



MAR 05 2013

Mr. Glenn M. Hackbarth, Chair  
Medicare Payment Advisory Commission  
601 New Jersey Avenue, N.W., Suite 9000  
Washington, DC 20001

Dear Mr. Hackbarth:

Pursuant to section 1848(d)(1)(E)(ii) of the Social Security Act (the Act), I am writing to provide the Medicare Payment Advisory Commission (MedPAC) with the Centers for Medicare & Medicaid Services (CMS) estimates of the calendar year (CY) 2014 physician fee schedule (PFS) conversion factor (CF), the CF update, and the sustainable growth rate (SGR), together with the data used in making these estimates.

The PFS update is set under a formula specified in section 1848(d)(4) of the Act. This formula has yielded negative updates every year beginning with CY 2002, although Congress has taken a series of legislative actions to prevent reductions in CYs 2003-2013.

The American Taxpayer Relief Act of 2012 specified that the CY 2013 update to the CF would be 0 percent. Accordingly, the CY 2013 CF, effective through December 31, 2013, is \$34.0230. We currently estimate that the statutory formula used to determine the PFS update to the CF will result in a CY 2014 CF of \$25.7109, which represents a change of -24.4 percent from the December 2013 CF. Enclosures 1 and 2 provide detailed information on these determinations.

Section 1848(d)(1)(E)(ii) also requires that we provide an estimate of the following year's SGR. Our current estimate of the SGR for CY 2014 is -15.2 percent. The SGR is the product of the Secretary's estimate of four factors. We have provided more detail on our estimates of the factors included in the SGR for CY 2014 in Enclosure 3. These estimates are based on the best data available to us at this time and may be revised later.

We note that the estimates included herein are calculated based on current law. Where new law is specific to the SGR, these estimates for CY 2014 of the PFS update to the CF and SGR may be revised accordingly. CMS looks forward to continuing to work with MedPAC, the physician community, and Congress as we refine our payments under the physician fee schedule.

We will be providing a more detailed explanation of the SGR and physician fee schedule updates on the CMS web site (<http://www.cms.hhs.gov/SustainableGRatesConFact/>). SGR-related data and other information are available to the public in the web site document.

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While an important piece of legislation has prevented a significant reduction in PFS payments for CY 2013, this relief only applies until the end of this year. The Administration is committed to working with Congress to develop a permanent solution to this problem. We believe that a permanent resolution that stabilizes physician payments and addresses payment adequacy issues would be beneficial for all stakeholders in the Medicare program.

Sincerely,

A handwritten signature in black ink, appearing to read "Jonathan D. Blum", with a long horizontal flourish extending to the right.

Jonathan D. Blum  
Acting Principal Deputy Administrator &  
Director, Center for Medicare

Enclosures 3

Enclosure 1

Estimate of the CY 2014 Update Adjustment Factor

Under section 1848(d)(4) of the Social Security Act, the update for CY 2014 is equal to the Secretary's estimate of the increase in the Medicare Economic Index adjusted by an update adjustment factor.

The formula for the calculation of the CY 2014 update adjustment factor is shown below. The calculation of the update is detailed on the next page.

$$UAF_{14} = \frac{Target_{13} - Actual_{13}}{Actual_{13}} \times .75 + \frac{Target_{4/96-12/13} - Actual_{4/96-12/13}}{Actual_{13} \times (1 + SGR_{14})} \times .33$$

UAF<sub>14</sub> = Update Adjustment Factor for 2014 = 2.1 percent

Target<sub>13</sub> = Allowed Expenditures for CY 2013 = \$106.1 billion

Actual<sub>13</sub> = Estimated Actual Expenditures for CY 2013 = \$101.5 billion

Target<sub>4/96-12/13</sub> = Allowed Expenditures from 4/1/1996 - 12/31/2013 = \$1,335.7 billion

Actual<sub>4/96-12/13</sub> = Estimated Actual Expenditures from 4/1/1996 - 12/31/2013 = \$1,339.1 billion

SGR<sub>14</sub> = - 15.2 percent

$$\frac{\$106.1 - \$101.5}{\$101.5} \times (.75) + \frac{\$1,335.7 - \$1,339.1}{\$101.5 \times 0.848} \times (.33) = 2.1\%$$

Our current estimate of the update adjustment factor is 2.1 percent. Section 1848(d)(4)(D) of the Social Security Act indicates that the update adjustment factor may not be less than -7 percentage points or greater than 3 percentage points. Our estimated update adjustment factor, produced by the above formula, is within this range.

Enclosure 2

Estimate of the CY 2014 Physician Fee Schedule Conversion Factor Update

In order to estimate the CY 2014 Physician Fee Schedule Conversion Factor Update, the conversion factors for CYs 2007, 2008, 2009, 2010, 2011, 2012 and 2013 must be determined as if the various legislative changes to the conversion factors for those years had not occurred. The CY 2013 pre-legislation conversion factor is \$25.0070. To determine the CY 2014 Conversion Factor, the product of the Medicare Economic Index and the Update Adjustment Factor is applied to the CY 2013 Pre-legislation Conversion Factor:

*Calculation of the CY 2014 Conversion Factor:*

(1) CY 2013 Pre-legislation Conversion Factor		\$25.0070
(2) CY 2014 Medicare Economic Index	0.7% (1.00700)	
(3) CY 2014 Update Adjustment Factor	2.1% (1.02100)	
(4) CY 2014 Total	2.8% (1.02815)	
(5) CY 2014 Conversion Factor		\$25.7109

*CY 2014 Conversion Factor Update:*

(1) CY 2013 Post-Legislation Conversion Factor		\$34.0230
(2) CY 2014 Conversion Factor		\$25.7109
(3) Percent Change (CY 2014 Update)		-24.4%

Enclosure 3

Estimate of the CY 2014 Sustainable Growth Rate (SGR)\*

(1) Estimated Change in Fees	0.5%	(1.005)
(2) Estimated Change in Fee-for-Service Enrollment	4.5%	(1.045)
(3) Estimated Change in Real GDP Per Capita	0.6%	(1.006)
(4) Estimated Change in Law or Regulation	-19.7%	(0.803)
(5) Estimated CY 2014 SGR	-15.2%	

Note: The figures on lines 1-4 are multiplied to produce the estimated SGR value of -15.2 percent on line 5.

\* These figures represent current estimates only and may change based on new information in a Federal Register notice that we expect to release publicly no later than November 1, 2013.