July 30, 1996

The Honorable Neil Abercrombie
U.S. House of Representatives
1233 Longworth House Office Building
Washington, DC 20515

Dear Congressman Abercrombie:

The undersigned organizations, representing over 200,000 physicians, strongly urge you to oppose any legislation that may be introduced to delay implementation of long-overdue Medicare physician payment reforms that would base practice expense payments on resource costs.

By enacting legislation in 1994 to mandate implementation of resource based expenses, Congress acknowledged that the existing historical-charge basis of the practice expense component was fundamentally inconsistent with its long-standing intent of paying the same amount for physician services involving the same physician work and overhead expenses. Congress was concerned that the existing methodology undervalued primary care and other evaluation and management services compared to other physicians' services.

For example, under the current flawed methodology (and prior to the geographic adjustments required by law) Medicare reimburses only $13.46 for the overhead component of a level 3 established patient office visit (out of a total payment of $34.00), compared to $1,551.57 for the overhead for a triple coronary artery bypass graft (CABG) procedure done in the hospital (out of a total payment of $3,048.06). The inequity is compounded by the fact that a considerable portion of the surgeon’s overhead is paid for by the hospital. Essentially, this means Medicare is issuing payment twice, once to the hospital under Part A, and again for surgical practice expenses such as labor, supplies and equipment (for which the physician has incurred no cost) under Part B. Similarly, a physician would have to provide 115 level 3 established patient office visits before he or she could recoup the overhead expenses that Medicare allows for the CABG. A typical primary care physician who provides 64 office visits per week--or 13 per day--would have to see patients for almost 9 days in his or her office before obtaining the amount of overhead reimbursement that a surgeon gets for the one triple bypass, assuming the visits were billed as level 3 established patient office visits.

While some surgically oriented specialty societies have suggested that HCFA lacks the data needed to meet Congress’ intended deadline, senior HCFA staff has indicated otherwise. Data gathering efforts from a study of the direct costs of physician services, based on the advice of expert panels of physicians, will be completed by early August, 1996. Although some of the data gathering for indirect costs has yet to be completed, a great deal of research data is available, including two recently completed studies aimed at estimating indirect practice expenses. In consideration of the profound flaws of the current system noted above, we believe that HCFA is fully capable of generating resource-based practice expense values which would represent a marked improvement over the existing values. We agree with the Physician Payment Review Commission that inclusion of a clearly enunciated refinement process would enable HCFA to address any possible imperfections in these values, similar to the ongoing refinement of work relative values, without having to delay implementation of the entire fee schedule.

Despite the efforts of the surgical community to delay implementation by holding out for the “best” data possible, we believe that the effect of a delay would be to perpetuate a system that provides excessive reimbursement for some physicians' services while grossly undervaluing others.

We strongly urge you to oppose any legislation that would delay the Medicare physician payment reforms. We look forward to working with you towards implementing sound and fair resource based practice expenses by January 1, 1998.

Sincerely,

American Academy of Family Physicians
American Academy of Pediatrics
American Association of Clinical Endocrinologists

American College of Physicians
American College of Rheumatology
American Osteopathic Association
American Society of Internal Medicine
The Endocrine Society
Renal Physicians Association