



Weekly Checkup

Doc Ideas for Doc Payments

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Yesterday, the GOP Doctors Caucus published a **new policy proposal** that seeks to reform how Medicare pays doctors. With another likely “doc fix” on the horizon, the proposal is well-timed. **Let’s dive into the what and the why of the proposal below.**

First, some background about the Physician Fee Schedule (PFS). The PFS is the system Medicare uses to pay doctors. PFS payments are based on relative value units (RVUs), which are assigned to a given service and are used to estimate physician work, practice expense, and malpractice premiums involved in that service. Each type of RVU is adjusted based on **geographic location**, added together, and then finally multiplied by a conversion factor to determine the PFS payment for that service. The Center for Medicare and Medicaid Services (CMS) adjusts the conversion factor and RVU payments annually, but any pricing adjustments that add up to more than \$20 million in changes must be offset under Medicare’s budget neutrality rule. Essentially, if Medicare increases payments for a given service and estimates that those payments will add up to more than \$20 million, other services must be cut. CMS can either adjust the RVUs for other services, or reduce the conversion factor, and usually favors the latter.

Increases in Medicare spending are thus not a result of increased payments on specific services, but of increases in the number of services utilized by a growing Medicare beneficiary population. Even if CMS overestimates utilization (and thereby decreases payments), there isn’t an existing mechanism for CMS to retroactively reimburse doctors for service prices that were incorrectly reduced. For most of the past two decades, the conversion factor has statutorily faced a decrease. While this decrease has been staved off by the nearly annual congressional ritual known as the “doc fix,” when adjusted for inflation, payments to physicians have **dropped 26 percent** between 2001–2023.

This brings us to the proposed solution by the GOP Doctors Caucus. **Beginning in 2025, the proposal would increase the budget neutrality window to \$53 million, and beginning in 2030, would increase the amount based on the increase in the Medicare Economic Index (a measure of medical inflation), with subsequent increases occurring every five years.** The proposal would also require CMS, starting in 2025, to compare expected utilization within a given year to actual utilization within that year, and if that amount affected the budget neutrality calculation, CMS would be required to adjust the payments made to doctors (either positive or negative) to make up the difference in what payments would have been had actual utilization been known (and exempt those changes from budget neutrality). Additionally, the proposal would have CMS update the cost inputs used to calculate practice expense RVUs every five years – essentially ensuring that practice expense reimbursements will keep up with actual practice expense cost increases from staff wages and medical equipment and supplies. Finally, the proposal limits the year-to-year conversion factor variance to just 2.5 percent (positive or negative).

Overall, the proposal is a serious attempt to end the nearly annual end-of-year doc fix fight and ensure physicians won’t have to worry about unexpected pay decreases. Keeping physician rates on par with cost growth is certainly important – especially when hospitals and private equity firms are **buying out** physician practices and driving consolidation. Given that physicians make up **20.3 percent** of our national health expenditures, this author does worry about the **extra burden** on Medicare spending the (likely) increased

payments will cause. **Trying to balance fair payments to physicians with ensuring fiscal responsibility is going to be a tough nut for policymakers to crack but will be necessary all the same.**