



**A coalition of 12 medical societies representing more than
160,000 specialty physicians in the United States.**

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June 17, 2002

The Honorable William M. Thomas
Chairman
House Committee on Ways and Means
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Thomas:

The Alliance for Specialty Medicine greatly appreciates the efforts of the House in passing H.J.RES 2, which averted the second consecutive year of significant payment cuts to physicians participating in the Medicare program. The legislation provided the authority sought by the Centers for Medicare and Medicaid Services (CMS) to correct errors made in the Medicare physician payment formula in the late 1990s that underestimated growth in the gross domestic product (GDP) and in Medicare fee-for-service enrollment. The improved accuracy of physician fee schedule components supported by your legislative provisions added \$54 billion to the baseline over ten years, and created a 1.6% update in 2003.

Unfortunately, the flaws in the formula itself will yield additional cuts in 2004 if no action is taken. The Alliance has supported the Medicare Payment Advisory Commission's (MedPAC) recommendations over the past three years to repeal the current statutory update formula and replace it with a formula that bases the annual payment updates to a measure of medical inflation, namely, the Medical Economic Index (MEI). The use of MEI would also be consistent with Medicare's payment formulas for the majority of other providers.

The current physician payment formula has a built-in "zero tolerance" for variance between growth in the general economy and growth in the medical sector, so one year of uneven growth requires an immediate recoupment and a potentially large reduction in the following year's payment update. Further, the adjustments to the formula are asymmetrical and can result in a cut as great as 7%, but allow a potential increase of only 3%, creating unstable and inequitable swings.

We understand, however, that budget constraints may impede the House from passing this type of legislative proposal this year. For that reason, the Alliance supports, as an interim solution, the physician payment provisions of the Medicare bill being marked up by the Ways and Means and Energy and Commerce Committees. This bill will include annual updates of no less than 1.5% for 2004 and 2005, and will incorporate a ten-year rolling average of per capita growth in the GDP. We are deeply concerned, however, that beginning in 2006, under your proposal, the Medicare update formula will revert to the current flawed baseline, resulting in untenable negative updates for many years into the future. For this reason we are continuing to work to achieve a more permanent legislative "fix" for this serious problem.

We do want to acknowledge and applaud you for your determined ongoing efforts, along with those of House Ways and Means Subcommittee on Health Chair Nancy Johnson, to persuade the Administration to make additional administrative changes that would significantly ameliorate the severity of the "cliff" in 2006, thereby making the development of a permanent solution more financially palatable. Should legislation for a revised formula be unachievable this year, we will count on the opportunity to work with you and your colleagues in the next Congress, to make sure that that the cliff does not occur.

American Academy of Dermatology • American Association of Neurological Surgeons/Congress of Neurological Surgeons
American Association of Orthopaedic Surgeons • American College of Cardiology • American College of Emergency Physicians
American College of Radiology • American Gastroenterological Association • American Society of Cataract & Refractive Surgery
American Society of Clinical Pathology • American Urological Association • National Association of Spine Specialists • Society of
Thoracic Surgeons

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The Alliance wishes to once again express its gratitude for the very significant personal commitment that you and your excellent staff members have invested in this bill. We also want you to know how much we appreciate your ready accessibility and willingness to work with us in developing an interim solution to this difficult problem.

For further information, please contact the Co-Chairs of the Medicare Workgroup for the Alliance of Specialty Medicine, Nancey McCann (nmccann@ascrs.org or 703/591-2220) or Ann LaBelle (alabelle@acep.org or 202/728-0610).

Sincerely,

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