



# Medicare physician payment reform: The urgent need for comprehensive reform

Ensuring stable and sustainable Medicare payments is essential both for protecting patient access to care and for supporting the physicians who treat America's seniors. For decades, the Centers for Medicare & Medicaid Services (CMS) Medicare Physician Fee Schedule (MPFS) has faced growing instability, which, in turn, threatens access to care for millions of senior and disabled patients. The current Medicare physician payment system is plagued by stagnant payments, no annual inflationary updates and excessive administrative burdens. This has resulted in unsustainable conditions for physicians and their practices. Congress must act now to reform the Medicare payment system to prioritize patients, reflect the realities of modern medical practice and promote value-based care.

## Key challenges

- **No inflationary updates:** Since 2001, Medicare physician payment rates, when adjusted for inflation, have declined 33%, thus forcing practices to operate on extremely thin margins as costs continue to rise. This directly threatens patient access to timely, high-quality care, particularly in underserved areas.<sup>1</sup> Other Medicare providers, such as hospitals and Medicare Advantage plans, receive annual updates tied to inflation, but physicians are statutorily excluded from this adjustment.
- **Budget neutrality issues:** Flawed budget neutrality requirements lead to annual cuts, often triggered by inaccurate utilization projections, that further destabilize payments. CMS, however, is statutorily precluded from waiving budget neutrality requirements when releasing annual MPFS regulations.
- **Administrative burdens:** Programs like the Merit-based Incentive Payment System (MIPS) add unnecessary complexity without demonstrable improvements in patient outcomes. This burdensome system diverts resources from patient care to check-the-box activities. A 2022 study in the *Journal of the American Medical Association* found MIPS scores are inconsistently related to performance, which “suggests that the MIPS program is approximately as effective as chance at identifying high versus low performance.”<sup>2,3</sup>

Annual payment penalties mandated within MIPS disproportionately impact small and rural practices, limiting care options for patients in these communities. In fact, the 2022 Quality Payment Program Experience Report showed that 27% of small practices, nearly 50% of solo practitioners, and 18% of rural practices received a MIPS penalty in 2024.<sup>4</sup> Of those, 13% of small practices, 27% of solo practitioners, and 2% of rural practices got the maximum negative penalty of nine percent,<sup>5</sup> in addition to cuts imposed due to the lack of statutory inflation payment updates.

1. 2024 Medicare Trustees Report (page 196). Accessed on Jan. 24, 2025. <https://www.cms.gov/oact/tr/2024>

2. Association Between Individual Primary Care Physician Merit-based Incentive Payment System Score and Measures of Process and Patient Outcomes. Accessed on Jan. 24, 2025. <https://jamanetwork.com/journals/jama/fullarticle/2799153>

3. GAO Report to Congressional Requesters: Small and Rural Practices' Experiences in Previous Programs and Expected Performance in the Merit-based Incentive Payment System. Accessed on Jan. 24, 2025. <https://www.gao.gov/assets/gao-18-428.pdf>

4. 2022 Quality Payment Program Experience Report. Accessed on Jan. 24, 2025. <https://qpp-cm-prod-content.s3.amazonaws.com/uploads/2817/2022ExperienceReport.pdf>

5. Ibid.

- **Lack of alternative payment model (APM) options:** While APMs offer potential for innovation in care delivery, there are insufficient models available to physicians in many specialties, particularly for specialists in rural settings. This limits opportunities to transition to value-based care and risks reducing patient choice. Until the APM pathway is more robust, we must ensure that the traditional Medicare program is stable.

## Key challenges

The current state of private medical practice in the United States requires Congress to expeditiously enact the following policy changes:

- 1. Annual inflationary payment updates:** Tie Medicare payments to the Medicare Economic Index (MEI) to reflect the rising costs of medical practice. A permanent, annual inflationary update would stabilize payments, enabling long-term planning and ensuring patient access to care.
- 2. Budget neutrality reforms:** Raising the current budget neutrality threshold, improving the accuracy of utilization projections, and limiting disruptive cuts caused by statutorily mandated budget neutrality requirements will create a more predictable payment system and protect access to care in vulnerable communities.
- 3. Simplify MIPS:** Congress must restructure MIPS to reduce administrative burdens, better align it with other CMS programs, and ensure fair performance thresholds while focusing on meaningful patient outcomes.
- 4. Expand APM availability:** Develop and implement a broader range of APMs to ensure all physicians, particularly specialists and those practicing in rural areas, can equally participate. In addition, extend APM incentive payments and maintain achievable revenue thresholds that will promote innovation and safeguard patient choice.

## Action request

**Urge your House member and senators to support legislation addressing critical inflationary updates, budget neutrality reforms, MIPS improvements, and expanded APM options to stabilize the MPFS and prioritize patient-centered reforms.**

By addressing these critical issues, we can ensure that Medicare beneficiaries continue to have access to the care they need.

### Medicare updates compared to inflation in practice costs (2001–2025)

Adjusted for inflation in practice costs, Medicare physician payment **declined 33%** from 2001 to 2025.

Updated Jan. 2025

Sources: Federal Register, Medicare Trustees' Reports, Bureau of Labor Statistics, Congressional Budget Office.

