

TABLE 1—Continued

Period	Annual allowed expenditures (billion)	Cumulative allowed expenditures (billion)	FY or CY SGR (percent)
1/1/03–12/31/03	72.8	455.9	CY 2003=7.6%

¹ Included in \$152.0.

² Included in \$194.1.

³ **Note:** Allowed expenditures for the first quarter of 1999 are based on the FY 1999 SGR and allowed expenditures for the last three quarters of 1999 are based on the FY 2000 SGR. Allowed expenditures in the first year (April 1, 1996, through March 31, 1997) are equal to actual expenditures during the year. All subsequent figures are equal to quarterly allowed expenditure figures increased by the applicable SGR. Cumulative allowed expenditures are equal to the sum of annual allowed expenditures. We provide more detailed quarterly allowed and actual expenditure data on our Web site under the Medicare Actuary's publications at the following address: <http://www.cms.hhs.gov/statistics/actuary/>. We expect to update the web site with the most current information, including our estimate of the physician fee schedule update for 2004 on or about March 1.

Consistent with section 1848(d)(4)(E) of the Act, Table 1 includes our final revision of allowed expenditures for 2001 and prior periods, a recalculation of allowed expenditures for 2002, and our initial estimate of allowed expenditures for 2003. We will be making further revisions to the 2002 and 2003 SGRs and allowed expenditures later this year through the normal rulemaking process. To determine the

update adjustment factor for March 1 to December 31, 2003, we are using cumulative allowed expenditures from April 1, 1996, through December 31, 2002, actual expenditures through December 31, 2002, and the SGR for 2003, as well as annual allowed and actual expenditures for 2002. We are using estimates of allowed expenditures for 2002 and 2003 that will subsequently be revised consistent with

section 1848(d)(4)(E) of the Act. Because we are continuing to receive expenditure data for 2002, we are using an estimate for this period. Any differences between current estimates and final figures will be taken into account in determining the update adjustment factor for future years.

We are using figures from Table 1 in the statutory formula illustrated below:

$$UAF = \frac{\text{Target}_{02} - \text{Actual}_{02}}{\text{Actual}_{02}} \times .75 + \frac{\text{Target}_{4/96-12/02} - \text{Actual}_{4/96-12/02}}{\text{Actual}_{02} \times \text{SGR}_{03}} \times .33$$

UAF = Update Adjustment Factor
 Target₀₂ = Allowed Expenditures for 2002 or \$67.6 billion
 Actual₀₂ = Estimated Actual Expenditures for 2002 = \$69.1 billion

Target_{4/96–12/02} = Allowed Expenditures from 4/1/1996–12/31/2002 = \$383.1 billion

Actual_{4/96–12/02} = Estimated Actual Expenditures from 4/1/1996–12/31/2002 = \$381.9 billion
 SGR₀₃ = 7.6 percent (1.076)

$$\frac{\$67.6 - \$69.1}{\$69.1} \times .75 + \frac{\$383.1 - \$381.9}{\$69.1 \times 1.076} \times .33 = -0.011$$

Section 1848(d)(4)(A)(ii) of the Act indicates that 1 should be added to the update adjustment factor determined under section 1848(d)(4)(B) of the Act. Thus, adding 1 to –0.011 makes the update adjustment factor equal to 0.989.

III. Medicare Sustainable Growth Rate

As discussed above, the SGR is an annual growth rate that applies to physicians' services paid for by Medicare. The use of the SGR is intended to control growth in aggregate Medicare expenditures for physicians' services. Payments for services are not withheld if the percentage increase in actual expenditures exceeds the SGR. Rather, the physician fee schedule update, as specified in section 1848(d)(4) of the Act, is adjusted based

on a comparison of allowed expenditures (determined using the SGR) and actual expenditures. If actual expenditures exceed allowed expenditures, the update is reduced. If actual expenditures are less than allowed expenditures, the update is increased.

Section 1848(f)(2) of the Act specifies that the SGR is equal to the product of the following four factors:

- (1) The estimated change in fees for physicians' services.
- (2) The estimated change in the average number of Medicare fee-for-service beneficiaries.
- (3) The estimated projected growth in real GDP per capita.

(4) The estimated change in expenditures due to changes in law or regulations.

In this final rule, we are making prospective redeterminations of the SGRs for FY 1998 and FY 1999 for the purposes of determining future physician fee schedule updates, including the update for 2003. We are also making a minor revision to the SGR for 2002.

A. Revised Sustainable Growth Rate for FY 1998

The revised FY 1998 SGR is 3.2 percent. Table 2 shows the estimated figures that we used to determine the FY 1998 SGR from the October 31, 1997, **Federal Register** (62 FR 59263), and the revised final figures.