



March 2011

FACTS ABOUT PROVIDER PAYMENT RATES

Committee on Energy and Commerce, Democratic Staff

Henry A. Waxman, Ranking Member

“Estimates of payment rates far into the future are inherently unreliable. Not even a soothsayer can predict what private plans will pay private hospitals and physicians in the year 2080. No one can guess what is in the minds of every future state legislature in the country that has total flexibility to determine Medicaid provider payment rates over the next 75 years,” said Representative Henry A. Waxman.

The March 29, 2011, memorandum from CMS Actuary Richard Foster closely follows analysis released by the Actuary in August 2010, entitled “Projected Medicare Expenditures under an Illustrative Scenario with Alternative Payment Updates to Medicare Providers.” It estimates payment rates for physicians and other providers for 70 years into the future.

Estimates this far into the future are exceptionally hard to make. Laws, regulations, and markets can change considerably over the decades. Here are some facts to keep in mind in evaluating the Actuary's memorandum.

The primary driver of physician payments in the Actuary's model is the sustainable growth rate mechanism. This is a Republican creation that existed 12 years before the Affordable Care Act (ACA) and has nothing to do with the ACA. Claims that its long-term effects are a result of the ACA are incorrect. There is a bipartisan consensus that legislative changes in this policy are needed.

Nearly three-quarters (72%) of Medicaid beneficiaries are enrolled in private managed plans, and private plans can set their own payment rates. The analysis does not estimate what payment rates will apply to these beneficiaries, who are currently the vast majority of Medicaid beneficiaries.

The memo projects Medicaid payment rates at 57% of private health insurance payment rates forever into the future based on today's rates. This is an uncertain assumption. Mr. Foster says, “Medicaid payment rates are substantially uncertain as a result and may be higher or lower than illustrated here.” Ultimately, states determine physician payments rates in Medicaid. There are no formulas or caps on what those rates would be, except to ensure adequate participation of providers.

The Medicare Payment Advisory Commission has called into question the validity of private insurer payment rates as a valid benchmark for the Medicare program, noting that they are often based on the market power of providers rather than the cost of providing efficient healthcare.

Hospital and physician groups were well aware of the policies contained within the Affordable Care Act when they supported the legislation. In response to similar Actuary statements about the House bill, Chip Kahn, President of the Federation of American Hospitals, said “Hospitals’ commitment to our mission of serving the health care needs of seniors in communities across America is steadfast... Hospitals always will stand by senior citizens.” Sister Carol Keenan, President of the Catholic Health Association of the United States said, “Catholic hospitals would never give up on Medicare patients.” The American Academy of Family Practitioners said, “On behalf of the American Academy of Family Physicians . . . thank you for your support of the *Patient Protection and Affordable Care Act*. We appreciate the value that the law places on primary care physicians and we believe that it will make a positive difference for our members and their patients.”