



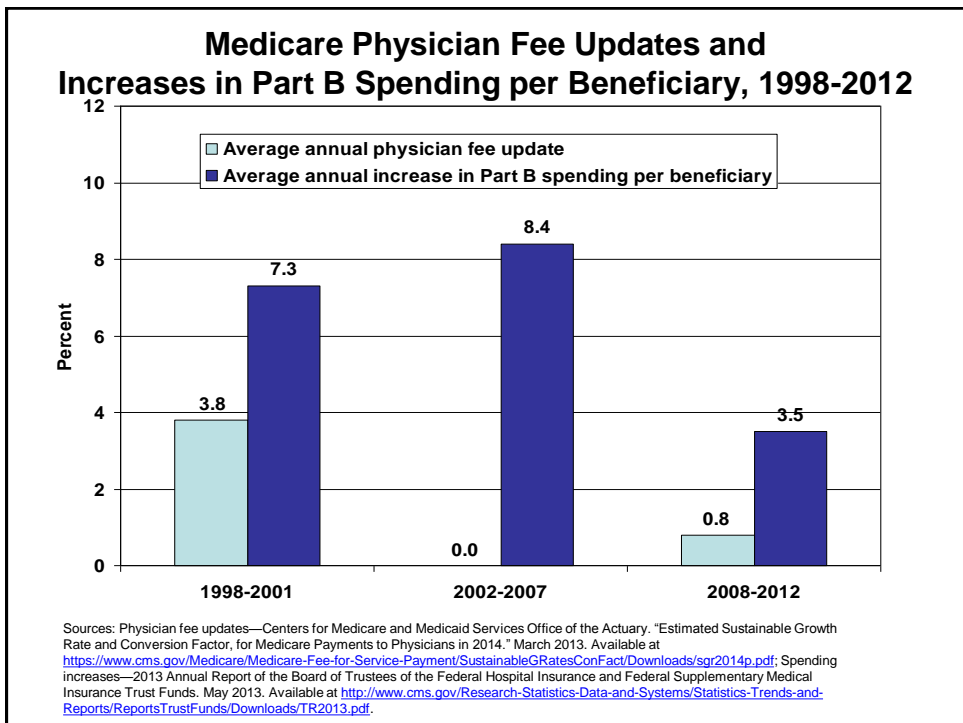
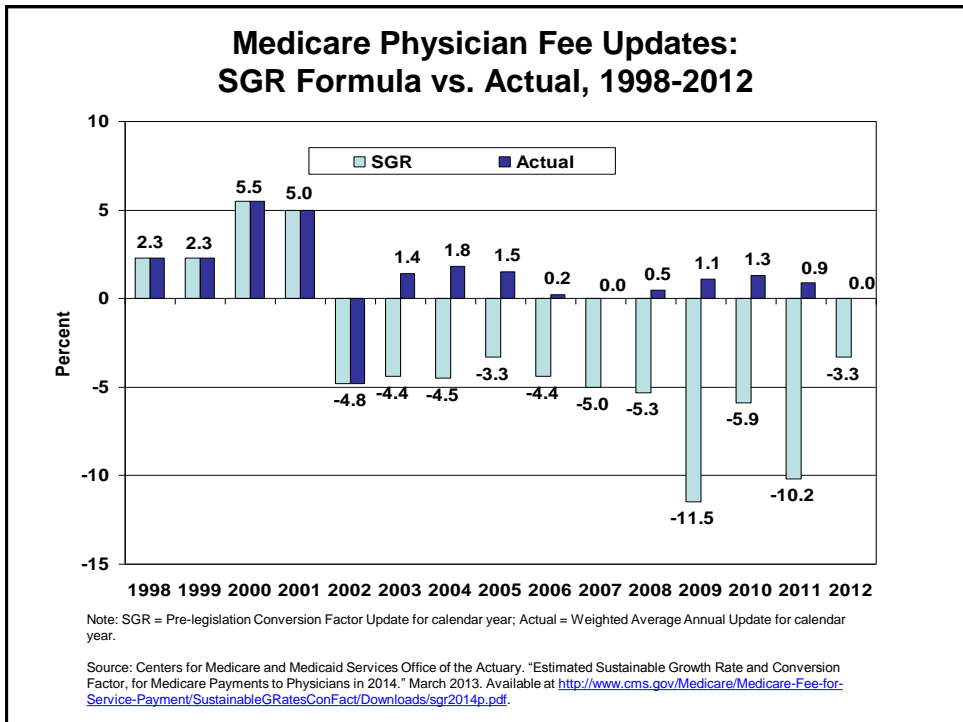
## **The SGR: Why and How Should It be Replaced?**

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**SGR Briefing  
January 24, 2014**

### **The SGR Quandary**

- **The SGR is intended to control Medicare spending**
  - **Total payments to physicians based on volume and intensity of individual services**
  - **Volume and intensity determined directly by physician decisions**
  - **SGR formula reduces fees for all services if total physician spending exceeds target**
- **But...**
  - **As spending continues to exceed target, SGR formula produces large cuts in physician fees that may threaten Medicare beneficiaries' access to care**
  - **Large cuts produced by SGR formula make it 'costly' to repeal, so Congress has deferred cuts**



## **The Failure of the SGR**

- **It reduces payment rates across-the-board, regardless of appropriateness.**
- **It maintains incentives for physicians to increase service volume and intensity.**
- **It does not address the undervaluation of primary care services in the physician fee schedule.**
- **It has not succeeded in controlling spending growth.**
- **It has led to increasing gaps between Medicare and private payment rates.**
- **It has undermined Medicare's credibility with physicians.**
- **It does not provide incentives to improve quality, appropriateness, and coordination of care.**

## **Recent Developments**

- **The ten-year 'cost' of repealing the SGR (and replacing it with a freeze on physician fees) has decreased from an estimated \$271 billion as of June 2012 to \$116.5 billion as of December 2013**
- **In July 2013, the House Energy and Commerce Committee passed a bill to replace the SGR with "a fair and stable system of payments":**
  - **2014-18: Annual update set at 0.5%.**
  - **Beginning in 2019:**
    - **Annual update set at 0.5%, adjusted (up or down) based on each provider's performance on quality measures and clinical practice improvement activities; or**
    - **Providers could choose to participate in and be paid under alternative payment models.**

## **Recent Developments (cont.)**

- **In October 2013, the leadership of the Senate Finance and House Ways and Means Committees released a discussion draft describing an approach to repeal the SGR:**
  - Annual update set at 0%.
  - Bonus payments for high performing providers.
  - Incentives for care coordination for patients with multiple chronic conditions.
  - Incentives to move to alternative payment models.
- **In December 2013, both Committees passed bills along the lines proposed by their leadership.**