



Why Congress Should Not Continue to Postpone Physician Payment Reform

By Stuart Guterman



Last week, the Senate postponed for six months a scheduled 21 percent cut in Medicare physician reimbursements—but this issue will not go away by itself. Nobody wants to see Medicare physician fees cut by 21 percent across-the-board. Such cuts would hurt the credibility of the program, distort prices, and—most important—

threaten Medicare beneficiaries' access to needed care. But rather than simply postponing the cut, Congress needs to change the way Medicare pays physicians.

The current payment formula (called the sustainable growth rate, or SGR), which Congress passed in 1997, was a well-intentioned attempt to control the growth in Medicare spending, but it has misfired. Under the SGR formula, a target is set for physician spending in each year, and automatic payment cuts are triggered if those spending targets are exceeded. This has happened each year for the past decade or so, primarily because of the ever-rising volume and intensity of medical services. As a result, spending keeps rising and the formula that Congress put in place keeps producing across-the-board cuts in physician fees when members should be focusing on the main reasons for increased spending or cutting fees for specific services that are overpriced.

Fearful of disrupting beneficiaries' access to care, Congress has always (except in 2002) stepped in to temporarily override the SGR cuts, sometimes retroactively. But avoiding the SGR cuts without changing the formula or—better yet—addressing the underlying causes of spending growth has led to continually larger scheduled cuts.

As the SGR hole gets deeper, it becomes harder to deal with. Last December, the Congressional Budget Office (CBO) estimated that even a 10-year freeze on physician fees would cost the federal government an extra \$318 billion, compared with what it would spend if they didn't override the formula. CBO estimated that such a freeze (that is, avoiding the scheduled cut) would cost Medicare beneficiaries billions of dollars in higher Part B premiums and coinsurance. This large cost—and the concomitant increase in the federal budget deficit—is why Congress has been reluctant to deal with the SGR problem directly. Instead, Congress has postponed taking on the real problem by breaking it into smaller pieces. But the extra spending occurs, whether it's one year at a time or in 10-year chunks.

President Obama's 2010 budget tried to get around the problem by incorporating the spending necessary to fix the SGR problem into the budget baseline—but that strategy didn't survive the Congressional budget process. An early version of the House of Representatives' health reform bill incorporated an SGR fix, but in the end they shied away from the extra cost it attached to the bill. So we're left with a choice between a temporary fix that just "kicks the can down the road" and a 21 percent across-the-board cut in physician fees that would reduce reimbursement for primary and specialty care alike. In addition to distorting prices and threatening access to care, failing to eliminate the SGR cuts also hinders any attempts to really fix physician payment, and undermines the credibility of potential innovations in Medicare policy: it's hard to provide effective rewards for more coordinated, effective, and efficient care if the baseline is a 21 percent cut in fees.

What we need is more fundamental payment reform. The health reform law contains several provisions that could help fix physician payment, including measures that:

- address the chronic underpayment for primary care services;
- establish accountable care organizations, which focus on improving the quality and efficiency of patient care rather than producing more services; and
- encourage development of other innovations that would move from fee-for-service payment to more comprehensive payment approaches.

These provisions aim to change the way we pay for health care and provide greater coordination and quality, all of which promise to slow the growth in health spending. But unless the recurring cuts in physician fees produced by the SGR formula are eliminated, it will be difficult to engage providers and convince them to partner with Medicare to produce desperately needed payment and delivery system reforms.

It will be costly to eliminate the SGR, but it's likely that Congress—regardless of the party in power—will spend the money anyway in year-by-year (or in even smaller and more frequent) chunks. Only comprehensive payment reform will achieve the changes we need to make the health care system—and federal, state, local, and private budgets—sustainable into the future.