

# The Sustainable Growth Rate System: Policy considerations for adjustments and alternatives

Cristina Boccuti and Kevin Hayes  
April 7, 2011

# Goals for this session

---

- Briefly review Commission assessment of the current SGR system
- Examine a series of discussion items for consideration of policy options
- Commission deliberation

# Assessment of the SGR system, in brief

---

- **The SGR system**
  - Does not differentiate by provider
  - Is strictly budgetary—no tools for improving quality or efficiency
- **Prescribed updates**
  - Large, unrealistic payment cuts loom in current law
  - These cuts threaten provider willingness to serve Medicare beneficiaries
  - Temporary, stop-gap “fixes” create uncertainty and problems for medical practices and CMS
- **Scoring**
  - Eliminating the future SGR cuts carries a high budget score (minimum: ~\$300 billion) over 10-years

# Should the SGR system be eliminated or modified?

---

If yes, what mechanism will determine Medicare payments for fee-schedule services?

- A new expenditure target system?
- A contingent package of tradeoffs, including a modest update schedule?

# Should another expenditure target system replace the SGR?

---

## General considerations regarding expenditure target systems:

- Designed to constrain price growth, but effect on spending (volume) less direct
- May regularly alert policymakers of spending growth
- Are not a mechanism for improving care delivery
- Limit spending flexibility across provider sectors if it focuses only on fee-schedule services

# How would the parameters of a new expenditure target system be defined?

---

## Design parameters include:

- Scope of system (e.g., fee-schedule only, all Medicare)
- Growth targets (e.g., based on GDP, MEI, set percent)
- Resultant updates if spending is at or below target (e.g., 1%, MEI)
- Degree to which system cumulates differences across years (e.g. fully-, partially-, or non-cumulative)
- Variation in targets and updates (e.g., by type-of-service, geographic area)
- Allowance for entities to be exempt (e.g., ACOs, medical homes)

# If the SGR were eliminated, is there an opportunity for contingent tradeoffs?

---

Potential package of tradeoffs could be implemented to improve Medicare's payment system, including:

- Limited updates for future years— starting in 2012
- Major realignment of the fee-schedule – enhance overall value of non-procedural services; balance per- hour compensation across specialties
- Secretary makes service-specific fee changes to increase price accuracy
  - Advised by the RUC or a Secretary's expert panel
  - May not be budget neutral (in contrast to current law and regulation)
- Other items ?

# What are the budget scoring and offset issues?

---

- Eliminating the future SGR cuts carries a high budget score (minimum: ~\$300 billion over 10 years)
- Potential scoring offsets:
  - Focus on Medicare spending reductions?
    - Fee schedule adjustments
    - Other Parts of Medicare
  - Broaden to include all federal spending and revenue?



# In interim, should future updates apply to at least an entire year?

---

- Extremely problematic to have updates that last less than one full year.
- Shorter updates:
  - Undermine confidence of providers and patients
  - Threaten Medicare's reputation
  - Burden CMS's claims processing activities

# Discussion items

---

- Should the SGR system be eliminated or modified?
- If the SGR is eliminated, should it be replaced with a new expenditure target system?
  - If so, how would the formula's parameters be defined?
- Should there be contingent tradeoffs to eliminating the SGR?
- Scoring issues
- In interim, should updates apply to no less than one full year?