

A more detailed explanation of each figure is provided below in section G.2.

#### *G. Calculation of 2004, 2003, and 2002 Sustainable Growth Rates*

##### 1. Detail on the 2004 SGR

All of the figures used to determine the 2004 SGR are estimates that will be revised based on subsequent data. Any differences between these estimates and the actual measurement of these figures will be included in future revisions of the SGR and allowed expenditures and incorporated into subsequent physician fee schedule updates.

#### **Factor 1—Changes in Fees for Physicians' Services (Before Applying Legislative Adjustments) for CY 2004**

This factor is calculated as a weighted average of the 2004 fee increases for the different types of services included in the definition of physicians' services for the SGR. Medical and other health services paid using the physician fee schedule are estimated to account for approximately 80.3 percent of total allowed charges included in the SGR in 2004 and are updated using the MEI. The MEI for 2004 is 2.9 percent. Diagnostic laboratory tests are estimated to represent approximately 7.4 percent of Medicare allowed charges included in the SGR in 2004 and the costs of these tests are updated by the CPI-U. The CPI-U for 2004 that will be used to update clinical diagnostic laboratory tests is 2.1 percent. Drugs represent 12.3 percent of Medicare allowed charges included in the SGR. We are projecting a weighted average change in fees for drugs that are included in the SGR of 2.0 percent. Table 16 shows the weighted average of the MEI, laboratory and drug price increases for 2004:

TABLE 17

	Weight	Update
Physician .....	0.803	2.9
Laboratory .....	0.074	2.1
Drugs .....	0.123	2.0
Weighted Average .....	1.000	2.7

After taking into account the elements described in table 16, we estimate that the weighted-average increase in fees for physicians' services in 2004 under the SGR (before applying any legislative adjustments) will be 2.7 percent.

#### **Factor 2—The Percentage Change in the Average Number of Part B Enrollees from 2003 to 2004**

This factor is our estimate of the percent change in the average number of fee-for-service enrollees from 2003 to

2004. Services provided to Medicare+Choice (M+C) plan enrollees are outside the scope of the SGR and are excluded from this estimate. Our actuaries estimate that the average number of Medicare Part B fee-for-service enrollees will increase by 1.7 percent from 2003 to 2004. Table 18 illustrates how this figure was determined:

TABLE 18

	2003	2004
Overall .....	138.535	139.013
Medicare +Choice .....	14.689	14.606
Net .....	133.847	134.407
Percent Increase		21.7

<sup>1</sup> Millions.  
<sup>2</sup> Percent.

An important factor affecting fee-for-service enrollment is beneficiary enrollment in Medicare+Choice plans. Because it is difficult to estimate the size of the Medicare+Choice enrollee population before the start of a calendar year, at this time, we do not know how actual enrollment in Medicare+Choice plans will compare to current estimates. For this reason, the estimate may change substantially as actual Medicare fee-for-service enrollment for 2004 becomes known.

#### **Factor 3—Estimated Real Gross Domestic Product Per Capita Growth in 2004**

We estimate that the growth in real per capita GDP from 2003 to 2004 will be 2.8 percent. Our past experience indicates that there have also been large changes in estimates of real per capita GDP growth made before the year begins and the actual change in GDP computed after the year is complete. Thus, it is likely that this figure will change as actual information on economic performance becomes available to us in 2004.

#### **Factor 4—Percentage Change in Expenditures for Physicians' Services Resulting From Changes in Law or Regulations in CY 2004 Compared With CY 2003**

We are not projecting any change in spending in 2004 due to changes in law or regulations.

##### 2. Detail on the 2003 SGR

A more detailed discussion of our revised estimates of the four elements of the 2003 SGR follows.

#### **Factor 1—Changes in Fees for Physicians' Services (Before Applying Legislative Adjustments) for 2003**

This factor was calculated as a weighted average of the 2003 fee increases that apply for the different types of services included in the definition of physicians' services for the SGR.

We estimate that services paid using the physician fee schedule account for approximately 82.7 percent of total allowed charges included in the SGR in 2003. These services were updated using the 2003 MEI of 3.0 percent. We estimate that diagnostic laboratory tests represent approximately 7.1 percent of total allowed charges included in the SGR in 2003. These services were updated by the 2003 CPI-U of 1.1 percent. We estimate that drugs represent 10.2 percent of Medicare allowed charges included in the SGR in 2003. Pursuant to section 1842(o) of the Act, Medicare pays for drugs based on 95 percent of AWP. Using wholesale pricing information and Medicare utilization for drugs included in the SGR, we estimate weighted average fee increases for drugs of 1.9 percent in 2003. Table 19 shows the weighted average of the MEI, laboratory and drug price increases for 2003:

TABLE 19

	Weight	Update
Physician .....	0.827	3.0
Laboratory .....	0.071	1.1
Drugs .....	0.102	1.9
Weighted Average .....	1.000	2.8

After taking into account the elements described in table 19, we estimate that the weighted-average increase in fees for physicians' services in 2003 under the SGR (before applying any legislative adjustments) will be 2.8 percent.

#### **Factor 2—The Percentage Change in the Average Number of Part B Enrollees from 2002 to 2003**

Our actuaries estimate that the average number of Medicare Part B fee-for-service enrollees (excluding beneficiaries enrolled in M+C plans) increased by 2.4 percent in 2003. Table 20 illustrates how we determined this figure:

TABLE 20  
[In millions]

	2002	2003
Overall .....	38.074	38.535