



**CONGRESSIONAL BUDGET OFFICE  
COST ESTIMATE**

November 4, 2009

**H.R. 3961**  
**Medicare Physician Payment Reform Act of 2009**  
*As introduced on October 29, 2009*

**SUMMARY**

H.R. 3961 would restructure the Sustainable Growth Rate (SGR) formula, which determines the updates to payment rates for physician services. CBO estimates that enacting H.R. 3961 would increase direct spending by about \$210 billion over the 2010-2019 period. (The legislation would not affect federal revenues.)

H.R. 3961 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

**ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of H.R. 3961 is shown in the following table. The costs of this legislation fall within budget function 570 (Medicare).

	Outlays in Billions of Dollars, by Fiscal Year											
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2010-2014	2010-2019
<b>CHANGES IN DIRECT SPENDING</b>												
Medicare Physician Fee Schedule	8.0	13.7	15.0	16.1	17.4	19.0	21.3	24.3	27.6	32.2	70.2	194.6
Medicare Advantage and TRICARE	0	3.7	4.6	5.3	5.9	6.8	8.3	8.8	9.4	11.6	19.6	64.4
Part B Premium Receipts	0	-2.8	-3.1	-3.4	-4.9	-5.4	-6.2	-6.9	-7.7	-9.1	-14.2	-49.4
Net Changes	8.0	14.7	16.5	18.0	18.3	20.4	23.4	26.2	29.3	34.7	75.5	209.6

Notes: Components may not sum to totals because of rounding. TRICARE is the Department of Defense's health plan. Part B is the voluntary portion of the Medicare program that pays the costs of physicians' and other outpatient services; beneficiaries pay premiums that cover about 25 percent of those costs.

## **BASIS OF ESTIMATE**

Under current law, Medicare's payment rates for physicians' services will be reduced by about 21 percent in January 2010, and the Congressional Budget Office estimates those payment rates will be reduced by about 2 percent annually for several subsequent years. This estimate reflects the final rule "Payment Policies Under the Physician Fee Schedule and Other Revisions to Part B for CY 2010" that was posted on the Federal Register's Web site on October 30, 2009.<sup>1</sup>

H.R. 3961 would restructure the SGR in several ways:

- The update for 2010 would be the percentage increase in the Medicare economic index (MEI), which is 1.2 percent, as specified in the final rule.
- Beginning in 2011, there would be separate target growth rates and conversion factor updates for two categories of service: evaluation, management, and preventive services, and all other services.
- The new SGR formula would take into account spending for each category of service since 2009 or—beginning in 2014—for the past five years. (The current SGR formula takes into account spending since 1996.)
- Finally, only physician services, and not other services provided incident to the physician visit (such as laboratory services), would be counted in each category.

The changes to the SGR formula would increase the fees paid to physicians under Medicare by about \$195 billion over the 10-year budget projection window. The changes to the formula would also result in higher spending for both the Medicare Advantage (MA) program and the Department of Defense's TRICARE program. CBO estimates those changes would sum to about \$64 billion over the budget window. MA spending would rise because the "benchmarks" that Medicare uses to determine how much the program pays for MA enrollees are adjusted for changes in Medicare spending per beneficiary in the fee-for-service sector. The benchmarks have been set for 2010 and will not be changed, so there would be no impact on MA spending until 2011. The TRICARE program uses Medicare's physician fee schedule to pay for physicians' services.

---

1. See [http://www.federalregister.gov/OFRUpload/OFRData/2009-26502\\_PI.pdf](http://www.federalregister.gov/OFRUpload/OFRData/2009-26502_PI.pdf). The final rule removed spending for physician-administered drugs from the SGR calculations, specified the Medicare economic index for 2010, and made numerous other changes to the physician fee schedule.

Beneficiaries enrolled in Part B of Medicare pay premiums that offset about 25 percent of the costs of those benefits. (All of the changes in Medicare spending that would result from enacting H.R. 3961 would be for Part B benefits.) Therefore, about one-quarter of the increase in Medicare spending would be offset by changes in those premium receipts. The premium for 2010 has already been set and will not be changed, so H.R. 3961 would have no effect on Part B premium receipts until 2011. Over the 2011-2019 period, CBO estimates that aggregate Part B premiums would increase by about \$49 billion. Premium collections are recorded as offsetting receipts (a credit against direct spending).

H.R. 3961, if enacted, would interact with provisions of other health care legislation currently being considered in the House of Representatives that would modify payment rates or rules for either services on the physician fee schedule or the Medicare Advantage program. If both H.R. 3961 and such other legislation were to be enacted, the estimated budgetary effect of those interactions would be assigned to whichever legislation is cleared by the Congress later.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 3961 contains no intergovernmental or private-sector mandates as defined in UMRA.

## **PREVIOUS CBO ESTIMATE**

On July 17, 2009, CBO transmitted a preliminary analysis of H.R. 3200, the America's Affordable Health Choices Act of 2009, as introduced on July 14, 2009. Section 1121 of that bill included the provisions of H.R. 3961. In July, CBO estimated the net cost of section 1121—taking into account the interactions with Medicare Advantage, TRICARE, and Part B premiums—would total \$245 billion over the 2010-2019 period. Two factors account for the differences between CBO's estimate in July and our current estimate. First, the current estimate incorporates information provided in the final rule (notably, the decision to remove physician-administered drugs from the SGR calculation and the value of the MEI). Second, the interaction with MA spending was different in our July estimate because other provisions of H.R. 3200 would have modified how payment rates for MA plans are set.

**ESTIMATE PREPARED BY:**

Federal Costs: Lori Housman

Impact on State, Local, and Tribal Governments: Lisa Ramirez-Branum

Impact on the Private Sector: Patrick Bernhardt

**ESTIMATE APPROVED BY:**

Holly Harvey

Deputy Assistant Director for Health, Income Security, and Education

Budget Analysis Division