History of Budget Neutrality

The Omnibus Budget Reconciliation Act of 1989 specifies that changes in RVUs resulting from changes in medical practice, coding, new data, or the addition of new services cannot cause Medicare Part B expenditures to differ by more than $20 million from the spending level that would occur in the absence of such changes. To limit the increases in Medicare expenditures as mandated by the statute, the Centers for Medicare & Medicaid Services (CMS) has applied various adjustments to the MFS to ensure budget neutrality. The following is a recap of the evolution of the measures implemented by CMS since the inception of the RBRVS in 1992 to address changes in physician work valuation.

1993–1995

For the 1993–1995 payment schedules, CMS achieved budget neutrality by uniformly reducing all work RVUs across all services. The work RVUs were reduced by 2.8% in 1993, 1.3% in 1994, and 1.1% in 1995. The AMA strongly objected to using work RVUs as a mechanism to preserve budget neutrality on the basis that such adjustments affect the relativity of the RBRVS and cause confusion among the many non-Medicare payers as well as physician practices that adopt the RBRVS payment system. Instead, the AMA and RUC advocated for budget-neutrality adjustments deemed necessary to be made to the conversion factor (CF) rather than the work RVUs.

1996

In the 1996 payment schedule, CMS discontinued its approach to preserving budget neutrality through reduction in work RVUs and instead applied a budget-neutrality adjustment to the multiple CFs in place at that time. In 1996, the CFs was reduced by 0.36% to account for the increases in Medicare Part B expenditures related to changes in physician work.

1997

CMS applied two separate budget-neutrality adjustments for the 1997 payment schedule. First, to adjust for changes in payments resulting from the first Five-Year Review of the RBRVS, CMS reduced work RVUs by 8.3% through a budget-neutrality adjuster. Rather than permanently alter the work RVUs or further reduce the CFs, this negative multiplier was applied directly to work RVUs. In addition, a separate budget-neutrality adjustment was made through a reduction to the CFs totaling 0.6%. This adjustment was due to new payment policies and annual CPT coding changes.

1998

Budget neutrality for 1998 was achieved by reducing the CF by 0.8%. The –8.3% budget-neutrality adjuster to all physician work RVUs continued through the calendar year.

1999

In 1999, CMS eliminated the separate 8.3% reduction in work RVUs. CMS stated, “We did not find the work adjustor to be desirable. It added an extra element to the MFS payment calculation and created confusion and questions among the public who had difficulty using the RVUs to determine a payment amount that matched the amount actually paid by Medicare” (*Federal Register*, Vol. 68, No. 216, p. 63246).

In this year, CMS also recalibrated the RBRVS to the Medicare economic index (MEI). As a result, work increased from 54.2% of the total to 54.5%, the PE portion increased from 41.0% to 42.3%, and the professional liability insurance portion decreased from 4.8% to 3.2%. The combined effects of this recalibration, the elimination of the work adjustor, and annual CPT coding changes resulted in a –7.5% budget-neutrality adjustment to the CF.

2000
In 2000, CMS continued to achieve budget neutrality through a change in the CF. The 2000 CF was increased by 0.07% to account for payment policy and annual CPT coding changes that would have accounted for a reduction in overall expenditures.

2001
In 2001, CMS again applied an adjustment to the CF to achieve budget neutrality. The 2001 CF was reduced 0.3% to account for payment policy and annual CPT coding changes.

2002
In 2002, following the second Five-Year Review of the RBRVS, CMS reduced the CF by 0.46% to achieve budget neutrality to account for the improvements resulting from the Five-Year Review.

2003
In 2003, CMS achieved budget neutrality through a 0.04% reduction in the CF to account for payment policy and annual CPT coding changes.

2004–2005
In 2004 and 2005, reductions in the CF were estimated to reach as high as 5% each year, partly due to the flawed sustainable growth rate. Through the Medicare Modernization Act, Congress acted to replace the predicted cuts with a mandatory 1.5% increase in the CF for both years. The 2004 CF did not include any adjustment for budget neutrality. However, CMS did re-weight the MEI, reducing work from 54.5% to 52.4% of the total and PE from 42.5% to 43.7% and increasing PLI from 3.1% to 3.9%. As a result, CMS reduced all work RVUs by 0.35%.

2006
In 2006, CMS achieved budget neutrality through a –0.15% reduction in the CF. On January 1, 2006, the CF was reduced by a total of 4.5%, but in March Congress acted to return the CF to its 2005 value. Following the CF freeze, the 0.15% reduction for budget neutrality was negated.

2007
In 2007, CMS returned to the application of a work RVU adjustor to achieve budget neutrality. Due to an estimated increase in expenditures from the third Five-Year Review of nearly $4 billion, CMS applied a –10.1% adjustor to all physician work RVUs.

2008
For 2008, CMS retained the budget neutrality work adjustor despite significant comment from the AMA and other national medical specialty societies that this was an inappropriate mechanism to achieve budget neutrality. The work adjustor increased from –10.10% to –11.94% because the Five-Year Review was finalized with the review of anesthesia services, eye exams, and other services.

2009
The budget-neutrality adjustor was removed for 2009 and applied to the CF as required by the Medicare Improvements for Patients and Providers Act of 2008 (MIPPA). The application of the adjustor to the CF would have reduced the CF by 6.41%. However, MIPPA also called for a 1.1% increase in the CF, and the efforts of RUC in reassessing several services resulted in a redistribution applied to the CF in the form of a 0.08% increase. The cumulative impact of these changes resulted in an overall reduction of the CF by 5.305%.

2010
CMS in calculating the 2010 CF could not consider the legislative mandated increases that were applied to the CF for 2007, 2008, and 2009. Thus, the 2010 CF had to take into account the 5% cut in 2007, the 5.3% cut in 2008, and the 11.5% cut in 2009. Further adjustments were made based on the Medicare Economic Index (MEI) and the Update Adjustment Factor as well as a 0.103% increase because of RUC's work of evaluating potentially misvalued codes. The overall impact of these adjustments resulted in a 21.2% cut in the CF. However, after Congress passed four legislative acts to postpone the scheduled 2010 CF reduction, the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act was signed into law by President Barack Obama on June 25, 2010. It replaced

the 21% Medicare Physician Payment Cut that took effect June 1, 2010, with a 2.2% payment update that extended through November 2010. On November 30, 2010, President Obama signed HR 5712 Physician Payment and Therapy Relief Act of 2010. This Act maintained the 2010 CF through December 31, 2010.

2011

RUC submitted recommendations to address misvaluation of the work values for 2011. This effort resulted in more than $400 million in redistribution and provides a positive adjustment to the 2011 CF of 0.4%.

2012

RUC submitted recommendations to address misvaluation of the work values for 2012. These efforts resulted in a positive update to the 2012 CF of 0.18%

2013

RUC submitted recommendations to address misvaluation of physician services again for 2013. These efforts resulted in approximately $1 billion in redistribution within the relative values. The work values of several high-volume physician services were decreased in 2013 and simultaneously offset by the new services to describe complex chronic care management and transitional care management. A small adjustment of –0.1% to the CF was also necessary to remain budget-neutral.

2014

RUC submitted recommendations to address misvaluation of physician services for 2014. These efforts resulted in approximately $435 million in redistribution within the relative values. In 2014, CMS increased the CF by 0.046% to offset the estimated decrease in Medicare physician expenditures. See Table 8-2 for a summary of this history.

2015

RUC submitted recommendations to address misvaluation of physician services for 2015, which resulted in approximately $450 million in redistribution within the relative values. However, implementation of a new chronic care management code and results of a CMS technical correction led to a budget-neutrality adjustment of 0.19%.

2016

RUC submitted recommendations to address misvaluation of physician services for 2016, which resulted in approximately $205 million in redistribution within the relative values (or a –0.23% redistribution). This redistribution offset a portion of the –1.00% adjustment due to the Achieving a Better Life Experience (ABLE) Act of 2014, resulting in a net change of –0.77%. There was also a –0.02% adjustment due to other work-neutrality adjustments. This collection of adjustments led to a total budget-neutrality adjustment of –0.79% for CY 2016.

2017

RUC submitted recommendations to address misvaluation of physician services for 2017, which resulted in approximately $288 million in redistribution within the relative values (or a –0.32% redistribution). This redistribution offset a portion of the –0.50% due to the ABLE Act of 2014, resulting in a net change of –0.18%. There was also a –0.013% adjustment due to budget-neutrality adjustment and –0.07% due to the imaging MPPR adjustment. Effective January 1, 2017, the Consolidated Appropriations Act, 2016 (Pub. L. 114–113, enacted on December 18, 2015) added a new section that revised the professional component (PC) of advanced imaging services MPPR reduction from 25% to 5%. This series of adjustments led to a total budget-neutrality adjustment of –0.263% for CY 2017.

2018

RUC submitted recommendations to address misvaluation of physician services for 2018, which resulted in approximately $400 million in redistribution within the relative values (or a –0.41% redistribution). This redistribution offset a portion of the –0.50% due to the ABLE Act of 2014, resulting in a net change of –0.09%. There was also a –0.1% adjustment due to a budget-neutrality adjustment to offset spending on new services, such as prolonged preventive services and new payment for CPT 99091.This series of adjustments led to a total budget-neutrality adjustment of –0.19% for CY 2018.

2019

The Bipartisan Budget Act of 2018 provided a positive payment update of 0.25% for 2019. To calculate the 2019 Medicare CF, CMS applied the 0.25% update to the 2018 CF as well as a budget-neutrality adjustment of –0.14%. Therefore, the increase, which was effective January 1, 2019, was 0.11%.

2020

To calculate the 2020 Medicare CF, CMS applied the 0.00% update to the 2019 CF as well as a budget-neutrality adjustment of 0.14%. Therefore, the increase, which was effective January 1, 2020, was 0.14%.

2021

CMS adopted the significant changes in coding definitions and guidelines for office visits made by the CPT Editorial Panel, as well as the RUC-recommended relative value recommendations for implementation in 2021. These coding changes and payment increases represented a substantial improvement over the existing coding structure. However, because payment increases must be implemented in a budget-neutral manner, the changes could have led to steep negative adjustments for many physicians and other QHPs who report no or few office visits. Fortunately, the Consolidated Appropriations Act, 2021, included provisions that offset most of the –10.2% budget-neutrality adjustment that had been slated to take effect for Medicare-covered services provided as of January 1, 2021. The Act delayed implementation of HCPCS add-on code G2211 (visit complexity inherent to evaluation and management [E/M] services) until CY 2024. The Act also provided a 3.75% increase in MFS payments for CY 2021. As a result of these two actions, the budget-neutrality adjustment to the CF was –3.3%.

2022

For 2022, the CF was reduced by approximately 0.8% due to the maintenance of a temporary 3.75% increase to the CF at a reduced 3%, as well as a budget-neutrality adjustment of – 0.10%. Deeper cuts were averted when S.610, Protecting Medicare and American Farmers from Sequester Cuts Act, was signed into law on December 10, 2021.

2023

For 2023, the Medicare CF was scheduled to be reduced by 4.5% from $34.6062 to $33.0607, absent an end-of-year intervention from Congress. This was largely a result of the expiration of a temporary 3% increase to the CF at the end of calendar year 2022 as required by law, as well as a budget-neutrality adjustment of approximately –1.6%, primarily from increases to payment for hospital, nursing facility, home health, and emergency department (ED) visits. CMS adopted these changes to the E/M code families as recommended by the CPT® Editorial Panel and the RUC. The changes to E/M services were estimated to require the reduction of about 1.6% to the 2023 Medicare CF due to statutory budget-neutrality requirements. On December 23, 2022, the House passed H.R. 2617, the Consolidated Appropriations Act, 2023. This Act reduced the anticipated 4.5% cut to Medicare physician payment by increasing the 2023 conversion factor by 2.5% therefore reducing the cut to 2%.

2024

For 2024, a 3.37 percent cut went into effect when the Medicare CF was reduced from $33.8872 to $32.7442. This cut resulted from a -1.25 percent reduction in the temporary update to the conversion factor under current law and a negative budget neutrality adjustment stemming in large part from the adoption of an office visit add-on code (that had been delayed since CY 2021). On March 9, 2024, the Consolidated Appropriations Act, 2024, was signed which included an additional 1.68 percent update to the 2024 conversion factor that offset a portion of the 3.37 percent cut that went into effect on January 1, 2024.

2025

The CY 2025 conversion factor is $32.3465, a decrease of 2.83% from the CY 2024 conversion factor of $33.29. This reflects a 0.02 percent positive budget neutrality adjustment necessary to account for changes in work relative value units for some services, as required by statute, the 0.00 percent update adjustment factor specified by statute, and the removal of the temporary 2.93 percent payment increase for services furnished from March 9, 2024, through December 31, 2024, as provided in the CAA, 2024.

2026

For the first time this century, CMS finalized four conversion factors for 2026. The conversion factors reflect two different, small permanent updates to the baseline beginning January 1, 2026, as required under the Medicare Access and CHIP Reauthorization Act (MACRA) of 2015. Under MACRA, physicians who are qualifying participants (QPs) in advanced alternative payment models (APMs) will receive a somewhat higher conversion factor update and, thus, higher Medicare payments in 2026 compared to physicians who are not QPs. Each conversion factor also reflects the temporary, one-year 2.5 percent update enacted in H.R. 1. The conversion factors are affected by a positive .49 percent budget neutrality adjustment resulting from misvalued code changes and a -2.5 percent "efficiency adjustment."

1992–2026 CMS Budget-Neutrality* Adjustments to Physician Work

**All work neutrality adjustments are related to annual payment policy and coding changes unless noted.*

Year_Work RVU Reduction	Work RVU Adjustor	Budget Neutrality— Applied to CF
1993	–2.80%[1]	—
1994	–1.30%	—
1995	–1.10%	—
1996	—	0.36%
1997	—	–8.30%[2], –0.60%
1998	—	–8.30%[2], –0.80%
1999	—	Work adjuster eliminated, –7.50%[3]
2000	—	0.07%
2001	—	–0.30%
2002	—	–0.46%[4]
2003	—	–0.04%
2004	–0.35%[5]	—
2005	—	—
2006	—	20.15%[6]
2007	—	–10.10%[7]
2008	—	–11.94%[7]

2009	—	Work adjuster eliminated –6.41%[8], 0.08%[8]
2010	—	0.103%[9]
2011		–8.6%[5], 0.43%[9]
2012		0.18%[9]
2013		–0.1%[9]
2014		4.718%[5], 0.046%[9]
2015		–0.19%[10]
2016		–0.79%[11]
2017		–0.263%[12]
2018		–0.19%[13]
2019		–0.14%[14]
2020		–0.14%[15]
2021		–3.33%[16]
2022		–0.10%[17]
2023		–1.6%[18]
2024		–2.18%[19]
2025		0.02%
2026		0.49%

[1]Includes the CMS initial work refinement in additional to annual CPT coding changes.
[2]A result of the first Five-Year Review.
[3]Includes MEI re-weight, elimination of the work adjustor, and annual CPT coding changes.
[4]A result of the second Five-Year Review.
[5]A result of the MEI re-weight.
[6]Budget neutrality negated by CF freeze in 2006.
[7]A result of the third Five-Year Review.
[8]Includes the elimination of the work adjuster (–6.41%) and 0.08% savings from RUC review.
[9]Redistribution due to RUC review of misvalued codes.
[10]CMS technical corrections for 2015.
[11]Includes a –0.77% ABLE Act reduction (–0.23% redistribution from the RUC review offset a portion of the –1.00% change required from the ABLE Act) and –0.02% due to other CMS budget-neutrality adjustments.
[12]Includes a –0.18% ABLE Act reduction (–0.32% redistribution from the RUC review offset a portion of the –0.50% change required from the ABLE Act) and a –0.013% due to other CMS budget-neutrality adjustments. A –0.07% imaging MPPR adjustment was also implemented.
[13]Includes a –0.09% ABLE Act reduction (–0.41% redistribution from the RUC review offset a portion of the –0.50% change required from the ABLE Act) and a –0.10% due to other CMS budget-neutrality adjustments.
[14]–0.14% due to CMS budget-neutrality adjustment, which is largely to offset the cost of new payment for telemedicine services.
[15]–0.14% due to CMS budget-neutrality adjustment.
[16]CMS finalized a steep budget-neutrality adjustment of –10.20% to the CF in 2021. However, the Consolidated Appropriations Act, 2021, that was signed into law on December 27, 2020, included provisions that offset most of the anticipated adjustment by delaying implementation of HCPCS add-on code G2211 (visit complexity inherent to evaluation and management services) until CY 2024 and providing a 3.75% increase in MFS payments for CY 2021. As a result of these two actions, the CF was adjusted by –3.3%.
[17]CMS budget-neutrality adjustment of –0.10%.
[18]Changes to several E/M code families, including hospital, ED, nursing facility, and home visits, are estimated to require the reduction of about –1.6% to the 2023 Medicare CF due to statutory budget-neutrality requirements.
[19]Negative budget neutrality adjustment linked to the introduction of an office visit add-on code (see #16 above).