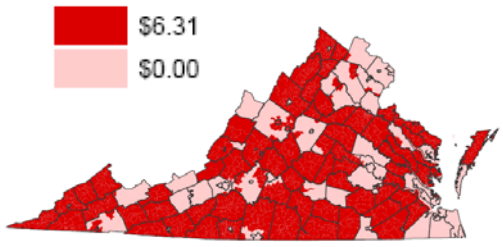
Medicare Payment Report: Impact of real and threatened cuts for Virginia's healthcare providers and patients

What happened: Four policies that impact Medicare payment to physicians faced potential changes in 2008. One of these policies, the "Physician Scarcity Area" (PSA) bonus, expired, resulting in a 5% loss in designated areas.[1,2] Using a formula to model estimated visit costs based on common primary care E&M coding patterns and Medicare patient volume, we projected the impact for an average provider in each state.‡ **In Virginia, providers in PSAs lost $6.31 on each "average" Medicare visit, which represents an annual loss of $8311.**

What could have happened: Additional cuts avoided or postponed‡:

- 10.6% reduction in overall Medicare payments via the Sustainable Growth Rate (SGR) conversion factor[1,2]
- elimination of a floor factor in the Geographic Practice Cost Index (GPCI)[1, 2]
- change in designation of Health Profession Shortage Areas (HPSAs)[3,4]

Areas in Virginia where **PSA bonus lost**

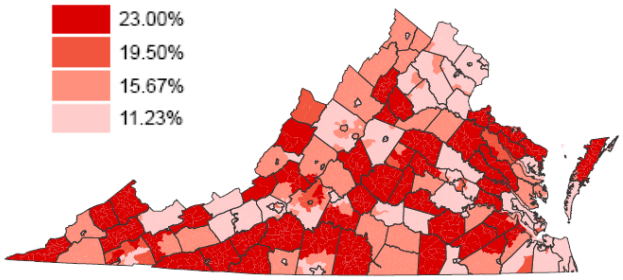


Combinations of proposed payment reductions threatening Virginia 2008[3, 4]

	SGR, GPCI floor, PSA, HPSA	SGR, GPCI floor, HPSA	SGR,GPCI floor, PSA	SGR, GPCI floor
% of state primary care physicians in group	4.21%	3.32%	9.51%	82.96%
Potential loss/visit after all threatened cuts	$33.40	$27.09	$20.78	$14.96
Payment reduction	23.00%	19.50%	15.67%	11.23%
Dollar loss/provider over year	$43,973	$35,662	$27,351	$19,695

The table uses estimates modeled on a typical provider within each geographic category* designated as both PSA and HPSA, only HPSA, only PSA, or neither, and whether each area currently receives the GPCI floor. * based on status as PSA or HPSA as of June 2008. Note that **state has various GPCI designations, some receiving the floor in each area category. Figures above represent the mean GPCI** in each category.

Virginia's physician payment at risk in **2008**



If all Medicare cuts had been enacted in 2008, the typical losses in Virginia would have been: average: 12.4% ($21,975/yr) maximum: 23.0% ($43,973/yr)

On the horizon in 2010:[3-5]

- a 21% cut in the SGR is scheduled
- the GPCI floor may be eliminated
- HRSA will again consider re-defining HPSA designations
- Nationally, if the SGR sustains a 21% cut and the other designations are lost, the typical physician will lose $42,000 relative to 2008 payments, and the range extends up to $86,000.

‡ see page 2 for more detailed explanation and link to complete methodology

Our approach[3]

- We estimated payments modeled on a "typical" Medicare physician in each geographic category based on current reimbursement mechanisms, average Medicare patient population, and billing for an E&M code averaged between 99213 and 99214. (for complete methodology: http://www.graham-center.org/online/graham/home/tools-resources/maps/maps/medicare-payment/methods.html).
- We then calculated the worst-case scenario: 10.6% cut in the Medicare conversion factor, elimination of the GPCI floor, and loss of both HPSA and PSA status where applicable.

Background and Details of Cuts

Since 1997, every congressional budget cycle has included a reduction in Medicare payments that has eventually been modified**.** Because Medicare payments are determined by a pre-set formula (represented by the term "sustainable growth rate", or SGR), and the total Medicare expenditure is capped by law, Congress must regularly reduce the conversion factor that transforms the "relative value" of billed E&M or CPT codes to dollar figures.[5] In House Bill HR 6331 of 2008, that cut was equivalent to 10.6%. Congress rescinded the change, but the current bill holds rates only until 2010, at which time the formula calls for a **21% cut**.[6] **As a condition of avoiding the 10.6% loss, *PSA designations were allowed to expire*.** [1,2] PSA status conferred quarterly incentive payments for physicians in scarcity areas**. Simultaneously, CMS proposed two other payment changes**.[6,7] All of these payment policies were intended to ensure availability of medical services and to recruit and retain providers in underserved areas.

- Three additional adjustments affecting or threatening Medicare rates in 2008 were:
  - The **Physician Scarcity Area** (PSA) bonus of 5% expired; thus providers in qualifying areas are now experiencing a reduction of revenue from July 2008 onward. [1,2]
  - **Health Professional Shortage Areas** (HPSAs) and Medically Underserved Areas/Populations (MUA/MUPs) were scheduled to be merged under a new rule. These areas of underservice are designated based on separate criteria under different authorities. HPSAs receive a 10% bonus and initial eligibility to recruit National Health Service Corps participants, while MUAs do not receive extra payments but are eligible for grants. HPSA and MUA providers were all at risk of losing these designations and would have had to undertake a costly re-application based on new criteria. This change was not enacted in 2008, but will be re-addressed next year. [3,6,7]
  - The "floor" factor of the **Geographic Practice Cost Index** (GPCI) was set to expire. This cost-of-practice adjustment allows for higher payments in regions with higher cost-of-living. Under the original plan, rural areas serving the most vulnerable Medicare patients would have lost revenue due to low GPCI scores. To prevent these losses, a payment floor was instituted in the 1990's. This floor adjustment was continued but will also be re-addressed in 2010. [4,5]

Implications

In January 2010, Congress will again be faced with cutting Medicare payments via a scheduled 21% overall reduction according to the sustainable growth rate formula. In addition, removal of the GPCI floor will be under consideration. HPSA designation rules will be reviewed again in 2009. These policies were designed to assure access to care for all Medicare beneficiaries. Physicians, healthcare organizations, policymakers and stakeholders will want to be familiar with Medicare payment policies and their local impact in order to understand future health system revisions and advocate for appropriate Medicare policy.

Reference List

(1) American Medical Association, HR 6331. Medicare Improvements for Patients and Providers Acto of 2008" as passed by U.S. Senate July 9, 2008. Highlights .

(2) CMS Manual System. Extension of Dates Eligible for the Physician Scarcity Bonus. CMS Transmittals Publication 100-04. 2-5-2008.

(3) Phillips R.L.Jr., Xierali I., Petterson SM, Bazemore A.W. Threats to Medicare Physician Reimbursement and Their Geographic Variation, 2008 and 2010. Submitted for publication in *Health Affairs*. 2009.

(4) Xierali I., Bazemore A.W., Phillips R.L.Jr., Petterson SM, Dodoo M.S., Teevan B. A Perfect Storm: Changes Impacting Medicare Threaten Primary Care Access in Underserved Areas. American Family Physician 77[12], 1738. 2008.

(5) M.Kent Clemens. Estimated Sustainable Growth Rate and Conversion Factor, for Medicare Payments to Physicians in 2008 . 11-2-0007.

(6) Department of Health and Human Services. "Designation of Medically Underserved Populations and Health Professional Shortage Areas". Federal Register 73[41], 11232-11281. 2-28-2008.

(7) CMS Website: HPSA and PSA explanations. 2008.