



## Medicare Sustainable Growth Rate System

On October 14, 2011, MedPAC sent a letter to the Congress expressing the Commission's view that the sustainable growth rate (SGR) system—Medicare's policy for updating physicians' fees based on overall expenditure growth—is flawed. The SGR has not restrained volume growth, and the deep cuts called for by the SGR formula—combined with temporary stop-gap fixes—have undermined beneficiaries' and providers' confidence in Medicare. The cost of full repeal, as well as the cost of temporary reprieves, grows perpetually. With this assessment, the Commission recommends that the Congress fully repeal the SGR.

### To develop its proposal, the Commission drew on three governing principles

- The formulaic link between annual updates and cumulative fee-schedule expenditures is unworkable and should be eliminated.
- Beneficiary access to care should be protected.
- The Commission should offer a fiscally responsible policy to replace the SGR system.

### The Commission's recommendations to fully repeal the SGR system

- The Congress should repeal the sustainable growth rate (SGR) system and replace it with a 10-year path of statutory fee-schedule updates. This path is comprised of a freeze in current payment levels for primary care and, for all other services, annual payment reductions of 5.9 percent for 3 years, followed by a freeze. The Commission is offering a list of options for the Congress to consider if it decides to offset the cost of repealing the SGR system within the Medicare program.
- The Congress should direct the Secretary to regularly collect data—including service volume and work time—to establish more accurate work and practice expense values. To help assess whether Medicare's fees are adequate for efficient care delivery, the data should be collected from a cohort of efficient practices rather than a sample of all practices. The initial round of data collection should be completed within 3 years.
- The Congress should direct the Secretary to identify overpriced fee-schedule services and reduce their RVUs accordingly. To fulfill this requirement, the Secretary could use the data collected under the process in recommendation 2 (above). These reductions should be budget neutral within the fee schedule. Starting in 2015, the Congress should specify that the RVU reductions should achieve an annual numeric goal—for each of five consecutive years—of at least 1.0 percent of fee-schedule spending.
- Under the 10-year update path specified in recommendation 1 (above), the Congress should direct the Secretary to increase the shared savings opportunity for physicians and health professionals who join or lead two-sided risk accountable care organization (ACOs). The Secretary should compute spending benchmarks for these ACOs using 2011 fee-schedule rates.

## **The Commission's list of options to offset the cost of SGR repeal**

To offset the high budgetary cost of fully repealing the SGR, the Commission offers a set of savings options from the Medicare program. The Commission's offset options are grouped into two tiers:

- Tier I—about \$50 billion over 10 years—are MedPAC recommendations not yet enacted by the Congress,
- Tier II—about \$168 billion over 10 years—are informed by analyses done by MedPAC staff, or other commissions and government agencies.

Because MedPAC was established to advise the Congress on Medicare policies, it offers a set of savings options that are limited to the Medicare program. The Commission does not necessarily recommend that the Congress offset the repeal of the SGR entirely through Medicare.

## **MedPAC's annual payment adequacy analysis**

In keeping with its annual payment adequacy analysis, the Commission will monitor beneficiaries' access to services, service volume, quality of care, and Medicare payments. If the Commission discovers evidence of inadequate payments or access problems going forward, it will make recommendations as appropriate.

Enacting the Commission's recommendation would eliminate the SGR and would alter the trajectory of fee-schedule spending in Medicare's baseline. Therefore, future physician pay increases relative to this new baseline would carry a budgetary cost, though a significantly smaller one than imposed by delaying full repeal of the SGR.