

Medicare and the Sustainable Growth Rate

Brought to you by:

American Medical Association – Medical Student Section

Committee on Legislation and Advocacy (COLA)



Outline

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- Implications of the SGR formula
- Current Legislative Status
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- A Crisis of Healthcare Access
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Definitions

- **Medicare** – The federal government’s health care insurance plan for the elderly and disabled.
- Established in 1965, this service is largely funded from payroll taxes and FICA and supplemented with premiums paid by its beneficiaries.
- Medicare is administered by the Department of Health and Human Services via the Centers for Medicare and Medicaid Services (CMS).¹

Definitions

- **HHS – The Department of Health and Human Services.** An administrative agency of the Executive branch of the federal government; in their own words: “...the United States government's principal agency for protecting the health of all Americans and providing essential human services.” HHS is headed by its Secretary, a Cabinet-level post.
- **CMS – The Centers for Medicare and Medicaid Services.** The agency within HHS responsible for administering all Medicare and Medicaid operations and services. As such, CMS administers payments for health care services for approximately 90 million Americans².

Definitions

- **MedPAC – The Medicare Payment Advisory Commission³**
 - An independent federal body of 17 Commissioners, established by the Balanced Budget Act of 1997.
 - MedPAC is “independent,” and much like the FCC, it is not controlled by any one branch of government.
 - It was created to advise the Congress on issues impacting Medicare and peripheral issues impacting the quality of and access to care for Medicare beneficiaries.

Definitions

- **SGR** – The Sustainable Growth Rate. A component of the formula CMS uses to calculate physician payments for providing services to Medicare patients. It is based on the GDP and **not** on actual health care practice costs.
 - The SGR has produced steep cuts in physician compensation for services to Medicare patients. **The SGR is a target** for expenditure on physician services. If actual expenditures exceed the SGR, **physicians' payments are cut.**
- **MEI** – The Medicare Economic Index. HHS's measure of the annual increases in the cost of medical practice.
 - Originally intended to serve as the “cap” on physician fee increases following the period where Medicare paid physicians based on actual costs for a given service.
 - The AMA believes that payments should be based on the MEI and not on the SGR.

What is the SGR?

- The Sustainable Growth Rate, or SGR, is a major component of Medicare's current formula for determining annual updates to physician reimbursements for services.
- The SGR was intended to be a *budgetary restraint* on Medicare's total expenditures to maintain budget neutrality.
- Absent Congressional intervention, the SGR will dramatically cut physician reimbursement rates, while practice costs continue to rise.

What is the SGR?

- The SGR is based on the following factors:
 - Estimated change in fees for physician's services.
 - Estimated change in beneficiaries enrolled in Medicare's fee-for-service program.
 - Estimated growth in real gross domestic product (GDP) per capita .
 - Estimated change in expenditures due to law and regulation.

Implications of the SGR Formula

- SGR economic parameters *vary independently of the real cost of practice*
- As such, payment updates determined by the SGR are well below the Medicare Economic Index (MEI).

Implications of the SGR Formula

- The SGR effectively caps total Medicare expenditures on physician services.
- If utilization of physician services increases above this arbitrary target growth rate, the reimbursement *per service performed* actually drops.

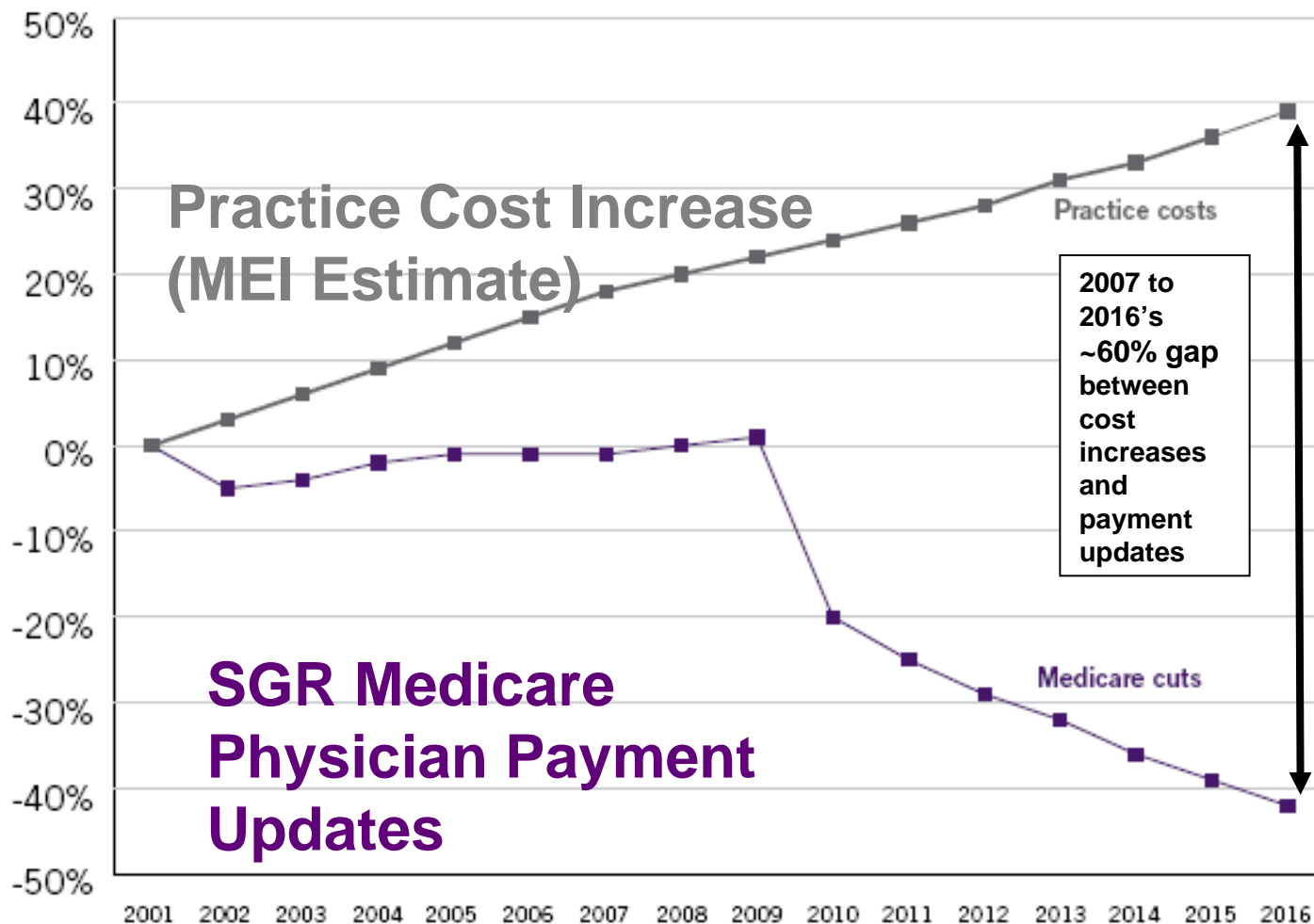
Current Legislative Status

- H.R. 6331, the “Medicare Improvements for Patients and Providers Act of 2008” passed with wide bipartisan majorities.
- It replaced a 10.6% cut effective July 1, 2008 with a 0.5% update extension through December 31, 2008. For calendar year 2009 the update is 1.1%.
- The 18-month window buys Congress time to work with physicians on developing a long-term solution.

A Compounding Problem

- Without congressional intervention, Medicare physician payment rates will be cut about 40 percent by 2016.
- Practice costs will rise nearly 20 percent during this time.
- These cuts come at a time when Medicare physician payment updates already lag far behind increases in the costs of caring for seniors.
- 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.

A Compounding Problem



**Practice Cost Increase
(MEI Estimate)**

Practice costs

2007 to
2016's
~60% gap
between
cost
increases
and
payment
updates

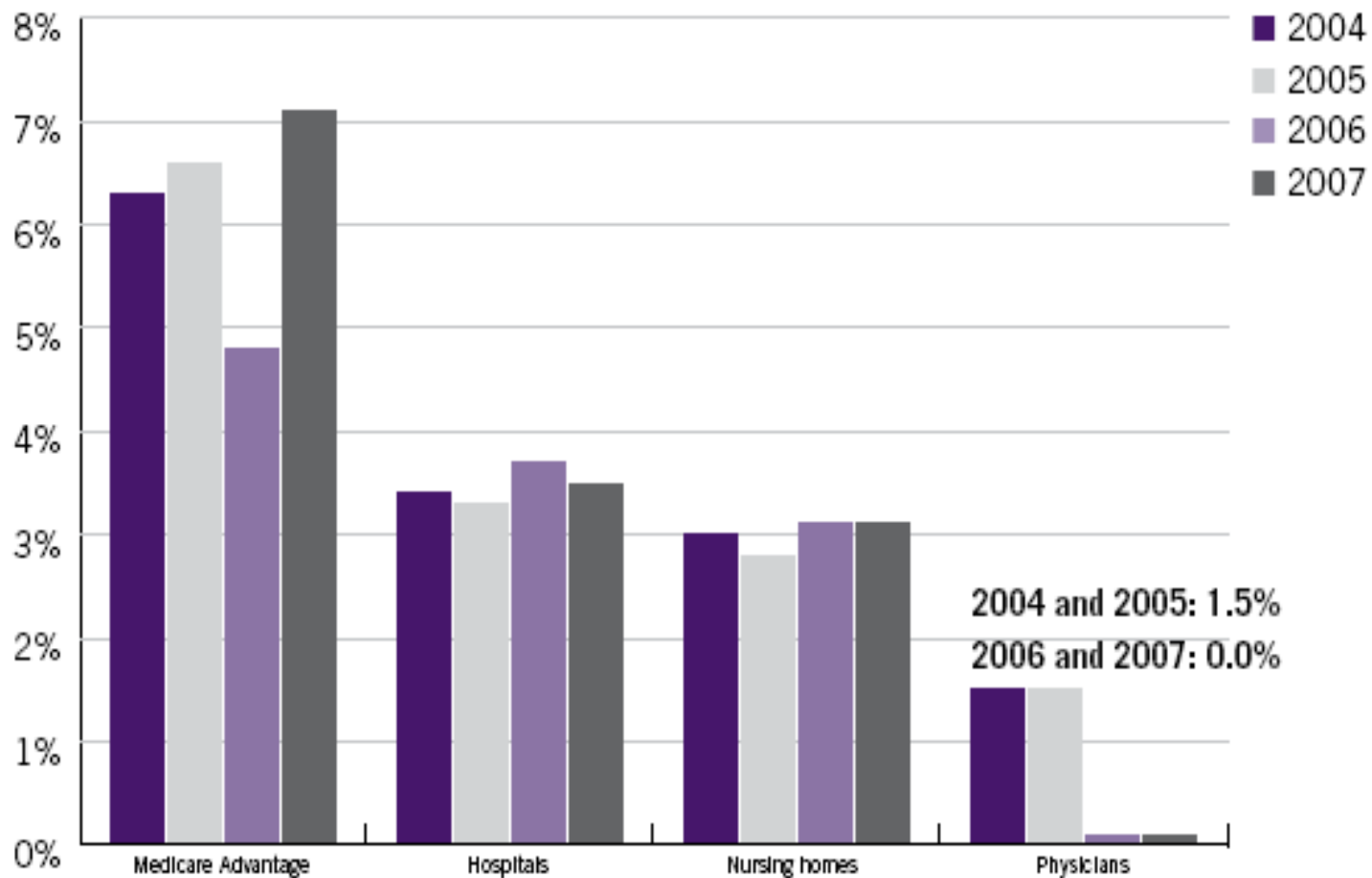
**SGR Medicare
Physician Payment
Updates**

Medicare cuts

Medicare Payment Updates

- Other providers continue to receive positive updates:
 - Medicare Advantage Insurers
 - Hospitals
 - Nursing Homes

Medicare Payment Updates



A Crisis of Health Care Access

- In an AMA survey, 60% of responding physician said they would have had to limit the number of new Medicare patients they treat if the 2008 pay cut had not been stopped.
- MedPAC reports that 30% of Medicare patients searching for a primary care physician already have trouble finding one.
- The Medical Group Management Association (MGMA) found that 24% of group practices already limit their acceptance of new Medicare patients.

A Crisis of Health Care Access

- The Congressionally-created Council on Graduate Medical Education predicts a shortage of 85,000 physicians by 2020.
- Multi-year cuts in Medicare will exacerbate these shortages:
 - Medicine will be a less attractive career choice
 - 35% of physicians are 55 or older, and will be encouraged to retire
- More than half of physicians say if Medicare payment cuts occur, they will forego investments in their practices by:
 - Deferring or forgoing the purchase of new medical equipment
 - Deferring or forgoing purchase of information technology

The Solution

- MedPAC recommends repealing the SGR formula when determining physician reimbursement updates before a crisis of access develops
- The AMA supports repealing the SGR, but we need ***your help*** to encourage the Congress to take immediate action!
- The AMA proposes more detailed strategies for reform online:

http://www.ama-assn.org/ama1/pub/upload/mm/399/nac_strategies.pdf



What Can I Do Today?

- Write your Members of Congress!
<http://capwiz.com/ama>
- Join the AMA! If you are already a member, ask your chapter officers how to participate.
- Join AMPAC and attend Lobby Day in Washington, D.C.
- Participate in grassroots advocacy!

Together We are Stronger!



Parting Questions

- How might the impact of the SGR affect your choice of specialty?
- How would the SGR influence access to care in less densely populated regions?
- Do you know any Medicare beneficiaries? How might you talk to them about this problem?

Sources

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<http://www.cms.hhs.gov/reportstrustfunds/downloads/tr2008.pdf>
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4. AMA Council on Medical Service Report 6 – I-08
5. Chart: practice costs vs Medicare Payments:
http://www.ama-assn.org/ama1/pub/upload/mm/399/nac_costs.pdf
6. AMA President Nancy Nielsen's Testimony to Congress on Medicare Physician Payment Reform:
http://www.ama-assn.org/ama1/pub/upload/mm/399/sgr_test_0911208.pdf

