



Mr. Glenn M. Hackbarth, Chair
Medicare Payment Advisory Commission
601 New Jersey Avenue, N.W., Suite 9000
Washington, D.C. 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) 2012 physician fee schedule (PFS) conversion factor (CF) update, CF, and sustainable growth rate (SGR), together with the data used in making these estimates.

The physician fee schedule update is set under a formula specified in section 1848(d)(4) of the Act. This formula has yielded negative updates every year beginning in CY 2002, although Congress has taken a series of legislative actions to prevent reductions in CYs 2003-2011.

Most recently, the Medicare and Medicaid Extenders Act of 2010 (MMEA) specified that the CY 2011 update to the CF is 0 percent. Accordingly, the CY 2011 CF, effective through December 2011, is \$33.9764. We currently estimate that the statutory formula used to determine the PFS update to the CF will result in a CY 2012 CF of \$23.9396 which represents a change of -29.5 percent from the December 2011 CF. Attachments 1 and 2 provide detailed information on these determinations.

As you know, President Obama signed legislation to prevent several large reductions in PFS payments during 2010. The MMEA prevented a reduction for 2011. This short-term relief has been critical – but so too is a long-term solution. We will continue to work with Congress to fix this untenable situation so doctors no longer have to worry about the stability and adequacy of their payments from Medicare.

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 2012 is -17.2 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 2012 in Attachment 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 2012 of the PFS update to the CF, CF, and SGR may be revised accordingly.

Page 2 – Mr. Glenn M. Hackbarth, Chair

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.

Sincerely,

/ S /

Jonathan Blum
Deputy Administrator and Director
Center for Medicare

Attachment 1

Estimate of the CY 2012 Update Adjustment Factor

Under section 1848(d)(4) of the Social Security Act, the update for CY 2012 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 2012 update adjustment factor is shown below. The calculation of the update is detailed on the next page.

$$UAF_{12} = \frac{Target_{11} - Actual_{11}}{Actual_{11}} \times .75 + \frac{Target_{4/96-12/11} - Actual_{4/96-12/11}}{Actual_{11} \times (1 + SGR_{12})} \times .33$$

UAF_{12} = Update Adjustment Factor for 2012 = -6.4 percent

$Target_{11}$ = Allowed Expenditures for CY 2011 = \$104.1 billion

$Actual_{11}$ = Estimated Actual Expenditures for CY 2011 = \$103.5 billion

$Target_{4/96-12/11}$ = Allowed Expenditures from 4/1/1996 - 12/31/2011 = \$1,119.1 billion

$Actual_{4/96-12/11}$ = Estimated Actual Expenditures from 4/1/1996 - 12/31/2011 = \$1,136.7 billion

SGR_{12} = -17.2 percent

$$\frac{\$104.1 - \$103.5}{\$103.5} \times (.75) + \frac{\$1,119.1 - \$1,136.7}{\$103.5 \times 0.828} \times (.33) = -6.4\%$$

Our current estimate of the update adjustment factor is -6.4 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.

Attachment 2

Estimate of the CY 2012 Physician Fee Schedule Conversion Factor Update

In order to estimate the CY 2012 Physician Fee Schedule Conversion Factor Update, the conversion factors for CYs 2007, 2008, 2009, 2010 and 2011 must be determined as if the various legislative changes to the conversion factors for those years had not occurred. The CY 2011 pre-legislation conversion factor is \$25.4999. To determine the CY 2012 Conversion Factor, the product of the Medicare Economic Index and the Update Adjustment Factor is applied to the CY 2011 Pre-legislation Conversion Factor:

Calculation of the CY 2012 Conversion Factor:

- (1) CY 2011 Pre-legislation Conversion Factor \$25.4999
- (2) CY 2012 Medicare Economic Index 0.3% (1.0030)
- (3) CY 2012 Update Adjustment Factor -6.4% (0.9360)
- (4) CY 2012 Total -6.1% (0.9388)
- (5) CY 2012 Conversion Factor \$23.9396

CY 2012 Conversion Factor Update:

- (1) CY 2011 Post-Legislation Conversion Factor \$33.9764
- (2) CY 2012 Conversion Factor \$23.9396
- (3) Percent Change (CY 2012 Update) -29.5%

Attachment 3

Estimate of the CY 2012 Sustainable Growth Rate (SGR)*

- (1) Estimated Change in Fees 0.1% (1.001)
- (2) Estimated Change in Fee-for-Service Enrollment 3.3% (1.033)
- (3) Estimated Change in Real GDP Per 0.9% (1.009) Capita
- (4) Estimated Change in Law or Regulation -20.6% (0.794)
- (5) Estimated CY 2012 SGR -17.2% (0.828)

Note: The figures on lines 1-4 are multiplied to produce the estimated SGR value of -17.2 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, 2011.