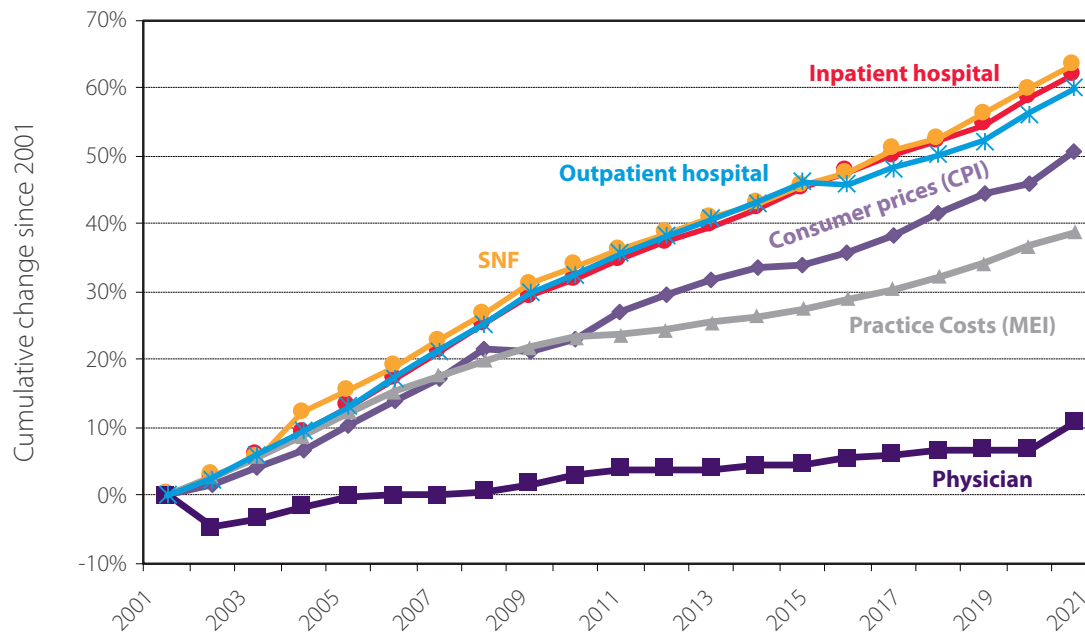


The Medicare physician payment system needs annual inflation updates



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 percent over the last two decades, or 0.5 percent per year on average. And roughly one-third of that increase is the temporary 3.75 percent update for 2021 that will expire in 2022. In comparison:

- Medicare hospital updates totaled roughly 60 percent between 2001 and 2021, with average annual increases of 2.4 percent for both inpatient and outpatient services.
- Medicare skilled nursing facility (SNF) updates totaled more than 60 percent between 2001 and 2021, or 2.5 percent per year.
- The cost of running a medical practice increased 39 percent between 2001 and 2021, or 1.6 percent 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 percent over this period (or 2.1 percent 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 percent from 2001 to 2021, or by 1.1 percent per year on average.

The combined impact of continued statutory freezes, rising inflation, and pandemic disruptions jeopardizes the financial stability of physician practices and offers no support for practice innovation. Further, physicians are the only Medicare providers who do not receive annual updates for inflation. Congress must replace the statutory freeze with updates based on the Medicare Economic Index in 2023 and beyond.