



1422 Duke Street Alexandria, VA 22314 (703) 838-0033

SUSTAINABLE GROWTH RATE (SGR) 2008 ISSUE BRIEF

Medicare Sustainable Growth Rate

At the last minute of 2007, a 10.1 percent cut to physician payments was staved off by the Medicare, Medicaid, and SCHIP Extension Act of 2007 for the first six months of 2008 and if the SGR is not “fixed”, a larger cut will take its place.

Background

The Balanced Budget Act of 1997 (BBA) established the SGR methodology that sets yearly spending targets for physicians' services under Medicare. These SGR targets are intended to control the growth in aggregate Medicare expenditures for physicians' services. The fee schedule update is raised or lowered to echo the comparison of actual expenditures to target expenditures. If expenditures exceed the target, the update is cut and conversely is raised if expenditures are less than the target.

Target expenditures for each year are equal to target expenditures from the previous year increased by the SGR, a percentage computed by combining estimates of the changes in each of four factors:

- 1 The estimated percentage change in fees for physicians' services
- 2 The estimated change in the average number of Medicare fee-for-service beneficiaries
- 3 The estimated 10-year average annual growth in real gross domestic product (GDP) per capita
- 4 The estimated change in expenditures due to changes in law or regulations

Make the Methodology Better

AMGA has long called for changes in the physician payment update system, including, among others, a call for eliminating SGR from the update calculation. Each one of the four data estimates used in the formula has been criticized for having insufficient, inaccurate, or irrelevant elements. The GDP imposes the volume and intensity spending target on the SGR, but the GDP has no relationship to physician services. A cost-based approach would be a more realistic and equitable basis to use. Given the fact that such an approach would cost more than \$150 billion over ten years, the likelihood of such a change is low.

A more realistic expectation for change is an approach that builds on the SGR method, but posits the notion of several SGR pools. In the Deficit Reduction Act of 2005 signed into law in early 2006, the Congress required the Medicare Payment Advisory Commission (MedPAC) to report on alternatives to the SGR mechanism, specifically to report on several sub-nationally pooling mechanisms, one of which is a pool based on physician participation in medical groups.

The March 1, 2007 report presented findings on SGR alternatives but did not make recommendations on which alternative was best for SGR reform. However, MedPAC did state that Congress should consider rewarding entities, or Accountable Care Organizations that provide “desired activities” which MedPAC lists as: Quality measurement, use of evidence-based medicine, care coordination and use of clinical information technology and responsible compensation mechanisms. AMGA strongly supports the MedPAC recommendation. Use of structural measures like the ones listed by MedPAC, have been shown to positively impact health care. Congress should incent physicians to invest and utilize these tools in order to provide better, more efficient care.

AMGA Strategic Objectives

- Seek a long term solution to the the SGR Medicare physician payment update methodology
- Rectify flaws in the current SGR formula
- Pursue payments for desired activities for multi-specialty group practices