	49.4	55.7	63.6	**125.1**	**376.6**

Notes:

MEI = Medicare Economic Index.

a. The estimated cost of a ten-year freeze shown in CBO's Reestimate of the President's Budget (http://www.cbo.gov/publication/43083) only included Medicare interactions. If a ten-year freeze were enacted it would also increase spending in the TRICARE for Life program.

b. Payment rate updates beginning in 2016 would be negative.

c. Payment rate updates beginning in 2017 would be negative for a few years, but would then be positive.

d. Payment rate updates beginning in 2013 would be positive.

For all of three of the tables above:

Estimates are net federal outlays, which include the effect on fee-for-service Medicare spending, payments to Medicare Advantage plans, Part B premiums, Medicaid payments to primary care providers, and TRICARE for Life. If legislation is part of a set of Medicare policy changes, there could be an interaction with the provisions related to the Independent Payment Advisory Board (IPAB). IPAB interactions are not calculated on a provision-by-provision basis.