

Proposal to Repeal the Flawed SGR System

The Sustainable Growth Rate (SGR), created by the Balanced Budget Act of 1997, was designed to control healthcare spending in the aggregate, but is viewed by many healthcare policy makers and economists as fundamentally flawed because it uses payment rate reductions as a means to control increases in spending on physician services without addressing the potential growth in costs associated with increasing the volume or complexity of providing those services.¹ Beginning in 2002, the growth in physician costs under the SGR formula resulted in significant cuts in physician payment rates.² Since 2003, Congress has passed legislation on a nearly annual basis to prevent SGR cuts from taking effect, but has never acted to amend the formula underlying the SGR or the spending targets against which the formula is applied.³ Most recently, on January 1, 2013, Congress passed the American Taxpayer Relief Act, suspending a 26.5% cut to Medicare physician payment rates until January 2014.⁴

In an effort to replace a flawed reimbursement system and control rising healthcare costs, the *Committees on Energy and Commerce and Ways and Means* recently revised a proposal to repeal the SGR and replace it with a system that would utilize predetermined and stable reimbursement rates for a period of time while sustainable alternative payment models (APMs) are developed.⁵ Of note, is that the Congressional Budget Office, in its most recent budget projections, estimated that if current physician payment rates were held static for the next decade, the net premium paid by Medicare beneficiaries would rise by 2% (\$138 billion) between 2014 and 2023.⁶

The original proposal framework to repeal and reform the SGR was released on February 7, 2013 with the goal of determining a reimbursement system based on *value-based* instead of *volume-based* metrics supporting physician-endorsed measures for improvements in quality, efficiency and patient outcomes, while not resulting in an increase in the deficit.⁷ The original reform proposal included three phases of implementation: (1) providing stable “*statutorily-defined payment rates*” for a period of time while providers assist in defining metrics for a reformed payment system; (2) devising a reformed fee-for-service (FFS) payment system that accounts for risk-adjusted; physician-endorsed; and, evidence-based clinical performance and quality improvement measures while developing additional alternative reimbursement models

for physicians who opt out of the reformed FFS payment system; and, (3) implementing an incentive model to earn additional payments for providers who demonstrate high achievements in quality and efficiency of care.⁸

After soliciting feedback from healthcare industry stakeholders and providers, a second iteration of the repeal and reform proposal was released on April 3, 2013. In this revised proposal, although the fixed payment rates for Phase I were not yet announced, it defined guidelines by which providers may submit requests for specific quality measures and improvement activities for review and inclusion in the future payment system. Of note, once implemented, the chosen metrics will undergo annual review and revision by a panel of experts.⁹ Additionally, adjustments to the Phase III proposal further specified how efficiency of care will be assessed when determining incentive payments, specifically, that both *episode-based* and *per capita* measurements will be utilized.¹⁰ All metrics will be risk-adjusted for patient severity of illness and differences based on the geographic region in which care is administered.¹¹ In addition, physicians will be afforded the opportunity to review performance results prior to payment, and submit an appeal to contest payment determination.¹²

In the second iteration of this proposal, the authors requested further feedback from stakeholders regarding appropriate outcome measures and methodology for performance evaluation and care efficiency to be included in Phases II and III of the proposed reform, respectively. They also requested input on guidelines and incentives for provider participation in alternative payment models and other improvements to the current law to support meaningful and sustainable changes to the reimbursement and practice environments.¹³ Although the basic framework of the reformed FFS system has been outlined, there remains a great deal of ambiguity in several areas of the proposed replacement payment rate mechanisms to be determined before the next round of payment cuts, scheduled for 2014, e.g., developing the metrics to be utilized for payment determination, as well as the method of collection and aggregation of data for this purpose.

¹ “The Sustainable Growth Rate Formula and Health Reform” By Paul N. Van de Water, Center on Budget and Policy Priorities, April 21, 2010, <http://www.cbpp.org/cms/index.cfm?fa=view&id=3166>

(Accessed 5/23/2012); “Medicare Physician Payment Growth Updates and the Sustainable Growth Rate (SGR) System” By Jim Hahn, To Members and Committees of Congress, Washington, DC: Congressional Research Service, April 9, 2010, p. 5.

² *Ibid*, Jim Hahn, April 9, 2010, p. 5.

³ *Ibid*

⁴ Section 601 of the American Taxpayer Relief Act of 2012, HR 8 EAS (January 1, 2013), STAT 84; “Medicare Doctor Pay Freeze Until 2014—26.5% Cut Averted”, by Charles Fiegl, [amednews.com](http://www.amednews.com), January 2, 2013, <http://www.amednews.com/article/20130102/government/121239973/1/> (Accessed 6/15/13)

⁵ “Second Draft of Sustainable Growth Rate (SGR) Repeal and Reform Proposal—Request for Feedback,” by Upton, et al., Energy and Commerce and Ways and Means Committees, April 3, 2013, p.1

⁶ “The Budget and Economic Outlook: Fiscal Years 2013 to 2023”, by Congressional Budget Office, February 2013, p. 31

⁷ “Overview of SGR Repeal and Reform Proposal”, by Upton et al., Energy and Commerce and Ways and Means Committees, February 7, 2013, p. 1

⁸ *Ibid*, Upton, et al., February 7, 2013, p. 2

⁹ *Ibid*, Upton, et al., April 3, 2013, p. 3

¹⁰ *Ibid*, Upton, et al., April 3, 2013, p. 4

¹¹ *Ibid*, Upton, et al., April 3, 2013, p. 2, 4

¹² *Ibid*, Upton, et al., April 3, 2013, p. 2

¹³ *Ibid*, Upton, et al., April 3, 2013, p. 3-5



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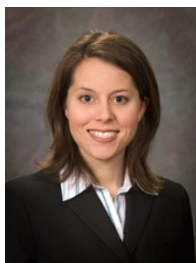
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