



Medicare Payments to Physicians and the Sustainable Growth Rate Questions and Answers

What is the Sustainable Growth Rate?

The Sustainable Growth Rate or SGR is a complex formula, established in federal law, applied on an annual basis by the federal government (CMS) to determine the payment rates physicians will be reimbursed for medical services provided to Medicare patients during the calendar year.

How does the SGR function?

The SGR links physician payments to the annual updates to our Gross Domestic Product (GDP), therefore, economic downturns as measured by the GDP, result in reduced payment rates to physicians for services provided. This is the case, despite the fact that the GDP is not relevant to physician costs to provide health care services.

Is the SGR used to establish payment rates for other providers in the Medicare program, e.g., hospitals, nursing homes, HMOs?

No. Only physician payment rates are established by the SGR. All other providers have their payments modified based upon cost of living adjustments.

What has the SGR impact been on payment rates to physicians?

For the past seven years, including 2008, the SGR formula has projected real dollar cuts to physician payments in excess of 32%. These cuts were to go into effect January 1st each year, but were avoided because Congress stepped in to pass legislation to avoid these cuts.

If Congress has stepped in every year to stop the cuts, what's the problem?

There are really three problems that ultimately impact patient access to quality medical care.

First, to use a medical analogy, Congress is treating the symptom (the projected cut) without treating the underlying cause of the symptom (the SGR).

Second, many in Congress believe they have treated the symptom and therefore lose patience when physicians return to Capitol Hill each year asking for a reprieve.

Third, physician practice expenses continue to rise, outpacing the annual "fixes" passed by Congress, making it more difficult for physicians to stay in practice, reducing patient access to quality medical care. This patient access problem will only become more exacerbated by the wave of baby-boomers reaching Medicare eligibility.

By design, the SGR requires that each year the cut is avoided, it must be made up in a future year. This compounds the problem and makes addressing the symptom more expensive. In Washington, this compounding of the problem is often referred to as a "cliff" that keeps getting more steep.

What is the solution?

We, the ACCP, agree with the 2006 MedPAC recommendation that Congress scrap the SGR and replace it with a simple model based upon the Medicare Economic Index, which has been the benchmark for medical practice costs for more than 30 years. This change would make payment updates for physicians equivalent to those made for hospitals, nursing homes, and other Medicare providers.

What will a permanent fix cost?

A lot of money no doubt. But the cost to fix the problem today will be less than the cost to fix it tomorrow.

What should we do?

We need you and your colleagues in Congress to demonstrate the political will to fix the formula now. The current short-term fix will expire June 30, 2008. In the absence of legislation, the update scheduled to take effect July 1, 2008 is estimated to be a 10.6% reduction. Pass a long-term fix effective July 1, 2008 (for at least 18 months) to establish the breathing room necessary to fix the underlying SGR formula with one based upon the MEI.