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Anne Sharamitaro, Esq., Executive Vice President & General Counsel ©

# 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


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(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, 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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**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.