



Medicare physician payment reform

The American Medical Association is deeply alarmed about the growing financial instability of the Medicare physician payment system due to a confluence of fiscal uncertainties physician practices face related to the ongoing pandemic, statutory payment cuts, lack of inflationary updates, and significant administrative barriers. The payment system is on an unsustainable path threatening patient access to physicians.

- According to an AMA analysis of Medicare Trustees data, Medicare physician payment has been reduced 20% adjusted for inflation from 2001–2021. The Medicare physician payment system is lacking an adequate annual physician payment update similar to other Medicare providers. A continuing statutory freeze in annual Medicare physician payments is scheduled to last until 2026, when updates resume at a rate of 0.25% a year indefinitely, well below the rate of medical or consumer price index inflation.
- A May 2021 *JAMA Health Forum* study found that it costs an estimated \$12,811 and more than 200 hours per physician per year to comply with the Medicare Merit-Based Incentive Payment (MIPS) system and to date there have been very limited options for physicians to move to the value-based Medicare Alternative Payment Model (APM) payment system.
- The resulting discrepancy between what it costs to run a physician practice and actual payment combined with the administrative and financial burden of participating in Medicare is incentivizing market consolidation and driving physicians out of rural and underserved areas.
- In addition to being asked to do more with fewer resources each year, physicians also continue to face significant clinical and financial disruptions during the COVID-19 pandemic. In 2020, according to an AMA study, there was a \$13.9 billion decrease (equating to a 14% reduction) in Medicare physician fee schedule spending as patients delayed treatments. Burnout, stress, workload, and fear of COVID-19 infection are leading one in five physicians to consider leaving their current practice within two years.

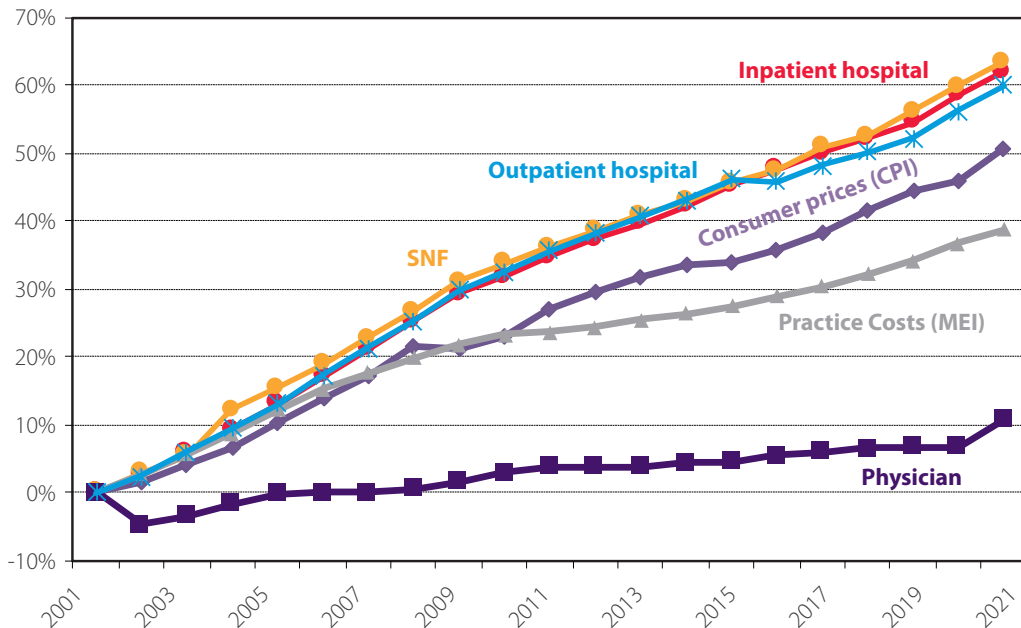
Therefore, it is urgent that Congress work with the physician community to develop solutions to the systematic problems with the Medicare physician payment system and preserve patient access:

- At a minimum, Congress needs to establish a reliable Medicare physician payment update each year that keeps up with inflation and practice costs and encourages innovation.
- Policymakers should work with the physician community and other stakeholders to develop ways to reduce the administrative and financial burden of MIPS participation for physician practices under the Medicare fee-for-service program and ensure the program's clinical relevance to patient care.

Policymakers should consider ways to make the Medicare APM program more viable, including passing the H.R. 4587, the Value in Health Care Act of 2021. When Congress passed MACRA in 2015, it included 5% bonus payments to incentivize participation in APMs to deliver high-quality care while generating savings for the Medicare program. Unfortunately, to date the development and availability of APMs for physicians to participate in has been extremely limited. The physician community is committed to continuing to work with the U.S. Department of Health and Human Services to expand the availability of value based APMs and remove barriers to participation. Congress can help this process by passing the bipartisan VALUE Act, which would extend the 5% APM incentive payment program for six years to 2030 and make further improvements to encourage increased physician participation.



Medicare pay updates compared to inflation (2001–2021)



Sources: Federal Register, Medicare Trustees' Reports and U.S. Bureau of Labor Statistics

According to data from the Medicare Trustees, Medicare physician pay has increased just 11% over the last two decades, or 0.5% per year on average. And roughly one-third of that increase is the temporary 3.75% update for 2021 that will expire in 2022. In comparison:

- Medicare hospital updates totaled roughly 60% between 2001 and 2021, with average annual increases of 2.4% for both inpatient and outpatient services.
- Medicare skilled nursing facility (SNF) updates totaled more than 60% between 2001 and 2021, or 2.5% per year.
- The cost of running a medical practice increased 39% between 2001 and 2021, or 1.6% per year. Inflation in the cost of running a medical practice, including increases in physician office rent, employee wages, and professional liability insurance premiums, is measured by the Medicare Economic Index or MEI.
- Economy-wide inflation, as measured by the Consumer Price Index, increased 51% over this period (or 2.1% per year).

As a result, Medicare physician pay doesn't go nearly as far as it used to. Adjusted for inflation in practice costs, Medicare physician pay declined 20% from 2001 to 2021, or by 1.1% per year on average.

AMA Economic and Health Policy Research, October 2021