Will the SGR Finally be Retired?

Medicare spending continues to be a significant contributor to soaring healthcare expenditures. The Sustainable Growth Rate (SGR) formula, enacted as part of the Balanced Budget Act of 1997, was designed to control aggregate growth in Medicare spending by: (1) setting annual spending targets based on inflation; (2) Medicare enrollment; (3) national gross domestic product; and, (4) regulatory developments. The SGR bases annual adjustments to the Medicare Physician Fee Schedule (MPFS) on the relationship between actual spending and targeted spending: if actual spending does not exceed targets, the physician fee schedule update would result in increased physician reimbursements for Medicare services; but, if actual spending exceeds the targets, the physician fee schedule update would result in a reduction in Medicare reimbursements. Spending has exceeded targets every year since 2002, yet each year Congress has overridden the spending cuts called for by application of the SGR formula, leading to constant debate between policy holders over the correct action.

As healthcare spending continued to increase in the 21st century, the formula became problematic for healthcare providers and policymakers alike, with many seeking “fixes” to the flawed formula. In the past decade alone, Congress has spent almost $150 billion in overriding annual cuts to physician reimbursement based on the SGR formula; however, due to recent Congressional action, the FY 2014 SGR reimbursement cut of 24.4% has been postponed until March 31, 2014, allowing Congress sufficient time to deliberate on a permanent solution to the SGR. While some alternatives and solutions have been proposed in recent years, it appears that the legislation voted out of the Senate Finance Committee and the House Ways and Means Committee on December 12, 2013 may be seriously considered to permanently repeal the SGR.

The House bill, entitled, “Medicare Patient Access and Quality Improvement Act of 2013,” offers a 0.5 percent update from 2014 to 2016, and a zero percent update from 2017 to 2023. In contrast, the Senate bill, entitled, “SGR Repeal and Medicare Beneficiary Access Improvement Act of 2013,” maintains the 2013 physician payment rates through 2023. The Senate bill is touted as achieving four main goals:

1. “it repeals the SGR and ties payments to quality and efficiency”;
2. “it improves the current fee-for-service system by streamlining Medicare’s existing web of quality programs into one value-based performance program”;
3. “the mark incentivizes movement to alternative payment models”; and,
4. “the mark makes Medicare data more transparent.”

The recent proposals for SGR repeal, which fall in line with the underlying efforts of healthcare reform - “to move away from the current volume-based payment system to one that rewards quality, efficiency, and innovation” - suggest the creation of alternative payment models, including performance- or value-based purchasing (VBP) schemes. The new schematic is organized similarly to the impending healthcare VBP program; by 2019, physicians and other licensed independent providers (LIP) will achieve payment adjustments from a composite score based on: (1) performance of quality indicators (30%); (2) resource use (30%); (3) clinical practice improvement activities (15%); and, (4) electronic health record meaningful use (25%) from the prior year. Previously, physicians, wary of reimbursement cuts and the unreliability of the “doc fix,” have resorted to refusing Medicare patients and closing private practices. However, under the current healthcare reform, these providers will be needed to provide access to care for the thousands of Americans participating in the new health exchanges and insurance programs promoted under reform legislation. In addition, some commentators posit that the “issue fatigue” stimulated by more than a decade of “doc fixes” based on the SGR formula, in addition to the implementation of healthcare reform despite the recent partial government shutdown, has created an atmosphere ripe for consideration of the legislation. Toward that end, statements released by the American College of Physicians and the American Medical Association unilaterally applauded the committees’ efforts. With three months before the next scheduled reimbursement cut, the proposed legislation to repeal the SGR and provide an alternative means of physician Medicare payment will have a significant impact on providers under impending healthcare reform.
“Estimated Sustainable Growth Rate and Conversion Factor, for Medicare Payments to Physicians in 2010” Centers for Medicare and Medicaid Services, November 2009, p. 1


Ibid, p. 4

“Discussion Draft: SGR Repeal and Medicare Physician Payment Reform”, by the House Ways & Means and Senate Finance Committee, October 30, 2013, p. 1


“Section by Section Summary of The SGR Repeal and Medicare Beneficiary Access Improvement Act of 2013”, Senate Committee on Finance, December 12, 2013, p. 1


“Ibid, by the House Ways & Means and Senate Finance Committee, October 30, 2013, p. 1

“Ibid, pp. 2-5

“Internists Applaud Advancement of Legislation To Repeal and Replace Sustainable Growth Rate”, by Charles Cutler, American College of Physicians, December 12, 2013, http://www.acponline.org/pressroom/acp_reacts_sgr_efforts.htm (Accessed 12/16/13)

Robert James Cimasi, MHA, ASA, FRICS, MCBA, AVA, CM&AA, serves as Chief Executive Officer of Health Capital Consultants (HCC), a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: "Accountable Care Organizations: Value Metrics and Capital Formation" [2013 - Taylor & Francis, a division of CRC Press], “The Adviser’s Guide to Healthcare” – Vols. I, II & III [2010 – AICPA], and “The U.S. Healthcare Certificate of Need Sourcebook” [2005 - Beard Books]. His most recent book, entitled "Healthcare Valuation: The Financial Appraisal of Enterprises, Assets, and Services" will be published by John Wiley & Sons in the Fall of 2013.

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious “Shannon Pratt Award in Business Valuation” conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows. In 2011, he was named a Fellow of the Royal Institution of Chartered Surveyors (RICS).

Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the President of Health Capital Consultants (HCC), where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives, and serves as President of the St. Louis Chapter of the American Society of Appraisers (ASA). He has co-authored “Research and Financial Benchmarking in the Healthcare Industry” (STP Financial Management) and “Healthcare Industry Research and its Application in Financial Consulting” (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser’s Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.

Anne P. Sharamitaro, Esq., is the Executive Vice President & General Counsel of Health Capital Consultants (HCC), where she focuses on the areas of Certificate of Need (CON); regulatory compliance, managed care, and antitrust consulting. Ms. Sharamitaro is a member of the Missouri Bar and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as an editor for the Journal of Health Law, published by the American Health Lawyers Association. Ms. Sharamitaro has presented healthcare industry related research papers before Physician Hospitals of America and the National Association of Certified Valuation Analysts and co-authored chapters in “Healthcare Organizations: Financial Management Strategies,” published in 2008.