



DEPARTMENT OF HEALTH & HUMAN SERVICES

Centers for Medicare & Medicaid Services

7500 Security Boulevard  
Baltimore, MD 21244-1850

**MAR 06 2012**

Mr. Glenn M. Hackbarth, Chair  
Medicare Payment Advisory Commission  
601 New Jersey Avenue, NW, 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) 2013 physician fee schedule (PFS) conversion factor (CF) update, CF, and 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 in CY 2002, although Congress has taken a series of legislative actions to prevent reductions in CYs 2003-2012.

The Temporary Payroll Tax Cut Continuation Act of 2011 specified that the CY 2012 update to the CF would be 0 percent through February 29, 2012. More recently, the President signed the Middle Class Tax Relief and Job Creation Act of 2012, which extended the 0 percent update throughout the remainder of CY 2012. Accordingly, the CY 2012 CF, effective through December 2012, is \$34.0376. We currently estimate that the statutory formula used to determine the PFS update to the CF will result in a CY 2013 CF of \$24.8441, which represents a change of -27.0 percent from the December 2012 CF. The estimated 27.0 percent reduction for the CY 2013 CF is comparable to the 27.4 percent reduction that had been scheduled for CY 2012. Attachments 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 2013 is -18.9 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 2013 in Attachment 3. These estimates are based on the best data available to us at this time and may be revised later.

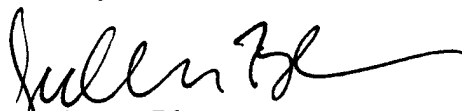
We note that the estimates included herein are calculated based on current law. Where new law is specific to the SGR, these estimates for CY 2013 of the PFS update to the CF and SGR may be revised accordingly. CMS looks forward to continuing to work with MedPAC, the physician community, and Congress as we refine our payments under the PFS.

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We will be providing a more detailed explanation of the SGR and PFS 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.

While two important pieces of legislation have prevented significant reductions in PFS payments for CY 2012, 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, sweeping horizontal line extending to the right.

Jonathan D. Blum  
Deputy Administrator & Director  
Center for Medicare

Attachments

Estimate of the CY 2013 Update Adjustment Factor

Under section 1848(d)(4) of the Social Security Act, the update for CY 2013 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 2013 update adjustment factor is shown below. The calculation of the update is detailed on the next page.

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

$UAF_{13}$  = Update Adjustment Factor for 2013 = 0.1 percent

$Target_{12}$  = Allowed Expenditures for CY 2012 = \$108.2 billion

$Actual_{12}$  = Estimated Actual Expenditures for CY 2012 = \$103.3 billion

$Target_{4/96-12/12}$  = Allowed Expenditures from 4/1/1996 - 12/31/2012 = \$1,226.0 billion

$Actual_{4/96-12/12}$  = Estimated Actual Expenditures from 4/1/1996 - 12/31/2012 = \$1,234.7 billion

$SGR_{13}$  = -18.9 percent

$$\frac{\$108.2 - \$103.3}{\$103.3} \times (.75) + \frac{\$1,226.0 - \$1,234.7}{\$103.3 \times 0.811} \times (.33) = 0.1\%$$

Our current estimate of the update adjustment factor is 0.1 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.

Estimate of the CY 2013 Physician Fee Schedule Conversion Factor Update

In order to estimate the CY 2013 Physician Fee Schedule Conversion Factor Update, the conversion factors for CYs 2007, 2008, 2009, 2010, 2011 and 2012 must be determined as if the various legislative changes to the conversion factors for those years had not occurred. The CY 2012 pre-legislation conversion factor is \$24.6712. To determine the CY 2013 Conversion Factor, the product of the Medicare Economic Index and the Update Adjustment Factor is applied to the CY 2012 Pre-legislation Conversion Factor:

*Calculation of the CY 2013 Conversion Factor:*

(1)	CY 2012 Pre-legislation Conversion Factor		\$24.6712
(2)	CY 2013 Medicare Economic Index	0.6% (1.00600)	
(3)	CY 2013 Update Adjustment Factor	0.1% (1.00100)	
(4)	CY 2013 Total	0.7% (1.00701)	
(5)	CY 2013 Conversion Factor		\$24.8441

*CY 2013 Conversion Factor Update:*

(1)	CY 2012 Post-Legislation Conversion Factor	\$34.0376
(2)	CY 2013 Conversion Factor	\$24.8441
(3)	Percent Change (CY 2013 Update)	-27.0%

Estimate of the CY 2013 Sustainable Growth Rate (SGR)\*

(1) Estimated Change in Fees	0.5%	(1.005)
(2) Estimated Change in Fee-for-Service Enrollment	5.1%	(1.051)
(3) Estimated Change in Real GDP Per Capita	0.7%	(1.007)
(4) Estimated Change in Law or Regulation	-23.8%	(0.762)
(5) Estimated CY 2013 SGR		-18.9%

Note: The figures on lines 1-4 are multiplied to produce the estimated SGR value of -18.9 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, 2012.