April 20, 2007

Ms. Leslie Norwalk
Administrator
Centers for Medicare & Medicaid Services
Department of Health and Human Services
Room 314-G, Hubert H. Humphrey Building
200 Independence Avenue, SW
Washington, DC 20201

Dear Administrator Norwalk:

The undersigned national organizations representing physicians and other health professionals are writing to urge the Centers for Medicare and Medicaid Services (CMS) to adopt policy changes for the 2008 Medicare payment schedule that will help avert payment cuts driven by the Sustainable Growth Rate (SGR) formula and lessen the score for Congressional proposals to address the SGR. As you know, a 10% reduction in the 2008 conversion factor is forecast and the Medicare Trustees predict cuts of nearly 40% over the next eight years. These cuts are unsustainable and they will make it impossible for most practices to make the kinds of investments in health information technology and quality initiatives that the Bush Administration has championed.

Physician Assistance and Quality Initiative Fund

The law passed by Congress in December which averted the 5% cut in the conversion factor for 2007 provides for a Physician Assistance and Quality Initiative Fund of $1.35 billion to be expended by Medicare in 2008. H.R. 6111 makes this fund available to the Secretary "for physician payment and quality improvement initiatives, which may include application of an adjustment to the update of the conversion factor …"

The undersigned organizations strongly urge the Secretary and CMS to apply the Physician Assistance and Quality Initiative Fund to the 2008 conversion factor update. Application of the entire $1.35 billion to the 2008 update would be a critical first step towards lessening the 10% reduction in the conversion factor for 2008. By stating its plans to use the Fund in this manner, the Administration could help demonstrate to senior citizens that it is does not wish to see their access to medical care curtailed, as well as demonstrating to Congress that it is committed to facilitating physicians' and other health professionals' investments in information technology and quality measurement.

The Medicare Payment Advisory Commission (MedPAC) has recommended that Medicare payment rates for physicians' and other health professionals' services be updated by 1.7% to reflect its forecast of practice cost increases in 2008. Using the Fund toward the 2008 payment update will not be enough to achieve a full 1.7% update but it will help lower the cost of Congressional action to adopt this recommendation. In its March Report to Congress, MedPAC recommended that the $1.35 billion fund "be directed entirely toward a conversion factor update for 2008."

Productivity

The President's budget proposal for 2008 recommends that the payment update for inpatient and outpatient hospital services, hospices and ambulance services be reduced by 0.65 percentage points each year to offset productivity increases. Unlike updates for these other providers, the Medicare Economic Index (MEI) used to measure increases in practice costs includes an automatic reduction for presumed increases in productivity. In 2008, this downward adjustment in the MEI is slated to be about 1.45 percentage points—or more than twice as much as the proposed reduction for other services. Surely the Administration does not believe that physicians' and other health professionals' productivity is increasing at twice the rate of other health care providers. **The undersigned organizations strongly urge the Administration to reduce the productivity adjustment to the MEI to 0.65 percentage points as it has recommended for other Medicare providers.**

Drugs

The undersigned organizations have repeatedly urged the Administration to remove the costs of Part B drugs from all of its SGR calculations, retroactive to the 1996 SGR base year. In 1996, these drugs accounted for less than 4% of total SGR target and actual spending. By 2005, the cost of Part B drugs had more than doubled to 9% of SGR spending. By 2017, these costs may consume nearly 20% of the target for Medicare spending on physician and other health professional services. In 2005, a single new drug, Neulasta, accounted for half a billion dollars of Medicare spending.

On a per enrollee basis, the costs of the drugs that CMS includes in its SGR calculations have been growing at a rate that is three times greater than the rate of growth in actual services of physicians and other health professionals. From 1996 through 2005, Medicare spending on these drugs grew at an average annual rate of about 18% per enrollee whereas spending on physician/health professional services grew at about 6% per enrollee.

Because CMS counts spending on drugs covered by Medicare Part B in its calculations of actual spending under the SGR, the difference between the SGR targets and actual spending has gotten wider and wider. Drug spending grows much more rapidly than spending on physician/professional services and is a significant factor in the forecast pay cuts over the next eight years. It was a CMS decision to count drugs as part of actual spending under the SGR in its initial calculations of base year spending and CMS has the authority to remove drug costs from those calculations retroactive to the SGR base year and for every year thereafter. Removing these drug costs retroactively would greatly lessen the score for legislation to address the forecast SGR pay cuts and reduce the pressure on Congress to find other offsets in order to avert a crisis in seniors' access to care.

National Coverage Determinations

In 1999, CMS reformed its approach to making national Medicare coverage policy determinations in an effort to ensure that coverage decisions were grounded in the available scientific evidence of services' effectiveness. Since then, CMS has issued more than 100 national coverage determinations. Many of these coverage policy determinations have a very significant impact on spending growth, yet CMS has made no effort to adjust the SGR to allow for these policy decisions. Millions of dollars in additional spending under the SGR each year is due to CMS policies that greatly expanded coverage or reversed noncoverage decisions for macular degeneration treatments, positron emission tomography (PET) scans, transluminal percutaneous angioplasty with carotid artery stents, and other coverage expansions.

CMS has rejected previous recommendations from the undersigned organizations to estimate the cost of these benefit expansions and include them in the "law and regulation" factor of the SGR. One reason that CMS has provided is that it is too difficult to estimate these costs. An alternative would be for CMS to exclude services affected by national coverage determinations from its SGR calculations for a period of least two years. Many of these services, including all of the procedures referenced above, have distinct procedure codes associated with them. If it is too difficult to predict the impact of the expanded coverage ahead of time, then CMS could instead exclude the coded services from its calculations of actual spending for a two-year period and then use actual experience with the services as a basis for adding their spending to the SGR in third year of coverage.

Conclusion

Facing a 10% cut in 2008, physicians and other health professionals have serious concerns about their ability to adopt information technology and quality initiatives, as well as to continue accepting new Medicare patients as they prepare for the influx of baby boomers. The undersigned organizations urge CMS to do everything it can to avert this cut and help secure a 2008 payment update that will cover practice cost increases.

Thank you for your consideration.

Sincerely,

American Academy of Audiology
American Academy of Dermatology Association
American Academy of Facial Plastic and Reconstructive Surgery
American Academy of Family Physicians
American Academy of Hospice and Palliative Medicine
American Academy of Neurology
American Academy of Nurse Practitioners
American Academy of Ophthalmology
American Academy of Otolaryngic Allergy

American Academy of Otolaryngology-Head and Neck Surgery
American Academy of Physical Medicine and Rehabilitation
American Academy of Physician Assistants
American Association for the Study of Liver Diseases
American Association of Clinical Endocrinologists
American Association of Clinical Urologists
American Association of Neurological Surgeons
American Association of Nurse Anesthetists
American Association of Orthopaedic Surgeons
American Chiropactic Association
American College of Cardiology
American College of Chest Physicians
American College of Emergency Physicians
American College of Gastroenterology
American College of Obstetricians and Gynecologists
American College of Occupational and Environmental Medicine
American College of Osteopathic Family Physicians
American College of Osteopathic Internists
American College of Osteopathic Surgeons
American College of Physicians
American College of Preventive Medicine
American College of Radiology
American College of Rheumatology
American College of Surgeons
American Gastroenterological Association
American Geriatrics Society
American Medical Association
American Medical Directors Association
American Medical Group Association
American Occupational Therapy Association
American Optometric Association
American Osteopathic Academy of Orthopedics
American Osteopathic Association
American Physical Therapy Association
American Podiatric Medical Association
American Psychiatric Association
American Psychological Association
American Rhinologic Society
American Society for Clinical Pathology
American Society for Gastrointestinal Endoscopy
American Society for Reproductive Medicine
American Society for Therapeutic Radiology and Oncology
American Society of Addiction Medicine
American Society of Anesthesiologists
American Society of Breast Surgeons
American Society of Cataract and Refractive Surgery

American Society of Echocardiography
American Society of General Surgeons
American Society of Hematology
American Society of Interventional Pain Physicians
American Society of Nephrology
American Society of Nuclear Cardiology
American Society of Pediatric Nephrology
American Society of Plastic Surgeons
American Speech-Language-Hearing Association
American Thoracic Society
American Urogynecologic Society
American Urological Association
Association of American Medical Colleges
Child Neurology Society
College of American Pathologists
Congress of Neurological Surgeons
Heart Rhythm Society
Infectious Diseases Society of America
Medical Group Management Association
National Association of Social Workers
National Association of Spine Specialists
National Rural Health Association
Renal Physicians Association
Society for Cardiovascular Angiography and Interventions
Society for Vascular Surgery
Society of Gynecologic Oncologists
Society of Hospital Medicine
Society of Interventional Radiology
Society of Nuclear Medicine
Society of Thoracic Surgeons
The Endocrine Society