



COMBINED IMPACTS OF 2007 MEDICARE PHYSICIAN PAYMENT CHANGES

Passage in December 2006 of H.R. 6111 prevented a 5% cut in Medicare payment rates for all physician services due to the Sustainable Growth Rate (SGR) formula, which was slated to be imposed January 1, 2007. H.R. 6111 also prevented a reduction in the geographic practice cost index (GPCI) for physician work that would have affected more than 50 payment localities.

Although H.R. 6111 set the 2007 conversion factor at its 2006 rate and maintained the floor on the work GPCI, several significant changes are still being made in 2007 Medicare physician payment rates. As a result, payment rates for virtually every physician service are likely to change. Specific payment rates for services in each payment locality have been posted to the Medicare carriers' Web sites and will also be provided to physicians by the carriers upon request.

- **Payment redistributions that will increase payments for some physician services but reduce them for others include:**
 - Significant increases in the relative values for evaluation and management (E/M) services based on recommendations made by the RVS Update Committee (RUC) during the recent 5-year review of work values.
 - These increases also would be carried over into the relative values assigned to the pre- and post-operative components of global surgical packages.
 - The 5-year review also increased relative values for many cardiac and thoracic surgery procedures and a number of other procedures.
 - A budget neutrality adjustment to offset the increases from the 5-year review.
 - CMS is required to apply a budget neutrality reduction of about 5.5% to offset the cost of the proposed increases in E/M and surgical services.
 - For some specialties, the benefits of the relative value increases will outweigh the impact of a negative budget neutrality adjustment, but for others, the budget neutrality adjustment will lead to payment cuts.
 - Changes in the practice expense methodology
 - CMS is revising its methodology for determining practice expense values. The changes, to be phased in over four years, benefit some specialties while requiring budget neutrality cuts for others.
 - CMS estimates that the combined work and practice expense changes will increase average Medicare payments for 20 specialties and reduce average Medicare payments for 14 specialties, with several others having no change in pay.
- **Cuts that remove money from the system include:**
 - Imaging cuts from the Deficit Reduction Act (DRA)
 - The DRA stipulated that payment rates for technical component imaging services cannot exceed the hospital payment rate for the same service. The DRA provision makes the cuts steeper for radiologists (-5%), vascular surgeons (-4%), interventional radiologists (-2%), and nuclear physicians (-2%), and other specialties. It also partially offsets increases for general practitioners and several other specialties.

- **When the impacts of these different changes are combined, CMS estimates that average Medicare payment rates will change for nearly all physician specialties, even though the conversion factor for 2007 will be the same as 2006:**
 - Primary care physicians and physicians in other specialties that focus significantly on E/M, such as infectious disease and endocrinology, as well as cardiac and thoracic surgeons, will see positive payment changes.
 - A few specialties, including gastroenterologists and radiation oncologists, are projected to see no net change in payment.
 - A number of specialties still face cuts, including neurosurgery, ophthalmology and psychiatry.
 - Five specialties still face cuts of greater than 5%: anesthesiology (-7%), pathology (-6%), interventional radiology (-7%), radiology (-9%) and vascular surgery (-6%).