

## **Estimated Sustainable Growth Rate and Conversion Factor, for Medicare Payments to Physicians in 2015**

Section 1848(d)(1)(E) of the Social Security Act (the Act) requires the Secretary to make available to the Medicare Payment Advisory Commission (MedPAC) and the public, by March 1, an estimate of the Sustainable Growth Rate (SGR) and conversion factor applicable to Medicare payments for physicians' services for the following year and the data underlying these estimates. We are providing the estimates and information applicable to physician fee schedule payments in calendar year (CY) 2015. It is important to note that the SGR and conversion factor shown here are *estimated* – the actual values used to compute physician payments for CY 2015 will be based on later data and are scheduled to be published by November 1, 2014 in the *Federal Register* as part of the physician fee schedule final rule for CY 2015.

### **Medicare Sustainable Growth Rate**

Section 1848(f) of the Act, as amended by section 4503 of the Balanced Budget Act of 1997 (BBA) (Pub. L. 105-33), enacted on August 5, 1997, replaced the Medicare Volume Performance Standard (MVPS) with a Sustainable Growth Rate (SGR) provision. Section 1848(f)(2) of the Act specifies the formula for establishing yearly SGR targets for physicians' services under Medicare. The use of SGR targets is intended to control the growth in aggregate Medicare expenditures for physicians' services.

The SGR targets are not direct limits on expenditures. Payments for services are not withheld if the SGR target is exceeded by actual expenditures. Rather, the fee schedule update, as specified in section 1848(d)(4) of the Act, is adjusted to reflect the comparison of actual expenditures to target expenditures. If expenditures exceed the target, the update is reduced. If expenditures are less than the target, the update is increased. Under the statute, the update for a year is determined by comparing cumulative actual expenditures to cumulative target expenditures (referred to as "allowed expenditures" in the statute) from April 1, 1996 through the end of the year preceding the year at issue. For instance, the CY 2015 update reflects a comparison of cumulative actual to cumulative target expenditures from April 1, 1996 through December 31, 2014. Target expenditures for each year are equal to target expenditures from the previous year increased by the SGR (which is a percentage figure computed by combining four factors specified below).

The statute specifies a formula to calculate the SGR based on our estimate of the change in each of four factors. The four factors for calculating the SGR are as follows:

- (1) The estimated percentage change in fees for physicians' services.
- (2) The estimated percentage change in the average number of Medicare fee-for-service beneficiaries.
- (3) The estimated 10-year average annual percentage change in real gross domestic product (GDP) per capita.
- (4) The estimated percentage change in expenditures due to changes in law or regulations.

Prior to enactment of the Medicare Prescription Drug, Improvement and Modernization Act (also known as the Medicare Modernization Act, or MMA), the statute required the SGR to be calculated using estimated projected growth in real GDP per capita. That is, the Secretary was required to use an estimate of a single year's real GDP per capita to determine the SGR. However, section 1848(f)(2)(C) of the Act, as amended by section 601(b) of the MMA, requires the Secretary to calculate the SGR using the 10-year annual average growth in real gross domestic product per capita.

Section 1848(d)(1)(E) of the Act requires publication in the *Federal Register* no later than November 1 of each year (beginning with 2000) of the actual conversion factor, update and allowed expenditures that will apply to physicians' services for the succeeding year. Another section of the law (section 1848(f)(1)) requires that we publish in the *Federal Register* no later than November 1 of each year, using the best available data as of September 1, the SGR for the following year, the contemporaneous year, and the preceding year. By November 1, 2014, we are required to publish, based on the best data available to us as of September 1, 2014, the SGRs for CY 2013, CY 2014, and CY 2015. We plan to comply with these requirements as part of the physician fee schedule final rule for CY 2015. Thus, in this document, we are providing (i) our current estimates (as of March 1, 2014) of the SGRs for CY 2013, CY 2014, and CY 2015, (ii) our current estimate of allowed expenditures under the SGR system through the end of CY 2015, and (iii) our current estimate of the physician fee schedule update and conversion factor for CY 2015. We will be providing updates of all this information using more recent data in the physician fee schedule final

rule for CY 2015. The updated values scheduled to be published in the final rule by November 1, 2014 will be used to determine the actual update for physician payments in CY 2015.

Table 1 shows our current estimates of the aforementioned SGRs.

**Table 1. Current Estimates of SGRs for CY 2013, CY 2014, and CY 2015**

	CY 2013	CY 2014	CY 2015
Factor 1: Increase in Fees	0.4%	0.7%	1.1%
Factor 2: Increase in Enrollment	0.9%	1.9%	4.0%
Factor 3: Increase in 10-year moving average Real Per Capita GDP	0.8%	0.8%	0.8%
Factor 4: Increase due to changes in Law or Regulations	-0.5%	-18.0%	-9.0%
Total Sustainable Growth Rate	1.6%	-15.2%	-3.6%

Our March 1 estimates of the SGRs provided in Table 1 are early estimates only and may change based on later information. The later figures will be included in the physician fee schedule final rule that is scheduled to be published in the *Federal Register* by November 1. While the current figures are our best estimates at this time, the figures we specify later in the year are likely to differ from our current estimates for several reasons, particularly with respect to the SGR estimates for the following year.

When we publish the physician fee schedule final rule, we will have more complete data on the four factors that comprise the SGR formula (as of September 1 of a year) than are available by March 1. For example, for the CY 2015 SGR estimate made as of March 2014, we must estimate the percent change in fee-for-service enrollment for CY 2015 although we have little information on the change in fee-for-service enrollment for CY 2014. Similarly, an estimate of the percent change in real GDP per capita for CY 2014 made by November 1, 2014 is likely to be better than an estimate made by March 1, 2014. Estimates of real per capita GDP for CY 2015 will remain forecasted and based on no actual information measuring economic performance from CY 2015, both now and in November. However, since we are using a 10-year moving average of real per capita GDP in place of a single year figure, we expect this factor to vary less than it would have if the MMA had not been enacted. In addition, an estimate of the changes in law and regulation affecting expenditures for physicians' services for CY 2015 requires an estimate of the financial impact of any policy changes several months before the physician fee schedule proposed rule is published. For these reasons, readers should carefully consider the inherent limitations of these estimates and be aware that the subsequent values scheduled to be announced in November will likely be at least somewhat different.

We also point out that there may be differences between an SGR for a year specified in the physician fee schedule final rule and the SGR for the same year as subsequently revised based on later data. Section 1848(f)(3) of the statute, as amended by section 211 of the Balanced Budget Refinement Act of 1999 (BBRA), requires the adjustment of prior years' SGR component factors, to reflect later data, beginning with the SGR for FY 2000. The two SGR elements that have exhibited the most volatility have been the fee-for-service enrollment numbers and real gross domestic product per capita.<sup>1</sup>

Table 2 shows the historical values of the SGR as well as its predecessor, the Medicare Volume Performance Standard (MVPS). The MVPS applied for FY 1990 through FY 1997. Figures reflect a weighted average MVPS for FY 1991 through FY 1993 when there were two different MVPSs (one for surgical services, and one for all other services) and for FY 1994 through FY 1997 when there were three different MVPSs (for surgical services, primary care services, and all other services).

<sup>1</sup> We note that more recent data on these two elements are available during a year on several web sites. The latest measurements of real GDP for a quarter are available from the home page for the Bureau of Economic Analysis of the Department of Commerce ([www.bea.gov](http://www.bea.gov)). Population figures are available from the home page for the Census Bureau ([www.census.gov](http://www.census.gov)). Real GDP per capita can be calculated from these figures. In April of each year, when our Office of the Actuary puts the Trustees Report on the CMS Home page, we will also post the projections of total Medicare Part B enrollment and of Medicare managed care enrollment for the current and subsequent calendar years, as well as for the preceding calendar year, consistent with the Trustees Report. Thus, Medicare fee-for-service enrollment could be determined from these figures.

**Table 2 Physician MVPS / SGR**

Year	Physician MVPS / SGR
FY 1990	9.1%
FY 1991	7.3%
FY 1992	10.0%
FY 1993	10.0%
FY 1994	9.4%
FY 1995	7.5%
FY 1996	1.8%
FY 1997	-0.3%
FY 1998	3.2%
FY 1999	4.2%
FY 2000	6.9%
CY 2000	7.3%
CY 2001	4.5%
CY 2002	8.3%
CY 2003	7.3%
CY 2004	6.6%
CY 2005	4.2%
CY 2006	1.5%
CY 2007	3.5%
CY 2008	4.5%
CY 2009	6.4%
CY 2010	8.9%
CY 2011	4.7%
CY 2012	5.1%

**Allowed Expenditures for Physicians' Services**

Section 1848(d)(3)(C) of the Act defines allowed expenditures for the period April 1, 1996 through March 31, 1997 to be equal to actual expenditures for physicians' services during that period as estimated by the Secretary. Annual allowed expenditures for subsequent periods are equal to annual allowed expenditures for the previous year increased by the SGR. The BBRA provided for a transition from a fiscal year to a calendar year SGR system. Beginning with CY 2000, the SGR is determined on a calendar year basis. We have described this transition in a notice that appeared in the *Federal Register* on April 10, 2000.

Table 3 shows quarterly allowed expenditures and cumulative allowed expenditures for the period from April 1, 1996 through December 31, 2015. (The table shows quarterly allowed expenditures for physicians' services in order to reflect any seasonality, which may occur in expenditures for physicians' services over a year.) We provide more information below on how quarterly figures are combined to determine allowed expenditures for a year.

**Table 3. Summary of Allowed Expenditures for Physicians' Services<sup>1</sup>**

Quarter	Applicable SGR	Quarterly Allowed Expenditures <sup>2</sup> [in billions]	Cumulative Allowed Expenditures <sup>3</sup> [in billions]
2Q1996		\$11.9	\$11.9
3Q1996		\$11.5	\$23.5
4Q1996		\$11.7	\$35.2
1Q1997		\$11.8	\$47.0
2Q1997	3.2%	\$12.3	\$59.4
3Q1997	3.2%	\$11.9	\$71.3
4Q1997	3.2%	\$12.1	\$83.4
1Q1998	3.2%	\$12.2	\$95.6
2Q1998	4.2%	\$12.8	\$108.4
3Q1998	4.2%	\$12.4	\$120.8
4Q1998	4.2%	\$12.6	\$133.5
1Q1999	4.2%	\$12.7	\$146.2
2Q1999	6.9%	\$13.7	\$159.9
3Q1999	6.9%	\$13.3	\$173.2
4Q1999	6.9%	\$13.5	\$186.7
1Q2000	7.3%	\$13.7	\$200.3
2Q2000	7.3%	\$14.7	\$215.0
3Q2000	7.3%	\$14.2	\$229.3
4Q2000	7.3%	\$14.5	\$243.7
1Q2001	4.5%	\$14.3	\$258.0
2Q2001	4.5%	\$15.4	\$273.4
3Q2001	4.5%	\$14.9	\$288.3
4Q2001	4.5%	\$15.1	\$303.4
1Q2002	8.3%	\$15.5	\$318.8
2Q2002	8.3%	\$16.7	\$335.5
3Q2002	8.3%	\$16.1	\$351.6
4Q2002	8.3%	\$16.4	\$368.0
1Q2003	7.3%	\$16.6	\$384.6
2Q2003	7.3%	\$17.9	\$402.4
3Q2003	7.3%	\$17.3	\$419.7
4Q2003	7.3%	\$17.6	\$437.3
1Q2004	6.6%	\$17.7	\$455.0
2Q2004	6.6%	\$19.1	\$474.0
3Q2004	6.6%	\$18.4	\$492.5
4Q2004	6.6%	\$18.7	\$511.2
1Q2005	4.2%	\$18.4	\$529.6
2Q2005	4.2%	\$19.9	\$549.5
3Q2005	4.2%	\$19.2	\$568.7
4Q2005	4.2%	\$19.5	\$588.2
1Q2006	1.5%	\$18.7	\$606.9
2Q2006	1.5%	\$20.2	\$627.0
3Q2006	1.5%	\$19.5	\$646.5
4Q2006	1.5%	\$19.8	\$666.4
1Q2007	3.5%	\$19.3	\$685.7
2Q2007	3.5%	\$20.9	\$706.6
3Q2007	3.5%	\$20.2	\$726.7
4Q2007	3.5%	\$20.5	\$747.2
1Q2008	4.5%	\$20.2	\$767.5
2Q2008	4.5%	\$21.8	\$789.3
3Q2008	4.5%	\$21.1	\$810.3
4Q2008	4.5%	\$21.4	\$831.8
1Q2009	6.4%	\$21.5	\$853.3
2Q2009	6.4%	\$23.2	\$876.5
3Q2009	6.4%	\$22.4	\$898.9
4Q2009	6.4%	\$22.8	\$921.7
1Q2010	8.9%	\$23.4	\$945.1
2Q2010	8.9%	\$25.3	\$970.4
3Q2010	8.9%	\$24.4	\$994.8
4Q2010	8.9%	\$24.8	\$1,019.6
1Q2011	4.7%	\$24.5	\$1,044.2
2Q2011	4.7%	\$26.4	\$1,070.6
3Q2011	4.7%	\$25.6	\$1,096.2
4Q2011	4.7%	\$26.0	\$1,122.2
1Q2012	5.1%	\$25.8	\$1,148.0

Quarter	Applicable SGR	Quarterly Allowed Expenditures <sup>2</sup> [in billions]	Cumulative Allowed Expenditures <sup>3</sup> [in billions]
2Q2012	5.1%	\$27.8	\$1,175.8
3Q2012	5.1%	\$26.9	\$1,202.7
4Q2012	5.1%	\$27.3	\$1,230.0
1Q2013	1.6%	\$26.2	\$1,256.2
2Q2013	1.6%	\$28.2	\$1,284.4
3Q2013	1.6%	\$27.3	\$1,311.7
4Q2013	1.6%	\$27.7	\$1,339.5
1Q2014	-15.2%	\$22.2	\$1,361.7
2Q2014	-15.2%	\$23.9	\$1,385.6
3Q2014	-15.2%	\$23.2	\$1,408.8
4Q2014	-15.2%	\$23.5	\$1,432.3
1Q2015	-3.6%	\$21.4	\$1,453.7
2Q2015	-3.6%	\$23.1	\$1,476.8
3Q2015	-3.6%	\$22.3	\$1,499.2
4Q2015	-3.6%	\$22.7	\$1,521.8

<sup>1</sup>As explained above, pursuant to the BBRA, the SGRs for FY2000, CY 2000, and all subsequent years are estimated and subsequently revised twice, based on later data. The CY 2013 figures (based on the CY 2013 SGR), the CY 2014 figures (based on the CY 2014 SGR), and the CY 2015 figures (based on the CY 2015 SGR) are estimated and may change based on more recent information which affects these SGRs.

<sup>2</sup>Allowed expenditures for a quarter (such as 4Q2015) are equal to allowed expenditures for the same quarter in the previous year (4Q2014 in this example) increased by the SGR for the year in which that quarter occurs (in this case, -3.6 percent). For example, quarterly allowed expenditures of \$22.7 billion in 4Q2015 are equal to quarterly allowed expenditures of roughly \$23.5 billion (4Q2014) updated by the SGR of -3.6 percent (\$22.7 billion = \$23.5 billion x 0.964).

<sup>3</sup>Cumulative allowed expenditures for a quarter (such as 4Q2015) are equal to the sum of cumulative allowed expenditures from the previous quarter for the same year (3Q2015) and quarterly allowed expenditures for that quarter. For example, cumulative allowed expenditures in 4Q2015 of \$1,521.8 billion are equal to the sum of cumulative allowed expenditures through 3Q2015 of \$1,499.2 billion and estimated allowed expenditures in 4Q2015 of \$22.7 billion (\$1,521.8 billion = \$1,499.2 billion + \$22.7 billion).

Notes:

(1) In the physician fee schedule final rule with comment period issued on October 30, 2009, the scope of physicians' services, as specified by the Secretary, was changed to exclude physician-administered drugs from the calculation of allowed and actual expenditures for all years and the SGR beginning in CY 2010.

(2) Totals do not necessarily equal the sum of rounded components.

### Actual Expenditures for Physicians' Services

Table 4 shows, on a quarterly basis from April 1, 1996 through December 31, 2013, actual expenditures and cumulative actual expenditures for the period. These expenditures represent allowed charges tabulated by the quarter in which the service was furnished. Since there is a lag between the date that the service is furnished and the date that the payment is made, the most recent quarters depict incomplete data. The total allowed charges for these quarters are estimated by approximating the level of completeness of the data. This approximation is determined using historical trends. We will update these amounts periodically when we have reasonably complete data (approximately 6 months after the end of a quarter). As we have described above, we are showing actual expenditures on a quarterly basis to reflect any seasonal variation in expenditures that occurs over the year.

**Table 4. Summary of Actual Expenditures under the SGR**

Calendar Quarter	Benefits Processed thru 12/31/13 <sup>1</sup> [in billions]	Approximate Completeness	Estimated Total Expenditures <sup>2</sup> [in billions]	Cumulative Total Expenditures <sup>2</sup> [in billions]
2Q1996	\$11.9	100.0%	\$11.9	\$11.9
3Q1996	\$11.5	100.0%	\$11.5	\$23.5
4Q1996	\$11.7	100.0%	\$11.7	\$35.2
1Q1997	\$11.8	100.0%	\$11.8	\$47.0
2Q1997	\$12.0	100.0%	\$12.0	\$59.1
3Q1997	\$11.6	100.0%	\$11.6	\$70.7
4Q1997	\$11.6	100.0%	\$11.6	\$82.3
1Q1998	\$12.0	100.0%	\$12.0	\$94.3
2Q1998	\$12.1	100.0%	\$12.1	\$106.4
3Q1998	\$11.7	100.0%	\$11.7	\$118.1
4Q1998	\$11.8	100.0%	\$11.8	\$129.9
1Q1999	\$12.5	100.0%	\$12.5	\$142.4
2Q1999	\$12.6	100.0%	\$12.6	\$154.9
3Q1999	\$12.3	100.0%	\$12.3	\$167.2
4Q1999	\$12.4	100.0%	\$12.4	\$179.6
1Q2000	\$13.6	100.0%	\$13.6	\$193.3
2Q2000	\$13.7	100.0%	\$13.7	\$206.9
3Q2000	\$13.5	100.0%	\$13.5	\$220.4
4Q2000	\$13.6	100.0%	\$13.6	\$234.0
1Q2001	\$15.2	100.0%	\$15.2	\$249.2
2Q2001	\$15.5	100.0%	\$15.5	\$264.7
3Q2001	\$15.2	100.0%	\$15.2	\$279.9
4Q2001	\$15.6	100.0%	\$15.6	\$295.5
1Q2002	\$15.8	100.0%	\$15.8	\$311.3
2Q2002	\$16.4	100.0%	\$16.4	\$327.7
3Q2002	\$16.2	100.0%	\$16.2	\$343.9
4Q2002	\$16.3	100.0%	\$16.3	\$360.3
1Q2003	\$16.9	100.0%	\$16.9	\$377.2
2Q2003	\$17.8	100.0%	\$17.8	\$395.0
3Q2003	\$17.8	100.0%	\$17.8	\$412.8
4Q2003	\$17.8	100.0%	\$17.8	\$430.7
1Q2004	\$19.4	100.0%	\$19.4	\$450.0
2Q2004	\$19.8	100.0%	\$19.8	\$469.8
3Q2004	\$19.6	100.0%	\$19.6	\$489.5
4Q2004	\$19.7	100.0%	\$19.7	\$509.1
1Q2005	\$20.8	100.0%	\$20.8	\$529.9
2Q2005	\$21.5	100.0%	\$21.5	\$551.4
3Q2005	\$21.0	100.0%	\$21.0	\$572.4
4Q2005	\$20.6	100.0%	\$20.6	\$593.0
1Q2006	\$21.4	100.0%	\$21.4	\$614.4
2Q2006	\$21.4	100.0%	\$21.4	\$635.8
3Q2006	\$21.0	100.0%	\$21.0	\$656.8
4Q2006	\$21.3	100.0%	\$21.3	\$678.0
1Q2007	\$21.4	100.0%	\$21.4	\$699.4
2Q2007	\$21.5	100.0%	\$21.5	\$721.0
3Q2007	\$21.0	100.0%	\$21.0	\$742.0
4Q2007	\$21.1	100.0%	\$21.1	\$763.1
1Q2008	\$21.8	100.0%	\$21.8	\$784.9
2Q2008	\$22.1	100.0%	\$22.1	\$807.0
3Q2008	\$21.8	100.0%	\$21.8	\$828.8
4Q2008	\$21.6	100.0%	\$21.6	\$850.4
1Q2009	\$22.6	100.0%	\$22.6	\$872.9
2Q2009	\$23.2	100.0%	\$23.2	\$896.1
3Q2009	\$22.9	100.0%	\$22.9	\$919.0
4Q2009	\$22.4	100.0%	\$22.4	\$941.4
1Q2010	\$23.2	100.0%	\$23.2	\$964.7
2Q2010	\$24.2	100.0%	\$24.2	\$988.9
3Q2010	\$24.5	100.0%	\$24.5	\$1,013.4
4Q2010	\$24.1	100.0%	\$24.1	\$1,037.4
1Q2011	\$24.5	100.0%	\$24.5	\$1,062.0
2Q2011	\$25.2	100.0%	\$25.2	\$1,087.2
3Q2011	\$25.1	100.0%	\$25.1	\$1,112.3
4Q2011	\$24.7	100.0%	\$24.7	\$1,137.0

Calendar Quarter	Benefits Processed thru 12/31/13 <sup>1</sup> [in billions]	Approximate Completeness	Estimated Total Expenditures <sup>2</sup> [in billions]	Cumulative Total Expenditures <sup>2</sup> [in billions]
1Q2012	\$25.5	100.0%	\$25.5	\$1,162.5
2Q2012	\$24.9	99.9%	\$25.0	\$1,187.4
3Q2012	\$23.9	99.8%	\$24.0	\$1,211.4
4Q2012	\$25.0	99.7%	\$25.0	\$1,236.5
1Q2013	\$25.9	99.2%	\$26.1	\$1,262.5
2Q2013	\$25.8	98.4%	\$26.2	\$1,288.8
3Q2013	\$24.3	96.1%	\$25.3	\$1,314.1
4Q2013	\$18.3	71.5%	\$25.5	\$1,339.6

<sup>1</sup>Benefits processed figures include actual bonus payments.

<sup>2</sup>Estimated and cumulative total expenditures are less likely to change as the approximate completeness approaches 100 percent.

Notes:

(1) In the physician fee schedule final rule with comment period issued on October 30, 2009, the scope of physicians' services, as specified by the Secretary, was changed to exclude physician-administered drugs from the calculation of allowed and actual expenditures for all years and the SGR beginning in CY 2010.

(2) Totals do not necessarily equal the sum of rounded components.

### CY 2015 Physician Fee Schedule Update and Conversion Factor

The CY 2015 physician fee schedule update is determined according to a statutory formula by multiplying (i) one plus the percentage change in the Medicare Economic Index (MEI), and (ii) one plus the update adjustment factor (UAF), and then subtracting one. The MEI measures the weighted average price change for various inputs involved with producing physicians' services. The UAF compares actual and target expenditures, and, for a given year, is determined by a formula, as shown below.

$$UAF_{2015} = \frac{\text{Target}_{2014} - \text{Actual}_{2014}}{\text{Actual}_{2014}} \times 0.75 + \frac{\text{Target}_{4/96-12/14} - \text{Actual}_{4/96-12/14}}{\text{Actual}_{2014} \times (1 + SGR_{2015})} \times 0.33$$

Substituting the estimated figures from tables 1, 3, and 4, as well as our current projections of actual expenditures for CY 2014 (summarized below) in this formula, produces our current estimate of the UAF for CY 2015:

Target<sub>14</sub> = Estimated Allowed Expenditures for CY 2014 = \$92.9 billion (\$22.2 + \$23.9 + \$23.2 + \$23.5)

Actual<sub>14</sub> = Estimated Actual Expenditures for CY 2014 = \$89.5 billion

Target<sub>4/96-12/14</sub> = Estimated Cumulative Allowed Expenditures from 4/1/96 - 12/31/14 = \$1,432.3 billion

Actual<sub>4/96-12/14</sub> = Estimated Cumulative Actual Expenditures from 4/1/96 - 12/31/14 = \$1,429.1 billion

SGR<sub>2015</sub> = Estimated Sustainable Growth Rate for CY 2015 = -3.6 percent or -0.036

$$UAF_{2015} = \frac{92.9 - 89.5}{89.5} \times 0.75 + \frac{1,432.3 - 1,429.1}{89.5 \times 0.964} \times 0.33 = 0.040 = 4.0\%$$

Section 1848(d)(3)(D) of the Act does not allow the update adjustment factor for a given year to be greater than 3.0 percentage points nor less than -7.0 percentage points. Since the UAF for CY 2015 is estimated to exceed these bounds, the CY 2015 UAF is estimated to be limited to 3.0 percentage points.

As shown in table 5, the estimated CY 2015 conversion factor is determined by applying the CY 2015 MEI and the CY 2015 UAF to the CY 2014 conversion factor that applies for December 2014.

**Table 5. CY 2015 Physician Fee Schedule Conversion Factor**

December 2014 Conversion Factor	\$27.2006
CY 2015 MEI	1.2% (1.01200)
CY 2015 Update Adjustment Factor	3.0% (1.03000)
CY 2015 Conversion Factor Update	4.2% (1.04236)
CY 2015 Conversion Factor	\$28.3528

Table 6 lists the historical MEI and physician updates from 1992 through 2014 and the estimated values for 2015. The physician update reflects a weighted average for 1993 when there were two different updates (one for surgery and one for other services), and for 1994 through 1998 when there were three different updates (for surgery, primary care, and other services). The physician updates for CY 2010 and CY 2011 reflect the impact of the two different updates that were effective during parts of CY 2010. For January through May 2010, the physician update was 0 percent. For June through December 2010, the physician update was 2.2 percent. Similarly, the CY 2014 and CY2015 physician updates reflect the impact of the two different updates that are scheduled to be effective during parts of CY 2014. For January through March 2014, the physician update is 0.5 percent. For April through December 2014, the physician update is scheduled to be -23.7 percent.

**Table 6. Actual Past Medicare Economic Index Increases and Physician Updates for 1992-2014, and Estimated Values for 2015**

Year	Physician Medicare Economic Index Increase	Physician Update
Actual:		
1992	3.2%	1.9%
1993	2.7%	1.4%
1994	2.3%	7.0%
1995	2.1%	7.5%
1996	2.0%	0.8%
1997	2.0%	0.6%
1998	2.2%	2.3%
1999	2.3%	2.3%
2000	2.4%	5.5%
2001	2.1%	5.0%
2002	2.6%	-4.8%
2003	3.0%	1.4%
2004	2.9%	1.8%
2005	3.1%	1.5%
2006	2.8%	0.2%
2007	2.1%	0.0%
2008	1.8%	0.5%
2009	1.6%	1.1%
2010	1.2%	1.3%
2011	0.4%	0.9%
2012	0.6%	0.0%
2013	0.8%	0.0%
2014	0.8%	-17.6%
2015	1.2%	-2.0%
<u>Average Annual</u>		
1992-2015	2.0%	0.7%
1998-2015	1.9%	-0.2%
1992-2014	2.0%	0.8%
1998-2014	1.9%	-0.1%
<u>Cumulative</u>		
1992-2015	61.0%	17.0%
1992-2014	59.1%	19.4%

Notes: For 2003, 2004, 2010, and 2011, the update shown is a weighted average annual update. For 2006, the Deficit Reduction Act froze the physician fee schedule conversion factor. The conversion factor freeze, together with refinements to the relative value units, resulted in an update of 0.2 percent for 2006.

Note that the information presented in this document is consistent with the information presented in the March 2014 letter to MedPAC, and does not reflect the recently passed legislation that overrode the scheduled physician fee schedule update and specified an update of 0.5 percent for all of 2014 and an update of 0.0 percent for January through March 2015.

Questions on the information presented here may be addressed to:

M. Kent Clemens, F.S.A.  
Centers for Medicare & Medicaid Services  
Office of the Actuary  
N3-26-04  
Centers for Medicare & Medicaid Services  
Baltimore, MD 21244

or

[[kent.clemens@cms.hhs.gov](mailto:kent.clemens@cms.hhs.gov)]  
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