



# Replacing the SGR

An Alliance for Health Reform Toolkit

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[www.allhealth.org](http://www.allhealth.org)

## **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 physician spending from exceeding the rate of GDP growth.
- Since 2003, Congress has passed legislation 15 times to prevent SGR physician payment reductions, at a total cost of \$150 billion.<sup>1</sup>
- The cost of permanently repealing the SGR is currently as low as \$116.5 billion<sup>2</sup> and up to \$175 billion<sup>3</sup> over 10 years.
- The most recent intervention was part of the December 2013 budget deal, in which a three month “doc fix” was enacted.<sup>4</sup> The fix will cost \$8.7 billion, according to the Congressional Budget Office (CBO).<sup>5</sup>
- A bipartisan physician payment reform bill was passed unanimously by the House Energy and Commerce Committee in July 2013.<sup>6</sup>
- In December 2013, both the Senate Finance Committee and the House Ways and Means Committee passed SGR reform bills that contain common elements.<sup>7</sup>

Policymakers may be closer than they have ever been to repealing and replacing the Sustainable Growth Rate (SGR) system of calculating Medicare physician payments. 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).<sup>8</sup>

The SGR unintentionally reduced physician payments significantly, and, as a result, Congress has stepped in regularly since 2003 to block these cuts. In December, the House-approved budget included The Pathway for SGR Reform Act, which stopped a 24 percent reimbursement cut set to take place January 1, 2014 through March 31.<sup>9</sup> In the last few months, the House Energy and Commerce Committee, the House Ways and Means Committee and the Senate Finance Committee put forth similar proposals to permanently repeal and replace the SGR. Further, a recent Congressional Budget Office (CBO) estimate puts the cost of repealing the SGR at \$116.5 billion over the next 10 years,<sup>10</sup> much lower than originally predicted. This is sparking a new interest in permanently fixing the formula.

## **SGR Background**

The SGR itself is a complex formula that incorporates such factors as inflation, projected per-capita Gross Domestic Product (GDP) growth, the projected rise in Medicare Part B enrollment and the cost of any changes in law. The Department of Health and Human Services’ Centers for Medicare and Medicaid Services (CMS) uses these variables to create a spending target for

physician expenditures in a given year.<sup>11</sup> 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.<sup>12</sup> Conversely, when spending exceeds targets, payment rates for physicians are limited to inflation minus seven percent.<sup>13</sup> In effect, the SGR formula is aimed at preventing Medicare physician spending from rising at a rate faster than GDP growth.

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.

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<sup>14</sup> 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 CBO continued to project that Medicare spending would exceed targets, and that large physician payment reductions would be required.

## **Beyond the SGR**

The bills currently under consideration have many aspects in common. The Energy and Commerce Committee bill repeals the SGR and provides a 0.5 percent increase in physician pay between the years of 2014 and 2018. Beginning in 2019, adjustments to payment, either negative or positive, would be made based on a physician's performance on quality measures, clinical performance improvement activities, or on participation in alternative payment models.<sup>15</sup> The CBO estimates that this plan will cost \$175 billion between 2014 and 2023.<sup>16</sup> Similarly, the House Ways and Means Committee and Senate Finance Committee bills call for the repeal of the SGR and the implementation of a more value-oriented payment system. Both bills contain a ten year period of stabilization in which the rate of payment to physicians is fixed, but the actual payments to physicians would be adjusted at varying rates based on participation in value-based payments (VBP) or alternative payment models (APM).<sup>17</sup><sup>18</sup> Starting in 2024, annual payment updates of 2 percent would start for physicians participating in APMs; those participating in VBPs would receive 1 percent pay increases.<sup>19</sup><sup>20</sup> CBO estimates that the House Ways and Means bill would cost approximately \$121 billion over the next ten years.<sup>21</sup> CBO estimates that the Senate Finance bill, which does not hold payments at 0.5 percent, but rather reverts to 2013 rates, would cost approximately \$150.4 billion over the next ten years.<sup>22</sup> For both bills, much like the Energy and Commerce Committee bill, the value-based performance payment would reflect performance on quality, resource use, clinical practice improvement activities and meaningful use of health records.<sup>23</sup>

While most lawmakers and medical professionals agree that the SGR needs to be repealed, there has been disagreement from physician groups on some of the details of the bills that are emerging. These groups have expressed particular concern about the bill approved by the Senate Finance Committee, which freezes physician pay at its current level for a decade and develops a

new bonus structure that rewards high-performing physicians, potentially, they say, at the expense of other physicians, who may also be performing well.<sup>24</sup>

Legislators and physician groups have also voiced concern over how to pay for the repeal. Although the cost estimated by the CBO is lower than ever, hospitals and other industry groups are voicing concern that they will be targeted for cuts to offset the cost of repeal.<sup>25</sup>

## RESOURCES

### **Current Bills, Proposals and CBO Estimates**

#### **CBO Cost Estimate: HR 2810, House Energy and Commerce Committee**

*The Congressional Budget Office*; September 13, 2013

<http://cbo.gov/sites/default/files/cbofiles/attachments/hr2810.pdf>

This document provides a cost estimate of the House Energy and Commerce Committee-approved bill and also a summary of the major provisions of the bill. The bill would increase physician payment rates by 0.5 percent through 2018. Beginning in 2019, payments would be determined in one of two ways: physician performance in the Quality Update Incentive Program or payment under an Alternative Payment Model.

#### **CBO Cost Estimate: HR 2810, House Ways and Means Committee**

*The Congressional Budget Office*; January 24, 2014

<http://cbo.gov/sites/default/files/cbofiles/attachments/hr2810WM.pdf>

This document provides a cost estimate over the next ten years for the House Ways and Means Committee-approved bill. The bill calls for the implementation of a value-oriented payment system. There would be a ten year period of stabilization in which the rate of payment to physicians is fixed, but the actual payments to physicians would be adjusted at varying rates based on participation in value-based payments or alternative payment models. Starting in 2024, annual payment updates of 2 percent would start for physicians participating in APMs; those participating in VBPs would receive up to 1 percent pay increases.

#### **CBO Cost Estimate: S 1871, Senate Finance Committee**

*The Congressional Budget Office*; January 24, 2013

<http://cbo.gov/sites/default/files/cbofiles/attachments/s1871.pdf>

This document provides a cost estimate over the next ten years for the Senate Finance Committee-approved bill. It details the plan, which is similar to the House Ways and Means-approved bill, though costs about \$30 billion more over ten years because the physician reimbursement rate during the period of stabilization is equal to the 2013 rate.

### **AMA Physician Payment Reform Proposal**

*American Medical Association*; December 2013

<http://www.ama-assn.org/resources/doc/washington/physician-payment-reform-proposal.pdf>

The AMA proposal recommends repealing the SGR, implementing physician payment updates that mirror growth in medical costs and rewarding physicians based on quality-value measures.

### **Medicare Sustainable Growth Rate System Fact Sheet**

*Medicare Payment Advisory Commission*; March 2012

[http://www.medpac.gov/documents/Mar12\\_SGRFactSheet.pdf](http://www.medpac.gov/documents/Mar12_SGRFactSheet.pdf)

This fact sheet summarizes an October 2011 letter submitted to House and Senate chairmen that offered MedPAC's recommendations for repealing the SGR, which included a list of options to offset the cost of repeal. MedPAC would set payment rates for 10 years and freeze rates for primary care physicians through 2021.

### **Additional Concepts for Moving Forward**

#### **Medicare's Sustainable Growth Rate: Principles for Reform**

*The Heritage Foundation*; July 18, 2013

<http://www.heritage.org/research/reports/2013/07/medicares-sustainable-growth-rate-principles-for-reform>

The author recommends rejecting replacement programs that would place more power in the hands of the federal government, while restoring balance billing and the right to private contracting. He also maintains that SGR reform should be paired with fundamental overhaul that would move Medicare to a premium support system.

#### **Paying for Value: Replacing Medicare's Sustainable Growth Rate Formula with Incentives to Improve Care**

*The Commonwealth Fund*. Stuart Guterman, Mark A. Zezza and Cathy Schoen; March 2013

[http://www.commonwealthfund.org/~media/Files/Publications/Issue%20Brief/2013/Mar/1678\\_Guterman\\_paying\\_for\\_value\\_ib.pdf](http://www.commonwealthfund.org/~media/Files/Publications/Issue%20Brief/2013/Mar/1678_Guterman_paying_for_value_ib.pdf)

This issue brief sets forth policy options that would repeal the SGR, gradually increase payments to physicians and medical providers over time, strengthen primary care and implement bundled payments. The authors expect that their policies could more than offset the cost of repealing the SGR and save the federal government an estimated \$788 billion over 10 years.

#### **Developing a Viable Alternative**

*Health Affairs*. Gail Wilensky; January 2014

<http://content.healthaffairs.org/content/33/1/153.full.pdf+html>

Dr. Wilensky suggests that proposals in Congress to move payments from volume to value hold promise, but cautions that there is not sufficient evidence at this time that programs such as accountable care organizations and bundled payments reduce costs.

**Testimony of Robert A. Berenson, M.D. before the Energy and Commerce Committee; SGR: Data, Measures, and Models; Building a Future Medicare Physician Payment System**  
*Urban Institute*; February 14, 2013

<http://democrats.energycommerce.house.gov/sites/default/files/documents/Testimony-Berenson-Health-GR-Medicare-Payment-2013-2-14.pdf>

In this testimony, Dr. Berenson argues that the value-based payment concept has gotten off track. He focuses his testimony on debunking misconceptions held in current policy discussions and offering recommendations that he believes have not received sufficient attention.

**Improving Value in Medicare with an SGR Fix**

*New England Journal of Medicine*. Gail R. Wilensky; January 8, 2014

<http://www.nejm.org/doi/full/10/1056/NEJMp1313927>

This article summarizes the problems with the SGR formula, discusses various past attempts to reform the flawed system, and examines the current legislation under consideration. It highlights some of the challenges to reforming the SGR and also calls attention to possible solutions that are not being considered because they have not been tested.

**Medicare Physician Payment Reform: Will 2014 be the Fix for SGR?**

*Journal of American Medicine Association*. Mark McClellan, Kavita Patel and Darshak Sanghavi; January 13, 2014

<http://jama.jamanetwork.com/article.aspx?articleid=1814190>

This article offers background and synthesis of proposed solutions. It also discusses the action Congress may have to take if a permanent solution is not reached in 2014.

**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](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.”

## **Provider Perspectives**

### **Letter to Policymakers from Physicians**

*American Medical Association*; October 15, 2012

<http://www.ama-assn.org/resources/doc/washington/2013-12-10-sgr-senate-finance-committee.pdf>

In a letter written to the members of the Senate Finance Committee and the House Ways and Means Committee, the American Medical Association and 110 national and state medical societies identify the principles and core elements that they believe can form the basis for new federal policy on a transition from the SGR to a higher performing Medicare program.

### **Letter to Policymakers from Hospitals**

*American Hospital Association*; November 12, 2013

<http://www.aha.org/advocacy-issues/letter/2013/131113-let-pollack-camp-baucus.pdf>

In a letter written to members of the Senate Finance Committee and the House Ways and Means Committee, the American Hospital Association asserts that, while change to the SGR is crucial, the change must not be financed by cuts to hospitals.

### **Letter to Policymakers from Hospitals**

*Federation of American Hospitals*; June 10, 2013

<http://fahpolicy.org/wp-content/uploads/2013/06/Sen-Finance-Ltr-SGR-Repeal-51413-05-31-13.pdf>

In a letter written to congressional committee chairmen, Federation president Chip Kahn outlines key principles for reforming the SGR, and emphasizes that a fix should not be funded with cuts in payments for hospital services.

## **Analysis**

### **Congress is Poised to Change Medicare Payment Policy. What does this mean for Patients and Doctors?**

*Kaiser Health News*. Mary Agnes Carey; January 16, 2014

<http://www.kaiserhealthnews.org/Stories/2014/January/16/Congress-doc-fix-sustainable-growth-rate-SGR-legislation.aspx>

This Q&A gives background on the SGR, provides information about the policies Congress will likely implement to replace the SGR, and considers the implications of these policies.

### **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; October 29, 2012

<http://www.deloitte.com/assets/Dcom->

[UnitedStates/Local%20Assets/Documents/us\\_dchs\\_Sustainable%20Growth%20Rate%20\\_102912.pdf](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.”

## Report of the National Commission on Physician Payment Reform

National Commission on Physician Payment Reform; March 2013

[http://physicianpaymentcommission.org/wp-](http://physicianpaymentcommission.org/wp-content/uploads/2013/03/physician_payment_report.pdf)

[content/uploads/2013/03/physician\\_payment\\_report.pdf](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.

### Selected Experts

#### Analysts and Advocates

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| Chip Kahn        | <i>Federation of American Hospitals</i><br>202/624-1500 <a href="mailto:ckahn@fah.org">ckahn@fah.org</a>                         |
| Darrell Kirch    | <i>Association of American Medical Colleges</i><br>202/828-0400  |
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## Websites

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

<sup>1</sup> Rovner, Julie. "Congress Poised to Permanently Fix Its Medicare Payment Glitch." *National Public Radio*. December 19, 2013; available at <http://www.npr.org/blogs/health/2013/12/19/255316554/congress-poised-to-permanently-fix-its-medicare-payment-glitch>

<sup>2</sup> "Estimate for Amendment to H.J. Res 59, Pathway for SGR Reform Act of 2013." *Congressional Budget Office*. December 11, 2013; available at <http://www.cbo.gov/sites/default/files/cbofiles/attachments/2013%20SGR%20Options%20-%20Final%20Rule.pdf>

<sup>3</sup> "Cost Estimate: H.R. 2810: Medicare Patient Access and Quality Improvement Act of 2013." *Congressional Budget Office*. September 13, 2013; available at <http://www.cbo.gov/sites/default/files/attachments/hr2810.pdf>

<sup>4</sup> Pittman, D. "3 Month 'SGR Fix' Passes House." *MedPage Today*. December 12, 2013; available at <http://www.medpagetoday.com/PublicHealthPolicy/Medicare/43411>

<sup>5</sup> "Estimate for Amendment to H.J. Res 59, Pathway for SGR Reform Act of 2013." *Congressional Budget Office*. December 11, 2013; available at

<http://www.cbo.gov/sites/default/files/cbofiles/attachments/2013%20SGR%20Options%20-%20Final%20Rule.pdf>

<sup>6</sup> "Reforming the Medicare Sustainable Growth Rate." *Energy and Commerce Committee*. July 2013; available at <http://energycommerce.house.gov/sgr>

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