

United States Senate

WASHINGTON, DC 20510

May 7, 2004

Hon. Mark B. McClellan, M.D., Ph.D.
Administrator
Center for Medicare & Medicaid Services
Department of Health and Human Services
7500 Security Boulevard
Baltimore, MD 21244-1850

Dear Administrator McClellan:

We are writing to express our concern over the impact that pending cuts in Medicare reimbursement will have on physicians and patient access in the very near future. As the new administrator for the Centers for Medicare and Medicaid (CMS), you have a fresh opportunity to work with Congress to implement a physician payment formula that will adequately reflect the increased costs of practicing medicine. If we are to prevent this looming crisis, CMS must take immediate action to improve the application of the current formula.

Flaws in how the Medicare payment update is calculated, resulted in a 5.4% reduction in 2002. Additional cuts in 2003 through 2005 were only averted due to quick congressional action, but this moratorium ends in 2006, possibly setting up a new round of cuts. Moreover, the formula has produced payment updates that have completely failed to keep pace with the cost of practicing medicine. From 1991 through 2005, medical practice inflation will have increased by 41%, yet during the same time period, Medicare payments to physicians will have increased by around 20%. Without CMS strongly supporting legislation to remedy this problem, this situation will only worsen.

CMS must take the initial lead on this; otherwise, future cuts will surely threaten and destabilize the entire program. While Congress works to address a long-term solution, there are important administrative "fixes" that you could implement immediately:

- 1) **Ensure that government-induced increases in spending on physicians' services are accurately reflected in the SGR target.** As you know, Medicare payments to physicians are reduced when actual Medicare spending for physicians' services exceeds a pre-determined spending target (called the sustainable growth rate, or SGR). CMS must act to adequately reflect, in the SGR target, physician spending increases due to the following initiatives: (1) legislative mandates such as the new preventive screening benefits under the new Medicare law; (2) CMS coverage expansions for new procedures and technologies; (3) government "good health" policies and quality improvement initiatives, which tend to increase the use of physician services to save money elsewhere in the system.
- 2) **Remove Medicare-covered drugs and biologics from the physician payment formula.** When CMS calculates actual spending on physicians' services, it includes

the costs of Medicare-covered prescription drugs administered within physicians' offices. This policy greatly increases the likelihood that actual expenditures on services included in the target will exceed the target and this in turn triggers pay cuts to penalize physicians for providing important drugs to their patients. You must therefore act to remove drugs from the SGR formula, prior to the issuance of a final physician payment rule in 2005.

CMS must address this situation before it becomes even more volatile and costly to correct. Thank you for your prompt attention to this matter, and we would appreciate the courtesy of a response.

Sincerely,

Debbie Steiner

Patty Murray

Frank R. Lautenberg

Barack P. Rostenkowski

Muriel Nazzari

John J. G. ...

Jim Jeffords

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Mark Dayton
