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Medicare update: What the latest changes will mean for you

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Medicare Part D and the more recent changes in physician payments beginning in January will of course have a financial impact on your practice in the upcoming months. Knowing what you can expect will help you to navigate the road ahead.

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A 5% increase in RVU valuation

Last year the Relative Value Update Committee, an American Medical Association (AMA) convened panel that advises CMS, recommended changes in work RVUs (relative value units) that increased the value of some evaluation and management (E&M) codes—particularly 99213 and 99214. Because Medicare needs to maintain budget neutrality, this change prompted a decrease in the value of a number of procedural work RVU codes.

The net effect for a typical family physician is an average increase of 5% in RVU valuation, although the exact amount will vary in individual practices based on the distribution of the codes. (To calculate the impact that these changes may have on your anticipated revenue, check out the handy tool provided by the American Academy of Family Physicians (AAFP). On the first page, there is a spreadsheet showing the change in RVU values from 2006 to 2007 for a number of codes; on the second page there is a worksheet to calculate changes in your anticipated revenue.[1]) Because many private insurers base their physician reimbursement system on Medicare RVU values, your practice may get an added benefit from these changes in your private payer collections.

A conversion factor that was poised to drop

The good news on the RVU front could have been negated by the highly publicized scheduled decrease in the overall Medicare physician fee schedule. (Actual Medicare payments are determined by multiplying the total RVU value of a code by a conversion factor [$37.895 in 2006], with some further adjustments to reflect geographic differences in expenses and efforts to maintain budget neutrality.) The conversion factor was scheduled to decrease by 5% in January, and only a last-minute intervention by Congress prevented this, leaving the 2007 conversion rate unchanged from 2006.

While this legislation will be a help to family physicians' bottom lines in 2007, it doesn't put an end to the annual struggles of organized medicine to forestall future Medicare payment decreases. These decreases are a result of prior legislation mandating the use of the sustainable growth rate formula (SGR) which relies on the change in the national gross domestic product to establish a yearly target for growth in the volume of Medicare payments to providers. When those payments exceed the SGR target, as it has

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in recent years, payments must be cut in the following year to recoup the excess spending.

Furthermore, when Congress blocks these payment cuts (as it has in the past few years) without changing the underlying law, this SGR "debt" just grows larger. This is why physician payments are projected to decrease up to 5% a year for up to 9 years.

Change may be in the making, though. Fixing the SGR payment rule remains a high priority for the AAFP, American Medical Association, and other medical organizations.

Pay-for-performance program buys physicians some time

Health care legislation, as we know, is the product of many trade-offs. Case in point: part of the deal to enact legislation that saved physicians from the 5% cut in Medicare payments was the establishment, for the first time, of a formal pay-for-performance (or more accurately, a pay-for-reporting) program starting this summer. The specifics of the program have yet to be established, but the general thrust is that Medicare will pay physicians up to a 1.5% bonus if they report data on the quality of their care using measures specified by the government.

The AAFP is relatively happy with this measure because it will start by rewarding the reporting on a small number of measures, and it will use measures developed and endorsed by national organizations such as the Ambulatory Care Quality Alliance of which the AAFP is a cofounder. AAFP's position, however, could change as program details emerge.[2]

Whether the work involved in providing this data will be worth the small increase in payments is unclear. Nevertheless, it's likely that in time, it will become increasingly difficult for physicians to avoid addressing quality indicator reporting and, eventually, being judged on the achievement of certain outcomes.

Patient satisfaction climbs with Medicare Part D

Back for its second year, the Medicare Part D program continues to feature standalone prescription drug plans (PDPs) for medications only and Medicare Advantage (MA) managed care plans offering drug benefits coupled with the full array of the usual Medicare benefits. Early last year, there was a great deal of concern that enrollment in the Part D program would lag, but by June, approximately 90% of the 43 million Medicare Part D eligible beneficiaries had direct drug coverage through either a Medicare PDP (16.5 million), an MA plan (6 million), or through a credible alternative plan, eg, a Medigap policy, retiree health plan, or VA plan (15.8 million).[3] (For more on prescription drug coverage among Medicare beneficiaries, go to the Kaiser Family Foundation Medicare Fact Sheet.) By late 2006, 56% of seniors enrolled in a Medicare Part D plan were expressing satisfaction with the program.[4]

Fewer choices in the future?

Last year, 10 companies out of 266 accounted for 66% of the enrollment in Part D plans with United Healthcare and Humana dominating the marketplace.[5] Companies with low numbers of enrollees may eventually lose the right to participate in the Part D program since they can't spread the risk of medication usage across a large enough population. Also, it's likely that about 75% of beneficiaries in a PDP will have higher premiums in 2007, although many by only a few dollars per month.[5]

Will the government begin direct negotiations?

Democrats want the federal government to negotiate directly with drug companies on the price of Part D medications—something the Republicans didn't allow in the original legislation. Now that Democrats are in control of the House and Senate, this issue will likely be revisited. In addition, because more beneficiaries will have

coverage for all of 2007—as opposed to just part of 2006—it's likely that more of them will reach the "doughnut hole" during the year. If that happens, Congress is likely to hear more complaints about the inadequacy of the program's handling of drug costs.

The MA program may also become a political hot button. In the legislation authorizing the Part D program, the Republican-led Congress significantly increased payments to MA programs in an effort to attract more enrollees.

A Commonwealth Fund study released in November 2006, confirmed this by showing that payments for each of 5.6 million enrollees in an MA plan in 2005 averaged $922 or 12.4% more than costs for beneficiaries in the traditional Medicare fee-for-service program for a total of $5.2 billion. The Commonwealth study authors noted that these extra payments undermine the original intent of the legislation which was to have an MA program provide a more efficient alternative to the traditional Medicare program.6 This is another part of the original bill that Democrats argued against, and may be another area they choose to address in the new legislative session. With the shift in control over the House and Senate, only time will tell how Medicare Part D will evolve in the months ahead.

What's on the public's mind?

A poll taken done by the Kaiser Family Foundation and Harvard School of Public Health soon after the November elections showed that majorities of Democrats (92%), independents (85%), and Republicans (74%) supported the government negotiating prices for prescription drugs under Medicare and a majority of all polled (79%) supported allowing the purchase of drugs from Canada. Also, more than half supported federal funding of stem cell research.

The top health priorities were expanding coverage for the uninsured (35%) and reducing health care costs (30%). While health care and the economy were the leading domestic priorities for those polled (about 15% each), they both trailed far behind the war in Iraq (46%).

SOURCE: The Public's Health Care Agenda for the New Congress and Presidential Campaign [Kaiser Family Foundation Web site]. December 2006. Available at: www.kff.org/kaiserpolls/pomr120806pkg.cfm. Accessed on March 20, 2007.

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Disclosure

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