

Mr. Glenn M. Hackbarth, Chair
Medicare Payment Advisory Commission
425 Eye Street, NW.
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) 2015 physician fee schedule (PFS) conversion factor (CF) update, and sustainable growth rate (SGR), together with the data used in making these estimates.

The 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 calendar year (CY) 2002, although Congress has taken a series of legislative actions to prevent reductions in CYs 2003-2013, and for the first 3 months of CY 2014. The Pathway for SGR Reform Act of 2013 specified that the CY 2014 update to the CF would be 0.5 percent through March 31, 2014. Accordingly, the conversion factor in effect through March 31, 2014, is \$35.8228. In the absence of Congressional action, the law requires that Medicare reduce PFS payment rates on April 1, 2014, by approximately 24.1 percent.

We currently estimate that the statutory formula used to determine the update to the CF will result in a CY 2015 CF of \$28.3528 if no further legislative action is taken, which represents an increase of approximately 4.2 percent from the December 2014 CF of \$27.2006 and a 20.9 percent reduction from the CF of \$35.8228 in effect from January 1, 2014 through March 31, 2014. 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 2015 is -3.6 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 2015 in Attachment 3. These estimates are based on the best data available at this time and may be revised later.

We will be providing a more detailed explanation of the SGR and PFS updates on the CMS website (cms.hhs.gov/SustainableGRatesConFact/). SGR-related data and other information are available to the public in the website document.

We note that the estimates included herein are calculated based on current law. It is our understanding that Congress is considering potential legislative changes regarding payments for physicians' services. If any new law makes changes that affect the SGR, these estimates for CY 2015 of the PFS update to the CF and SGR may be revised accordingly.

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While the Pathway for SGR Reform Act of 2013 has prevented a significant reduction in PFS payments for the first three months of CY 2014, this relief only applies through March 31, 2014. The Administration applauds the bipartisan reform efforts in the Congress and is committed to working with the Congress to continue progress toward reforming Medicare physician payments to provide predictable payments that incentivize quality and efficiency in a fiscally responsible way.

Sincerely,

/S/

Jonathan D. Blum
Principal Deputy Administrator

Enclosures

Attachment 1

Estimate of the CY 2015 Update Adjustment Factor

Under section 1848(d)(4) of the Social Security Act, the update for CY 2015 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 2015 update adjustment factor is shown below. The calculation of the update is detailed on the next page.

$$UAF_{15} = \frac{Target_{14} - Actual_{14}}{Actual_{14}} \times .75 + \frac{Target_{4/96-12/14} - Actual_{4/96-12/14}}{Actual_{14} \times (1 + SGR_{15})} \times .33$$

UAF_{15} = Update Adjustment Factor for 2015 = 4.0 percent

$Target_{14}$ = Allowed Expenditures for CY 2014 = \$92.9 billion

$Actual_{14}$ = Estimated Actual Expenditures for CY 2014 = \$89.5 billion

$Target_{4/96-12/14}$ = Allowed Expenditures from 4/1/1996 - 12/31/2014 = \$1,432.3 billion

$Actual_{4/96-12/14}$ = Estimated Actual Expenditures from 4/1/1996 - 12/31/2014 = \$1,429.1 billion

SGR_{15} = -3.6 percent

$$\frac{\$92.9 - \$89.5}{\$89.5} \times (.75) + \frac{\$1,432.3 - 1,429.1}{\$89.5 \times 0.964} \times (.33) = 4.0\%$$

Our current estimate of the update adjustment factor is 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. Since the estimated update adjustment factor for 2015 exceeds 3.0 percentage points, the estimated 2015 UAF is limited to 3.0 percentage points.

Attachment 2

Estimate of the CY 2015 Physician Fee Schedule Conversion Factor Update

The December 2014 conversion factor is \$27.2006. To determine the CY 2015 Conversion Factor, the product of the Medicare Economic Index and the Update Adjustment Factor is applied to the December 2014 Conversion Factor:

Calculation of the CY 2015 Conversion Factor:

(1) December 2014 Conversion Factor		\$27.2006
(2) Estimated CY 2015 Medicare Economic Index	1.2% (1.012)	
(3) Estimated CY 2015 Update Adjustment Factor	3.0% (1.030)	
(4) Estimated CY 2015 Total	4.2% (1.042)	
(5) Estimated CY 2015 Conversion Factor		\$28.3528

The change from the December 2014 conversion factor of 27.2006 to the estimated CY 2015 conversion factor of 28.3528 is 4.2%.

Attachment 3

Estimate of the CY 2015 Sustainable Growth Rate (SGR)*

(1) Estimated Change in Fees	1.1 %	(1.100)
(2) Estimated Change in Fee-for-Service Enrollment	4.0%	(1.040)
(3) Estimated Change in Real GDP Per Capita	0.8%	(1.008)
(4) Estimated Change in Law or Regulation	-9.0%	(0.910)
(5) Estimated CY 2015 SGR	-3.6%	(0.964)

Note: The figures on lines 1-4 are multiplied to produce the estimated SGR value of -3.6 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, 2014.