

Medicare Payments for Physician Services are Broken *Reforms are Needed to Stabilize the Medicare Physician Payment System*

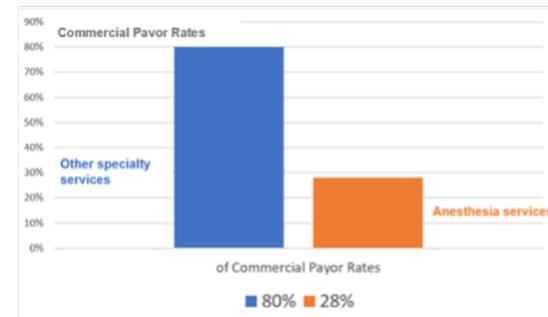
ISSUE

The Medicare physician payment system is broken and represents a threat to the viability of many physician practices. Cuts to Medicare physician payments can cause harm to patient access, especially in underserved communities, will drive increases in economically inefficient cost-shifting in the health care marketplace, and ultimately will decrease the availability of some anesthesiology services.

BACKGROUND

As a result of Congressional and regulatory actions, Medicare payments now lack any basis in the actual cost of providing services and are drastically insufficient.

According to the Medicare Payment Advisory Commission (MedPAC), overall Medicare physician payment rates, on average, represent approximately 80% of commercial payment rates. However, there is significant variability among rates for different physician specialties with some specialties' Medicare rates far less than the MedPAC average. **Medicare rates for anesthesia services represent less than a third of commercial insurance payments for the same services**, according to a recent study by the Government Accountability Office (GAO).



Commercial insurer payment rates have historically been tied to negotiation with payer, relevant local-market forces, and the actual cost of physician professional services. In contrast, Medicare rates are determined by statutes and regulation. For example:

- Depending on who is being paid, Medicare payment as a percentage of the cost of providing the service is highly variable. The American Hospital Association (AHA) reports that hospitals receive, on average, 84 cents for every dollar of care delivered for Medicare recipients. By comparison, anesthesiology payments are now an unacceptably small fraction of the actual cost to provide the professional service, far less than what hospitals and other physician specialties receive.
- Annual updates to the Medicare formulas used for setting payments for physicians, along with sequester and pay-go requirements, consistently result in payment freezes or reductions.
 - April 1, 2022, marked the start of a Medicare physician payment cut of 1%.
 - Effective July 1, 2022, payments will be cut by 2%.
 - January 1, 2023, the cut will increase to 9%.
- Unlike other parts of the Medicare payment system, Congress has included no inflation adjustment or other mechanism in the Medicare physician payment formula to reflect the increasing costs of providing services. Adjusted for inflation, Medicare payments to anesthesiologists are about half of what they were in 1991.
- Under a “Hunger Games”-type mechanism built into the physician payment formula known as “budget neutrality,” the Center for Medicare and Medicaid Services’ (CMS) decisions to increase payments for certain Medicare services are paid for by cuts to other services. As a result of these and other policies, Medicare rates have consistently undervalued physicians’ services. The problem is increasing in severity. Rates are unsustainable for many practices – especially within anesthesiology.

REQUESTS

- Congress needs to act to prevent the 9% cut effective January 1, 2023.
- Congress is urged to hold hearings to identify reforms to the Medicare payment system that will ensure the program works for patients, supports timely access to care, and allows physicians to maintain sustainable practices that can invest in quality improvement and patient safety initiatives. The inclusion of a Medicare fee schedule annual inflation adjustment and significant reforms to the “budget neutrality” requirement should be among the first reforms considered and advanced.