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Congress Delays Mandated Cuts in Medicare Until January 2011

Last week the House of Representatives passed a bill that would delay a legally required 25% cut in Medicare physician reimbursement rates until January 1. Instead, Congress will provide a 2.2% rate increase as a temporary measure until the new Congress can enact a longer delay while it considers overhauling the way Medicare reimburses physicians. The “lame duck” Congress only has a few weeks to act in December before the one-month delay ends. In order to pay for the \$1 billion cost of the bill, Congress would reduce some Medicare reimbursements for physical and occupational therapists. The measure awaits the President’s signature. At a recent congressional hearing, the new Centers for Medicare and Medicaid Services (CMS) Administrator, Dr. Donald Berwick, stated that the scheduled cuts are “not acceptable” and that the Administration supports a long-term fix to the problem. However, he did not provide a plan on how to pay for the changes. The incoming House Speaker John Boehner (R-OH) has expressed opposition to additional federal spending to delay the cuts in the absence of comprehensive medical liability reforms. Senate Finance Committee Chair Max Baucus (D-MT) and Ranking Member Charles Grassley (R-IA) are working on a 12-month (\$19 billion) delay, possibly tied to an extension of the expiring 2001 and 2003 Bush-era income tax cuts.

Avoiding Medicare physician reimbursement cuts will reduce the pressure for physicians to shift costs to employers and other private payers to make up for the shortfall, but exacerbates the long-term threat to Medicare’s fiscal unsustainability and the threat of higher Medicare payroll taxes. Medicare will need to quickly move away from fee-for-service to physician payment based on performance and improved health outcomes in order to accelerate more effective care delivery and the program’s fiscal sustainability. As the government reduces the pressure for physicians to shift costs to the private sector, employees avoid paying more in out-of-pocket costs. However, they increase their risk for Medicare payroll tax increases. As Medicare delays improving the way it pays for health care, employees do not reap the benefits of a more effective and efficient health care system. Retirees will pay higher Part B premiums as Congress restores Medicare physician payment cuts.

The President is expected to sign the one-month delay into law and Congress may also pass an additional short-term delay and consider a longer delay along with modifications to a few of the provisions in the Affordable Care Act (1099 reporting, individual mandate, flexibility for state exchanges, free rider assessment, excise tax) when Republicans re-gain control of the House in January. The driving force behind much of this is the 1997 Balanced Budget Act that requires Medicare to reduce reimbursements to physicians by 4-6% over a period of several years,

beginning in 2000. Each year, however, with the exception of 2002, Congress delayed the cuts and as a result the amount the federal government needs to cut in future years grows. The current required cuts equal the 25% mentioned above. Beginning in 2015, The Affordable Care Act requires that CMS implement a value-based, budget neutral, payment adjustment for all Medicare physician reimbursement based on the quality of care relative to cost. However, between now and then other systematic changes will be needed.

The key for employers and plan sponsors is that cuts to Medicare will invariably force providers to raise prices they charge commercial plans and customers to make up for the lost revenue. This creates additional pressure and more cost shifting within the system. Only dramatic and institutional changes to Medicare will enable the system to survive without mere cost shifting. Unfortunately, federal health insurance reform did little to deal with the cost issues of health insurance and so issues like Medicare cuts will continue to be a political football for the near term. As developments unfold Conner Strong will issue updates.

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