

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

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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?