

On November 1, 2012, the Centers for Medicare and Medicaid Services (CMS) issued a final rule in which CMS announced that the update to Medicare’s payment rates for services on the Physician Fee Schedule (PFS) will be a reduction of 26.5 percent for services furnished during calendar year 2013. The revised reduction in payments for calendar year 2013, as well as other information provided in the final rule, change CBO’s projections of Medicare payment rates for services provided on the PFS for 2013 and for future years. Following standard practice, CBO will incorporate that information in its next regular baseline update. It will also immediately take that information into account when analyzing legislation being considered by the Congress.

The following table shows estimates that incorporate the effect of the final rule for a zero percent update in physician payment rates for one, two, and ten years. As you compare the current estimates to the estimates from our March baseline **please note:**

- The estimated cost of \$10.6 billion in 2013 is *lower* than the \$11.1 billion estimated from the March baseline, reflecting the new 26.5 percent “cliff” in 2013.
- The cost of a one-year cliff option<sup>1</sup> is *lower* over the first five years than CBO projected from the March baseline, but *higher* over ten years. The cost of a two-year cliff option is *lower* than CBO projected from the March baseline.
- The operation of the sustainable growth rate (SGR) formula adjusts future updates to offset spending that is above or below the target. The adjustment is realized over a period of multiple years and can result in increased or reduced payment rate updates for periods of several years.
  - In the case of the one year option, that volatility results in spending over ten years that is higher than in the previous estimate.
  - By contrast, in the case of the two year option, that volatility results in spending over ten years that is lower than the previous estimate.
- The cost of a ten-year freeze is *lower* than estimated under the March baseline. This reflects the smaller reduction in payment rates for 2013, as well as lower Medicare spending during fiscal year 2012.

Options	(Billions of dollars, by fiscal year)										2013-	2013-
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2017	2022
0% Update for 2013												
<i>cliff: -25% in 2014</i>	10.6	6.7	1.3	1.3	1.2	1.0	0.8	0.7	0.7	0.8	21.1	25.2
0% Update for 2013-2014												
<i>cliff: -25% in 2015</i>	10.6	16.9	7.6	1.8	1.4	1.0	0.7	0.5	0.4	0.5	38.5	41.5
Ten-Year Freeze												
<i>0% Update through 2022</i>	10.6	16.9	18.5	20.3	22.3	24.8	28.0	31.1	33.9	37.2	88.6	243.7

[1] In cliff options, the legislation would specify the payment rate update for either one- or several years. The payment rate in the year immediately following the period in which the payment rate is overridden would be set as if the override had not happened.