CMS Proposes 4.6% Physician Pay Cut for 2007

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In a not unexpected, but definitely unwelcome move, the Centers for Medicare and Medicaid Services has announced that it will cut physician pay by 4.6% for 2007.

The federal health program said the scheduled decrease in physician fees is based partly on the fact that spending for physicians' services rose by 8.5% in 2005, with 7.5% of that rise due to growth in the volume and intensity of physician services.

But physician organizations blame the hit on the sustainable growth rate (SGR). If Medicare spending on physicians increases more than the SGR, CMS must cut physician fees; lower spending means higher rates for physicians. But errors made in setting the SGR in 1998 and 1999 have led to annual proposed cutbacks and yearly congressional bailouts. Last year, for instance, medical organizations successfully lobbied Congress to block a proposed 4.4% cut for 2006, but because legislators did not increase fees, payments essentially were frozen at the 2005 rate.

Also in 2007, according to the American Association of Clinical Endocrinologists, the Medicare payment for the technical component of some imaging services will be set at the hospital outpatient payment rate if that rate is lower than the physician fee schedule rate. Technical component payments for ultrasound guidance and bone densitometry would be reduced by over 40% under this scenario.

This year, physician groups again say that they will urge Congress to stop the fee cut and repair the SGR.

"I think Congress agrees that it's not a fair system," Patrick Hope, legislative counsel for the American College of Physicians, said in an interview. ACP is not optimistic that the SGR will be addressed in 2006, an election year, Mr. Hope said.

Physician organizations said they will try to stop the cuts. Some also will continue to push for a system that would reward physicians with higher fees in exchange for more quality reporting, and tying physician fees to the Medicare Economic Index.

The bill introduced last year by Rep. Nancy Johnson (R-Conn.) is a good starting point for negotiations, Mr. Hope said.

The American Medical Association supported Rep. Johnson's bill, and also will urge Congress to stop the cuts, an AMA spokeswoman said.

In a statement, Dr. Duane Cady, AMA chair, said that the 2007 reduction "is just the tip of the iceberg." Over 9 years, the pay cuts will total 34%, while practice costs will increase 22%, Dr. Cady said. An AMA survey found that over those years, 73% of physicians will defer buying new equipment and 65% will put off purchases of new information technology—at a time when practitioners are being asked to convert to electronic health records and collect more data on quality and health outcomes.

"You can't expect doctors to move toward electronic health records facing that kind of hit," Mr. Hope agreed.

Physicians may stop taking new Medicare patients, or, even worse, may have to close their practices. When the overhead is greater than the payment, there won't be any access, plus closures will impact private-pay patients.

Even CMS agreed that the practice environment is getting harder. "Physicians may find it difficult to invest in activities like electronic record systems and support programs for high-risk patients that could enhance quality of care, without increasing medical costs," Herb B. Kuhn, director of CMS' Center for Medicare Management, wrote to the Medicare Payment Advisory Commission.

The fastest-growing components of physician services included imaging (16% growth), laboratory and other tests (11% growth), and procedures (9% growth), according to the letter. Procedures accounted for 26% of Medicare spending, compared with 14% for imaging and 12% for laboratory and other tests.

An increase in evaluation and management services accounted for the largest portion of the 8.5% overall growth in physician services, but the growth rate—7%—was less than for the other services.

Dr. Cady said that it's not surprising that physician services are increasing, as patients are living longer with chronic conditions and more emphasis is being placed on preventive care. ■