



September 8, 2003

The Honorable William H. "Bill" Frist
United States Senate
Washington, DC 20510

Dear Senator Frist:

The American Medical Group Association (AMGA) applauds your leadership and vision in directing the revitalization of the Medicare program and recognizes your difficult decisions regarding the healthcare future of almost all Americans. AMGA, representing some of the nation's largest, most prestigious integrated healthcare delivery systems caring for more than 50 million patients in 40 states, urges rejection of the rural physician bonus incentive program contained in Sec. 417 of the H.R. 1. With the average AMGA member group practice having 272 physicians and 13 satellite locations, and with many of these serving rural areas, AMGA members' evaluation of the rural physician incentive program in H.R. 1 – and recent published analyses of similar programs – show that such programs fail to materially improve the number of physicians in rural areas.

AMGA advocates rejection of Sec. 417 and redirection this provision's estimated \$6 billion funding to finance both the Senate provision that sets a 1.0 floor for rural physician payment formula components and the two-year, 1.5% physician update in the House bill.

House Rural Healthcare Provision

Sec. 417 of H.R. 1 contains a 5% bonus payment as an incentive for physicians to practice in HHS-determined physician scarcity areas. Although rural providers appreciate this recognition of their situation, recent analyses of the impact of this proposed program, and similar existing programs, show that they are ineffective in increasing the number of rural physicians.

In its July issue, *Health Affairs* contained a RAND analysis of the Medicare Payment Incentive Program (enacted in 1987) providing a similar bonus for physicians to locate in rural and underserved areas. RAND researchers found that the program did not serve its intended purpose of increasing the number of rural physicians and that the funds were not well utilized. These disappointing results, and our AMGA members' experiences in subsidizing rural healthcare delivery, indicate that any further efforts in this direction should be postponed until current program results are fully examined.

The House's bonus proposal does not address the underlying issue: the inadequate reimbursement of physician services. This disparity between Medicare reimbursement levels and physicians' service costs is particularly acute in rural areas where physicians' operational costs vastly exceed what the bonus incentives would provide. In contrast, the Senate provision for rural healthcare providers, providing a 1.0 floor to the geographic adjustment for rural physician payments, offers a meaningful increase to help defray the chronic Medicare payment shortfall experienced by rural physicians.

AMGA recommends that the bonus program be postponed for further study, and that the estimated \$6 billion in funding for that effort instead subsidize the House bill's two-year physician payment update increase of 1.5%, as well as the Senate provision setting a floor for rural physician payment formula components.

Your endorsement of postponing the rural physician bonus program until current programs are fully evaluated, and redirecting the funding to the House's 1.5% physician update increase and the Senate's rural physician payment floor, would recognize rural providers' interest in allocation of limited healthcare funds to effective, beneficial programs.

Medicare Physician Update Remedy

Both the House and Senate Medicare bills contain strong recognition of the need to rectify the formula used to calculate the Medicare fee update for physician services. The House provision provides for a 1.5% update for physicians for 2004 and 2005. Endorsing the House's provision, the Senate bill contains a strong "sense of the Senate" statement that the formula for computing the Medicare physician payment must be revised to produce adequate reimbursement levels. Without legislative intervention, physicians will experience a decrease of 4.2%-5% in reimbursement for services in 2004.

Your support of the two-year, 1.5% temporary increase will provide time for Congressional consideration of a revised update formula, while helping preserve seniors' access to needed medical care and stabilizing physician Medicare participation enrollment.

Sincerely,



Donald W. Fisher, Ph.D.
President and CEO