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The Sustainable Growth Rate Saga Continues

With an aging U.S. population and estimates projecting an increase in Medicare spending from $519 billion in 2010 to nearly $930 billion by 2020, the Medicare program faces significant financial challenges in the coming years.[1] Enacted in 1997, the Sustainable Growth Rate (SGR) is designed to control aggregate growth in Medicare expenditures by setting annual spending targets based on inflation, Medicare enrollment, national gross domestic product (GDP), and regulatory developments.[2] The SGR formula calls for adjustments to the Medicare Physician Fee Schedule (MPFS) according to whether actual spending meets or exceeds the set target.[3] Since 2002, actual expenditures have exceeded target expenditures, and the formula has called for cuts in reimbursements each year. To date, Congress has intervened each year to temporarily postpone threatened cuts to the MPFS.[4] This process is unsustainable and in 2012, the SGR formula calls for a 30 percent cut to physician reimbursement.[5]

In an attempt to encourage Congress to permanently repeal the SGR instead of passing unfunded temporary fixes, on September 15, 2011 the Medicare Payment Advisory Commission (MedPAC) proposed a repeal plan financed by provider reimbursement cuts and increases in beneficiary costs. MedPAC argues that eliminating the SGR will cost nearly $300 billion, which in light of the current federal deficit, would require significant offsets that should be shared by "*physicians, other health care professionals, providers in other sectors, and beneficiaries.*"[6] MedPAC's controversial SGR fix proposes to freeze payments to primary care physicians for ten years and reduce payments to specialist by 17 percent over the first three years before freezing payments for the remaining seven years.[7]

In response to the MedPAC proposal, the American Medical Association (AMA), joined with 42 other professional associations and societies, sent a highly critical letter to MedPAC, which stated that the September 15th proposal "*retains many of the SGR's flaws, undermines physicians' ability to participate in payment and delivery reforms, and calls for payment rates that the Commission itself has previously said could reduce Medicare beneficiaries' access to medical care.*"[8] The letter argues that the proposed cuts threaten physician incomes and ultimately the capacity to retain staff and provide services to Medicare beneficiaries. The physician associations go on to say that due to the rising shortage of physicians, confounded by the aging baby boomer population, the proposed changes to the SGR will likely intensify existing threats to the healthcare delivery system. Moreover, the organizations argue, the proposed ten year freeze in physician updates could stifle physicians' existing limited interest in new payment models, such as ACOs and other shared savings programs.[9]

Earlier this year, the AMA recommended a "*three pronged approach*" to the SGR repeal, incorporating positive payment updates based on the Medicare Economic Index (MEI) for a five year period, and "*transition to multiple payment models designed to enhance the coordination, quality and appropriateness of care while addressing cost concerns.*"[10] These physician payment models include: partial capitation; virtual partial capitation; condition-specific capitation; accountable medical home; inpatient care warranties; mentoring programs; and, private contracting.[11] Physician associations have also reprimanded Congress for continually ignoring the SGR problem.

Virginia L. Hood, President of the American College of Physicians (ACP), states: "*Each time that Congress postpones enactment of a permanent solution, the budget costs of a permanent solution to the SGR increases.*"[12] Temporary fixes may only increase the costs associated with repealing the SGR system; estimates predict that in as little as five years, eliminating the SGR could cost $600 billion.[13] The AMA response letter concluded with the following statement: "*In view of the very significant payment constraints that physicians have already absorbed over the past decade…we respectfully disagree with the* [MedPAC] *suggestion that SGR repeal should be funded in large part by cuts in payments to physicians.*"[14] Despite concern from physician advocates, on October 6, 2011, MedPAC voted 15 to 2 to officially endorse the repeal plan.[15]

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2 "Estimated Sustainable Growth Rate and Conversion Factor, for Medicare Payments to Physicians in 2010" Centers for Medicare & Medicaid Services, November 2009, p. 1.
3 "Medicare's Physician Payment Rates and the Sustainable

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Growth Rate" Statement of Donald B. Marron before the Subcommittee on Health, Committee on Energy and Commerce, and U.S. House of Representatives, Congressional Budget Office, July 25, 2006, p. 9-10

4 "Medicare's Physician Payment Rates and the Sustainable Growth Rate" Statement of Donald B. Marron before the Subcommittee on Health, Committee on Energy and Commerce, and U.S. House of Representatives, Congressional Budget Office, July 25, 2006, p. 3-4

5 "Letter to the MedPAC from AMA et al., Regarding SGR" American Medical Association, et al., To Glenn M. Hackbarth, Chari or Medicare Payment Advisory Commission, October 3, 2011, http://www.ama-assn.org/resources/doc/washington/ sgr-repeal-specialty-sign-on-letter.pdf, (Accessed 10/05/2011).

6 "Moving forward from the Sustainable Growth Rate System" By Cristina Boccuti, Kevin Hayes, Kaye Bloniarz, Medicare Payment Advisory Commission, September 15, 2011, http://interactive.snm.org/docs/MedPAC%20SGR%20sept%202011%20handout.pdf , (Accessed 10/05/2011).

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10 "AMA Unveils SRG Replacement Plans" By Charles Fiegl, American Medical News, Vol. 54, No. 10, May 23, 2011, p. 1,2, http://www.ama-assn.org/amednews/2011/05/16/ gvl10516.htm (Accessed 9/27/2011).

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12 "ACP: Repeal SGR now before costs increase more" By Brenda L. Mooney, Medical Economics, September 21, 2011, http://medicaleconomics.modernmedicine.com/memag/article/articleDetail.jsp?id=740690&sk=6b51de0c14ab0b352724f906ac323b26 (Accessed 9/27/2011).

13 "AMA Calls on Congressional Deficit Committee to Repeal SGR" American Medical Association, September 22, 2011, http://www.ama-assn.org/ama/pub/news/news/ama-calls-on-congressional-deficit-committee-to-repeal-sgr.page (Accessed 9/27/2011).

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