



2009 ISSUE BRIEF SUSTAINABLE GROWTH RATE (SGR)

Issue

Physicians faced Medicare payment reductions last year for the seventh year in a row because of the Sustainable Growth Rate (SGR) formula. The SGR is the complex formula which is used to calculate annual physician fee schedule levels. A 10.6% cut was scheduled for July 1, 2008, but was skirted when Congress passed a law replacing the expected cut with a 1.1% payment update for 2009. Without Congressional intervention, physicians face a 20+% payment cut in January 2010.

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 other things, 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 \$300 billion over ten years, the likelihood of such a change is problematic.

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-national pooling mechanisms, one of which is a pool based on physician participation in medical groups.



The March 1, 2007 MedPAC 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 (ACOs), 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 affect health care. Congress should offer incentives to physicians to invest in and utilize these tools to provide better, more efficient care.

AMGA Asks Congress To:

- Seek a long term solution to the SGR methodology making physicians’ payments cost based
- If Congress mandates new SGR “buckets,” Congress should require a separate medical group bucket or accountable care organization bucket
- Create incentives to stimulate health care delivery along the lines described by MedPAC as “desired activities”