

The Issue:

Current law requires the Centers for Medicare & Medicaid Services to adjust physician payment rates annually according to the Sustainable Growth Rate (SGR) formula that was adopted in the Balanced Budget Act of 1997. This flawed formula has called for negative updates every year since 2002, requiring legislative or administrative action be taken annually to prevent the cuts. Short-term fixes year after year have only made the problem worse. In four years the cost of a permanent solution has ballooned from \$49 billion to more than \$200 billion and the annual cuts facing physicians have increased from under five percent to a whopping 21.2% in 2010.

The SGR formula was supposed to establish a “sustainable” growth rate for spending on doctors’ services. The formula allows Medicare spending on physician services to grow at the rate of the gross domestic product (GDP), but it actually penalizes physicians when the cost of physician services rises more rapidly than the GDP. Medical technology, Medicare coverage and benefits, and the cost of running a medical practice have all changed drastically since 1996 yet the SGR has failed to adequately recognize those changes. Medicare also inappropriately includes the cost of physician administered drugs (i.e., expensive injectable cancer drugs) in its SGR calculations, artificially inflating the true cost of physician services (Part B drugs account for nearly \$100 billion – almost half of the SGR price tag). When physician services hit the GDP “ceiling,” the SGR triggers an automatic payment cut.

The Proposals:

Both the U.S. House and U.S. Senate are considering an SGR fix as a part of health reform. However, because of the large price tag for a fix and President Obama’s promise that the health reform bill would not increase the deficit, both the House and the Senate have extracted their proposed SGR

fixes from the larger health reform bills and will be voting on those bills separately. CMA, AMA, and others in organized medicine consider an SGR fix critical to the overall success of any larger health reform effort. Congressional leaders have reiterated their support for an SGR fix as part of health reform. And President Obama strongly supports repealing the SGR and waiving the pay-as-you-go rules (which require new federal spending to be offset by budgetary cuts or tax hikes) to do it.

In the House (HR 3961):

HR 3961 would repeal the SGR, and with it more than \$250 billion in projected Medicare physician payment cuts. The SGR would be replaced with two new spending targets, one for primary care and one for all other services. Physician payment rates under the new formula would track GDP plus annual increases of 2% for primary care services and 1% for all others. The new spending targets would be rebased every 5 years so that any future projected cuts will be removed.

It is important to note that President Obama, in partnership with Congressional leaders, agreed to take the cost of the drugs administered in physician offices out of the SGR funding target. In the 2010 Medicare physician payment rule, these drugs were moved from Medicare Part B to the Part D prescription drug program, at a cost of \$100 billion – which represents a significant portion of Part B spending. With these costs removed from the SGR spending target, physician spending is much less likely to hit the targets that trigger payment cuts.

The repeal of the SGR and new spending targets in HR 3961, combined with the administrative removal of physician administered drugs from Medicare Part B, equate to more than \$300 billion in physician payment fixes. Together they would create a more stable system for updating physician payments going forward.

There are other Medicare payment reforms contained within the larger health reform bill, HR 3962, which was passed by the House in early November. These reforms include an additional 5% Medicare primary care increase and a California GPCI fix.

In the Senate (S 1776):

Like the House bill, S. 1776 would repeal the SGR formula. This bill would, however, set future physician payment updates at zero. Senate leadership has said that they do not intend to implement a permanent physician payment freeze and call it Medicare payment reform. Rather, by passing a separate bill that repeals the SGR and eliminates the accumulated spending target debt, budget constraints will be eased, allowing for the development of a new physician payment system.

S.1776 was put to a “cloture” vote in October, and it failed by a vote of 47 to 53. A cloture vote would have made the bill filibuster-proof and cleared the way for a floor vote on this bill. CMA, AMA and others in organized medicine are working with the Senate leadership on alternative proposals to resolve the SGR issue.

What It Means for Physicians:

Without congressional intervention, Medicare physician payment rates will be cut 21% in 2010 and cumulative cuts will total about 40% by 2016, while practice costs will rise nearly 20%. These cuts come at a time when Medicare physician payment updates already lag far behind increases in the costs of caring for seniors. Medicare cuts could have far reaching consequences, as many private insurers use Medicare rates to calculate their own fee schedules.

What It Means for Patients:

In 2011, the leading edge of the baby-boom generation will start enrolling in Medicare, with enrollment growing from 44

million in 2011 to 50 million by 2016. Without an SGR fix, many physicians will be forced to make the difficult decision to limit their practices to seniors, the disabled, and military families, or even to stop participating in the Medicare program all together. With 16 million new Medicare enrollees expected in the next 6 years, it will become increasingly difficult for patients to find a doctor.

What Needs to Be Done:

CMA believes it is imperative that the SGR be repealed as part of any health reform effort. The longer Congress procrastinates, the higher the price tag for American taxpayers and the harder it will be for seniors, the disabled, and military families to find a doctor.

By repealing the current SGR and the 40% future physician payment cuts, we can move forward and focus our energy on developing a better long-term payment system. Congressional leaders have committed to work with organized medicine to develop a longer term fix to the fee schedule in future years.

Physicians and patients are urged to call, write, or email their Representatives, as well as California Senators Barbara Boxer and Dianne Feinstein, and tell them that health reform must give everyone access to a doctor to deliver on its promise of expanded coverage.

To call your Representatives, please use the AMA Grassroots Hotline at (800) 833-6354. Plug in your zip code and it will automatically connect you to your Member of Congress.

Calling your Representative is more effective at this point than email, but to send an email to your Representative, you may do so at <https://writerep.house.gov>.