ALLIANCE FOR HEALTH REFORM

The Sustainable Growth Rate: Seeking a 'Doc Fix'

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Key Facts

- The Sustainable Growth Rate (SGR) is a complex formula that is used to set annual expenditure targets for Medicare and to adjust physician payment in order to keep Medicare spending from exceeding the rate of GDP growth.
- Since 2002, Congress has intervened to delay scheduled physician reimbursement cuts, in a process referred to as the 'doc fix.'
- The cost of permanently repealing SGR is currently $138 billion over ten years,[i] which is the lowest it has been since 2006.[ii]
- The most recent intervention was part of the "fiscal cliff" deal on January 1, 2013 (American Taxpayer Relief Act of 2012).[iii]
- The most recent one-year doc fix in the American Taxpayer Relief Act of 2012 will cost $25.2 billion over 10 years, according to the Congressional Budget Office (CBO). [iv]
- Without future intervention, physicians will receive a 25 percent cut in reimbursement rates for their Medicare patients in January 2014.[v]
- The SGR has its roots in the Balanced Budget Act of 1997. In an effort to curtail Medicare physician spending, Congress enacted the SGR formula as a replacement for the Medicare Volume Performance Standard (MVPS).[vi]

The public is keeping a close eye on federal budget deficit reduction efforts this year, including potential automatic spending cuts initially mandated by the Budget Control Act of 2011. Yet one component of the debate has been largely ignored - the Sustainable Growth Rate (SGR). Indeed, because of the SGR, physicians in January 2013 faced a 26.5 percent cut in Medicare reimbursement rates. Last-minute congressional intervention delayed the cut until January 2014 as part of the American Taxpayer Relief Act of 2012. Without intervention, physicians will receive a 25 percent reimbursement cut in January 2014. At the same time, according to the most recent Congressional Budget Office (CBO) estimates, if Congress and the president agree to permanently eliminate the SGR, the deficit will grow by another $138 billion over 10 years.[vii] The cost of repealing the SGR has fallen significantly since last year, spiking a new interest in permanently fixing the problem.

The SGR itself is a complex formula that incorporates such factors as inflation, projected per-capita GDP growth, the projected rise in Medicare Part B beneficiaries and the cost of any changes in law. The Centers for Medicare and Medicaid Services (CMS) uses all of these variables to create a spending target for physician expenditures in a given year.[viii] Actual spending is then compared to targets, and payment rates for physicians' services are adjusted

accordingly. When spending does not reach specified targets, physician payment in the following year increases to a level limited to inflation plus three percent.[ix] Conversely, when spending exceeds targets, payment rates for physicians are limited to inflation minus seven percent.[x] In effect, the SGR formula prevents Medicare physician spending from rising at a rate faster than GDP growth.

Initially, in the years 1998 to 2000, cumulative Medicare spending remained below CMS targets and physician payments were steady. However, in 2001, Medicare spending exceeded targets for the first time, and so payment rates decreased by 4.8 percent[xi] the following year. Doctors did not react favorably to these first rate cuts and the prospects for further, deeper cuts in the following years were high. CMS and the Congressional Budget Office (CBO) continued to project that Medicare spending would exceed targets, and that large physician payment reductions would be required.

Congress has overridden the SGR reductions in every year since 2002, and in 2010 it did so five times.[xii] But the cost of each short-term deferral is added to the eventual cost of repeal, and this actually increases the price of fixing the problem in the long term. In February 2012, President Obama and Congress delayed the rate cut until January 1, 2013 by attaching it to the Middle Class Tax Relief and Job Creation Act of 2012. And on January 1, 2013, as part of the American Taxpayer Relief Act of 2012, Congress voted to delay the doc fix for another year. The $25 billion cost of the most recent one-year doc fix will be offset by a variety of Medicare and Medicaid cuts to hospitals and a reduction in payments to Medicare Advantage plans.[xiii]

There are several widely recognized problems associated with the SGR formula. For one, the formula is based on spending that occurred between April 1, 1996 and March 31, 1997. It therefore does not reflect the influx of baby boomers who began joining Medicare in 2011. Physicians also note that the SGR is applied uniformly across all specialties and geographic locations. This means that physicians who reduce their Medicare expenditures are not necessarily rewarded.

In the past few years, medical associations have proposed permanently eliminating the SGR while also providing guidelines (but no concrete legislation) for replacement measures. The proposals generally lean toward setting several different expenditure targets that are more specific to certain types of practices, and rewarding quality care, care coordination and medical innovation. In the aftermath of the most recent fiscal cliff negotiations, congressional proposals have surfaced as well.

Whatever path Congress chooses to pursue, the urgency to find a permanent ‘doc fix’ is gaining more attention. Enthusiasm for a long-term ‘doc fix’ has been spurred by recent decreased cost estimates for eliminating the SGR. According to CBO’s February 2013 calculations, repeal of SGR would cost $138 billion over ten years. In comparison, the CBO estimates from January 2012 put the cost of repeal at $316 billion[xiv], and the cost in August 2012 at $245 billion.[xv] On February 14, 2013, the House Energy and Commerce Committee held a hearing at which several Medicare experts argued that the time is right to permanently replace the SGR formula because the cost of doing so has dropped substantially. Glenn Hackbarth, chairman of the Medicare Payment Advisory Committee (MedPAC), put it succinctly: The cost of repeal is “on sale.”

RESOURCES

Current Proposals

Second Draft of Sustainable Growth Rate Repeal and Reform Proposal
House Ways and Means and Energy and Commerce Committee Republican Staffs; April 3, 2013
http://energycommerce.house.gov/sites/republicans.energycommerce.house.gov/files/analysis/20130403SGR.pdf
In this letter to the provider community, House Republicans present a second iteration of their repeal and reform of the SGR formula. The first iteration received feedback from the provider community that informed the House Republicans in constructing a revised and more detailed proposal. The committees propose repealing the SGR, establishing a period of consistent payment rates to allow physicians to prepare for future payment reform, and rewarding quality care, and improving the provider practice environment. The authors note that the latest draft responds to stakeholder requests for a stable payment period to allow time for alternate payment models "to evolve that are sustainable in the long-term."

Medicare Physician Payment Innovation Act of 2013
Reps. Allyson Y. Schwartz, D-Pa., and Joe Heck, R-Nev; February 2013.
http://www.modernhealthcare.com/assets/pdf/CH8544126.PDF
The most recent proposal to come from Reps. Allyson Schwartz, D-Pa., and Joe Heck, R-Nev. "The Medicare Physician Payment Innovation Act of 2013 fully repeals the SGR, stabilizes current payment rates to ensure beneficiary access in the near-term, eliminates scheduled SGR cuts, creates positive incentives for undervalued primary, preventive and coordinated care services, and sets out a clear path toward comprehensive payment reform." This succeeds a 2012 proposal that called for the repeal of SGR with the price offset by unused military funds from spending in Iraq and Afghanistan.

Sen. Paul Introduces Access to Physicians in Medicare Act
Sen. Rand Paul, R-Ky.; June 25, 2012
http://paul.senate.gov/?p=press_release&id=558
In this press release, Sen. Paul announces his bill. The Access to Physicians in Medicare Act aims to repeal the current reimbursement formula known as the Sustainable Growth Rate (SGR) and replace it with the same formula used to calculate cost-of-living increases for Social Security benefits with a cap set at 3 percent so that physicians will be able to practice medicine without the threat of massive pay cuts each year. This legislation is paid for by repealing the expansion of Medicaid and subsidy payments under Obamacare with any remaining savings going toward deficit reduction."

One-Year Medicare Pay Freeze Proposed in House
American Medical News, Charles Fiegl; August 2, 2012
http://www.ama-assn.org/amednews/2012/07/30/gvsd0802.htm
This article provides a brief summary of legislation that Rep. Michael Burgess, R-Texas, proposed in July 2012. Rep. Burgess' bill, the Assuring Medicare Stability and Access for Seniors Act of 2012, would delay an SGR fix until January 2014. Rep. Burgess argued that it would give Congress more time to determine the best course of action without relying on the lame-duck session.

How Did We Get Here?

The Sustainable Growth Rate Formula for Setting Medicare's Physician Payment Rates
Congressional Budget Office; September 6, 2006
http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/75xx/doc7542/09-07-sgr-brief.pdf
This is an issue brief published by the CBO outlining how the SGR formula is used to calculate annual targets for Medicare expenditures. The formula is relatively complicated, but it uses the time between April 1, 1996 and March 31, 1997 as the baseline year to create future expenditure targets.

Understanding the SGR – Analyzing the "Doc Fix"
Deloitte Center for Health Solutions
http://www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_dchs_Sustainable%20Growth%20Rate%20_102912.pdf
This resource provides background information on the SGR. The report includes the history of the program, a simplified explanation of how the targets are calculated, proposed methods to rectify the situation, and an opinion by the author: "Congress must address the issue from a long-term perspective, embedding the discussion in the broader context of the sustainability of a physician workforce that's well-trained, accessible, and affordable. The issue is not just the SGR. The broader issue is the future of the medical profession. The discussion should start with that as its central premise and include all stakeholders, not just the profession itself."

Medicare Physician Payment Updates and the Sustainable Growth Rate (SGR) System
Congressional Research Service, Jim Hahn and Janemarie Mulvie; August 2, 2012
http://usbudgetalert.com/CRS_SGR_Aug%202012.pdf
This background piece is written by two health care economists. It includes a helpful summary of the issue as well as succinct details and analysis of congressional intervention to override the SGR reductions.

The Sources of the SGR "Hole"
The New England Journal of Medicine, Ali Alhassani, Amitabh Chandra, and Michael E. Chernew; January 26, 2012
http://www.nejm.org/doi/full/10.1056/NEJMp1113059
The authors point out what they view to be a significant flaw in the structure of the SGR. That is, health care providers face the same across-the-board reimbursement cuts, regardless of specialty or state. The authors propose a post-SGR payment system that includes an organizational structure through which physician payments are bundled by "episode of care" in order to induce more accountability.

FAQ: The 'Doc Fix' Dilemma
Kaiser Health News, Mary Agnes Carey*;* February 27, 2013
http://www.kaiserhealthnews.org/stories/2011/december/15/faq-doc-fix.aspx
This brief overview of the SGR and its history was written after the most recent intervention in Congress.

Past Proposals

Health Policy Brief: Medicare Payments to Physicians
Health Affairs, Mark Merlis; February 28, 2012
http://healthaffairs.org/healthpolicybriefs/brief_pdfs/healthpolicybrief_85.pdf
This is an overview of the development of the Medicare SGR issues and potential solutions. The author provides short explanations of some proposals from the Medicare Payment Advisory Commission (MedPAC), congressional efforts, the National Commission on Fiscal Responsibility and Reform (Bowles-Simpson Commission) and the Obama administration.

Medicare's Payments to Physicians: The Budgetary Impact of Alternative Policies
Congressional Budget Office; June 16, 2011
http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/122xx/doc12240/sgr_menu_2011.pdf
The CBO makes financial projections about the future of Medicare spending based on alternative policies to the SGR in this document. It includes a helpful appendix that outlines some strategies that Congress has already explored to delay fixing the SGR.

Moving Forward from the SGR System
Medicare Payment Advisory Commission – (MedPAC); October 14, 2011
http://www.medpac.gov/documents/10142011_medpac_sgr_letter.pdf
In this letter to the Senate Finance Committee and the House Ways and Means Committee, the Medicare Payment Advisory Commission (MedPAC) advised Congress to repeal the SGR system. Recognizing the high budgetary cost of repealing the SGR, MedPAC recommended cuts from other parts of Medicare and a transition away from the fee-for-service model through which about three-quarters of Medicare beneficiaries receive coverage.

Physician Perspectives

Statement of the American Medical Association before the House Energy and Commerce Subcommittee on Health: The Need to Move Beyond the SGR
American Medical Association (Presented by Cecil B. Wilson, MD)
May 5, 2011
http://www.ama-assn.org/resources/doc/washington/the-need-to-move-beyond-sgr-testimony.pdf
In this testimony, the American Medical Association (AMA) expresses its opinion on the SGR. The AMA proposes to repeal the SGR, institute five years of payments that keep pace with medical practice costs and transition to new payment models that move toward "care coordination, quality, appropriateness and costs." The statement includes reasons why the SGR is flawed and suggestions for replacement models.

Letter to The Honorable Max Baucus and The Honorable Orrin Hatch
American Medical Association; October 15, 2012
http://www.ama-assn.org/resources/doc/washington/sgr-transition-principles-sign-on-letter.pdf
In a letter written to members of the Senate Finance Committee, the AMA and over 100 other medical associations from around the country propose the elimination of the SGR formula and offer their own solutions focusing on quality and payment reform.

Letter to The Honorable Allyson Schwartz and The Honorable Joe Heck
American Osteopathic Association; May 8, 2012
http://www.osteopathic.org/inside-aoa/news-and-publications/blogs/daily-report-blog/Documents/SGA-Suport-Letter.pdf
In a letter written to Reps. Allyson Schwartz and Joe Heck, the American Osteopathic Association supports their Medicare Physician Payment Innovation Act of 2012.

SGR Fix: One Size Won't Fit All
American College of Emergency Physicians, Mary Ellen Schneider; September 30, 2012
http://www.acepnews.com/index.php?id=514&tx_ttnews%5Btt_news%5D=1685&cHash=e737e1d2269ee27c4b8fab81bac8b896
This document provides the point of view of members of different medical associations.

Other Documents

SGR: Data, Measures and Models; Building a Future Medicare Physician Payment System
House Energy and Commerce Committee; February 14, 2013
https://energycommerce.house.gov/hearing/sgr-data-measures-and-models-building-future-medicare-physician-payment-system
At this House Energy and Commerce Committee hearing, experts Glenn Hackbarth of the Medicare Payment Advisory Commission (MedPAC), Harold Miller of the Center for Health Care Quality and Payment Reform, Elizabeth Mitchell of the Maine Health Management Coalition, Robert Berenson of the Urban Institute, and Cheryl Damberg of the Pardee RAND Graduate School testified on the need to reform Medicare physician payment and their recommendations on how to do so. This link includes a video of the hearing as well as written testimonies of each respective speaker.

Report of the National Commission on Physician Payment Reform
National Commission on Physician Payment Reform; March 2013
http://physicianpaymentcommission.org/wp-content/uploads/2013/03/physician_payment_report.pdf
This report is the culmination of a year of research by the 14-member National Commission on Physician Payment Reform, established by the Society of General Internal Medicine. The report includes recommendations to improve the payment system for physicians. Among its other recommendations, the commission calls for the repeal of the SGR, the cost of which could be covered by reducing overutilization of medical services in Medicare.

Fiscal Cliff Discussions, Looming Cuts Have Medicare Providers Facing Double Whammy
The Medicare News Group, Donald Sjoerdsma; November 15, 2012
http://medicarenewsgroup.com/context/understanding-medicare-blog/understanding-medicare-blog/2012/11/14/fiscal-cliff-discussions-looming-cuts-have-medicare-providers-facing-double-whammy
This article talks about the expiration of the most recent 'doc fix' at the same time that policymakers face the looming fiscal cliff. The author discusses the budgetary impact of

sequestration, or automatic budget cuts scheduled for the beginning of 2013, and how the SGR could potentially be included in a "grand bargain".

Prepared Statement for the Senate Finance Committee, Roundtable on Medicare Physician Payment – Medicare Physician Payment: Understanding the Past So We Can Envision the Future
Statement given by Mark McClellan of the Brookings Institution; May 10, 2012
http://www.finance.senate.gov/imo/media/doc/Mark%20Prepared%20Statement_May%2010_SFC%20Roundable_FINAL.pdf
Mark McClellan presented this statement to the Senate Finance Committee at a roundtable discussion. Dr. McClellan gives a background of the issue and expresses his opinion of future actions. He says that legislation to reform physician payment should come with "real health care reform," with input from clinicians, as they can best recognize where improvements are needed. . He also expresses the importance of adopting a higher quality, patient-centered system in medicine. He also discusses some pilot programs that he says show promise.

The SGR for Physician Payment – An Indispensable Abomination
The New England Journal of Medicine, Henry J. Aaron; July 29, 2010
http://www.nejm.org/doi/full/10.1056/NEJMp1007200
In this article, the author is critical of the SGR formula, but predicts that politicians will avoid resolving the issue during their respective tenures because it would result in a major increase in deficits. He says that the formula was designed poorly in that it ignored the rising costs and complexities of medical procedures that have mirrored technological advances.

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Websites

American Academy of Family Physicians	www.aafp.org
American College of Physicians	www.acponline.org
American Enterprise Institute	www.aei.org
American Medical Association	http://www.ama-assn.org/
American Osteopathic Association	www.osteopathic.org
Association of American Medical Colleges	www.aamc.org
The Brookings Institution	www.brookings.org
Center for Medicare Advocacy, Inc	www.medicareadvocacy.org
Center on Budget and Policy Priorities	www.cbpp.org
Centers for Medicare and Medicaid Services	www.cms.hhs.gov
The Commonwealth Fund	www.commonwealthfund.org
Congressional Budget Office	www.cbo.gov
Congressional Research Service	http://www.loc.gov/crsinfo/
Government Accountability Office	www.gao.gov
Kaiser Family Foundation	www.kff.org
Medicare Payment Advisory Commission	www.medpac.gov
Project HOPE	http://www.projecthope.org
Robert Wood Johnson Foundation	www.rwjf.org
The SCAN Foundation	www.thescanfoundation.org

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