

Section 44304 Medicare Physician Payment Proposal: Myth vs. Fact

Background: Section 44304 of the budget reconciliation proposal replaces the Medicare physician payment updates under current law with payment updates linked to inflation in the cost of operating medical practices, as measured by the Medicare Economic Index (MEI). Under current law, beginning in 2026, most physicians will have their payment rates increased by 0.25% each year, while physicians who qualify as participants in advanced alternative payment models (APMs) will have their payment rates increased by 0.75% each year. The legislative proposal replaces these two updates with a single payment update for all physicians equal to 75% of MEI in 2026 and 10% of MEI in 2027 and beyond. Based on current MEI data, this is expected to provide a 2.25% update for all physicians in 2026 and updates in 2027 and beyond that are very close to the 0.25% in current law.

Myth: *Sec. 44304 does not actually increase Medicare physician payments because there is a cliff that will lead to pay cuts.*

Fact: The bill establishes an update at 75% of the MEI for 2026 that is built into baseline physician payment rates and does not ever expire. Current MEI data indicate that this update will be 2.25%, compared to the current law 2026 update of 0.25% for most physicians. In 2027 and beyond, this initial 2.25% increase will further increase every year at 10% of MEI. Current MEI data indicate that the 2027 update will be the same as current law, 0.25%. In future years, practice inflation data is likely to change from current estimates, but the currently estimated updates in the outyears are nearly the same as those in current law. Under the bill, however, as inflation rises so will payment updates. Sec. 44304 is estimated to increase federal expenditures on Medicare physician payments by nearly \$9 billion. Cumulative growth over the next 10 years associated with the physician payment update included in Section 44304 will be 4.3% compared with 2.5% under current law for most physicians.

Myth: *Physicians who participate in APMs will experience pay cuts starting in 2027.*

Fact: Under current law, physicians who qualify for APM updates will get increases of 0.75% each year starting in 2026, while other physicians will get an update of 0.25%. In addition, those who qualified in 2024 are set to receive lump sum bonuses of 1.88% in 2026. Under proposed section 44304, APM participants and all physicians will get a 2026 update of 2.25%, which is three times the 0.75% APM update and nine times the 0.25% update that are both in effect under current law for most physicians. APM participants will also get the 1.88% bonus on top of the 2.25% update in 2026. APM participants will receive higher payment updates than under current law for three years, 2026 through 2028. Beginning in 2029, payment updates to APM participants under the proposed legislation will be lower than they would have been under current law, but they will still receive positive updates overall linked to MEI just like all other physicians. As a result, there are no pay cuts at any point in the traditional 10-year “scoring window” or beyond that stem from this bill. Another factor affecting APM participants is that the revenue threshold to qualify as an APM participant under Medicare rose from 50% to 75% this year, so far fewer APM participants would be likely to qualify for

higher updates in 2027 and beyond than have qualified for the APM bonus payments up until now. This reality bolsters the underlying importance of permanently adding a 2.25% update to the baseline.

Myth: *Physicians do better when there are temporary payment updates, because the crisis that arises due to the cliffs when they end forces Congressional action.*

Fact: Since 2001, there have been many temporary Medicare physician payment updates passed by Congress. Under this approach, Congress sets a percentage amount by which the Medicare conversion factor increases for a year (or part of a year), and then when the following year's payment update is calculated, it is based on the conversion factor that would have been in place without any legislative update. For example, in 2021, a significant reduction in the conversion factor was scheduled to occur due to relative value increases for evaluation and management services. Congress passed multiple temporary update provisions raising the conversion factor above what it otherwise would have been, but the conversion factor was still cut every year from 2021 through 2025 below what it had been the year before. Although there is bipartisan support for a 2025 payment update using the temporary approach and a 2.5% temporary update almost passed last December, to date the 2025 cut has not been mitigated. The AMA strongly supports passage of H.R. 879/S. 1640 to avert the 2025 cut but it is important to recognize that these bills would not modify baseline payment rates so the 2026 conversion factor will still start at its current level.

Myth: *This bill triggers budget neutrality.*

Fact: This bill **DOES NOT** trigger budget neutrality. Budget Neutrality is triggered when the agency, Centers for Medicare and Medicaid Services, not Congress, projects changes to the Medicare physician fee schedule will increase Medicare spending by more than \$20 million.

Myth: *This bill does not address sequestration.*

Fact: Sequestration is a totally separate issue which affects all Medicare providers not just physicians. There is no will in Congress to address sequestration.

Myth: *The updates starting in 2027 at 10% of MEI are far too low.*

Fact: This is not a myth as no one disagrees that 10% of MEI is too low. Although they deserve credit for officially tying physician payment to a rate of inflation, Congress is committed to coming back and working on broader physician payment reforms. It was difficult securing \$8.9 billion in increased spending for Medicare in legislation that is primarily aimed at reducing spending. The physician community and our champions in Congress, however, are committed to working to secure more sustainable future updates and to restore incentive payments for APM participants in the 119th Congress.