

## ***The Medicare SGR Formula: The Edge of the Cliff is Approaching Fast***

The attention on Social Security and the ensuing political battles, have stolen the spotlight from a more immediate economic crisis: the insolvency of Medicare. For all the debate about Social Security's long-term viability, Medicare is in much deeper trouble. In their annual report at the end of 2004, the overseers of both programs' trust funds projected that in 20 years, Medicare's annual costs are expected to surpass Social Security's, and continue climbing to equal 14 percent of the gross domestic product by 2078. In that year, Medicare costs would be double those of Social Security.



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While the trustees are projecting that the financing arrangements in current law are “inadequate” to continue funding Medicare, many groups, including the AMA and MedPac, an official Medicare advisory panel to Congress, are angling for a change from the current physician payment system. What has drawn most of their fire is the sustainable growth rate (SGR) calculation that has been used to determine physician (Part B) payments since 1999.

According to Bruce Steinwald, director of healthcare, economic, and payment issues for the Government Accountability Office (GAO), the real purpose of SGR, is to “apply financial brakes whenever spending for physician services exceeds predefined spending targets ... by reducing physician fees or limiting their annual increase.”

Although physician payments are only a minority component of the overall Medicare budget, the bearcats at Medicare are prepared to fix cost overruns by primarily focusing attention on one aspect of the Medicare budget, (you guessed it): physician payments. The new 2005 Medicare Trustees Report projected sharp Medicare physician payment cuts of 26 percent over six years beginning in 2006. That same Medicare Trustees Report indicates the cost of running a practice and caring for patients will increase by 15 percent during that same time.

The AMA has published a chart that succinctly illustrates the problem that physician practices are facing (see chart next page). The top line shows the Medicare Economic Index – the government's own conservative index of medical practice cost inflation. The bottom line shows the change in Medicare payments to physicians during the same time. As you can see, the gap is already large, and payments are not keeping up with practice cost inflation. And as time goes on, it becomes obvious that Medicare payments don't even come close to covering the cost of providing medical care to seniors. It becomes completely unsustainable for physician practices. The AMA has appropriately re-labeled the SGR as the UN-Sustainable Growth Rate


These types of draconian cuts in physician reimbursement coupled with increase in costs of practice costs will have easily predictable results. Health policy experts warn that these severe cuts in physician reimbursement will significantly reduce physician participation in Medicare and seriously reduce the access of seniors to healthcare. In a recently published AMA survey, 38 percent of physicians stated they will definitely decrease the number of new Medicare patients they accept due to the Medicare payment cut scheduled to take place in 2006.

According to AMA Board Chair J. James Rohack, MD, “Physicians want to serve America's seniors, but they simply cannot afford to accept an unlimited number of new Medicare patients into their practices if Medicare payments do not keep up with the cost of providing care. If the 2006 cut is imposed, Medicare payment will fall 16 percent below the government's measure of practice cost inflation. And that is just the tip of the iceberg, as the vast majority of cuts are scheduled to come after 2006. If Congress fails to act soon, physician payment cuts of 26 percent over six years will be devastating to the physician foundation of Medicare. The impending Medicare cuts are the result of the government's flawed physician payment formula that defies logic and ignores economic reality. MedPAC, the commission that advises Congress on Medicare policy, has long recommended replacing this formula with one tied to physicians' actual practice costs.”

Possible solutions to fix the SGR have been proposed. One of the most obvious solutions is to take some elements out of Part B, for example, physician-administered medications. Many specialty groups, including the American College of Physicians (ACP) have lobbied Medicare on the position that these drug charges should never have been included in calculations of physician reimbursement. If the payment update is calculated without these drugs, Medicare actuaries calculate that physicians could potentially

see an increase of 3.7 percent in 2006, rather than the expected 5 percent cut. A second proposed solution is to enact permanent corrective legislation. Representatives Clay Shaw (R-FL) and Ben Cardin (D-MD) have introduced: *The Preserving Patient Access to Physicians Act of 2005* (HR 2356). This bill has the full support of organized medicine.

Dr. Rohack summarizes the feeling expressed by most physicians; “ We applaud Reps. Shaw and Cardin for their commitment to strengthening Medicare’s foundation and putting Medicare on solid footing for the future. The bill introduced today by Reps. Shaw and Cardin implements MedPAC’s recommendations and helps keep the Medicare program strong for America’s seniors and disabled. This important bill stops the impending Medicare physician payment cuts and replaces the flawed physician payment formula. Physicians need to be free to focus on caring for Medicare patients, instead of fighting for fair Medicare payment year after year. This bill provides a permanent solution, so physicians can continue to give Medicare patients the care they deserve. America’s seniors deserve no less.”

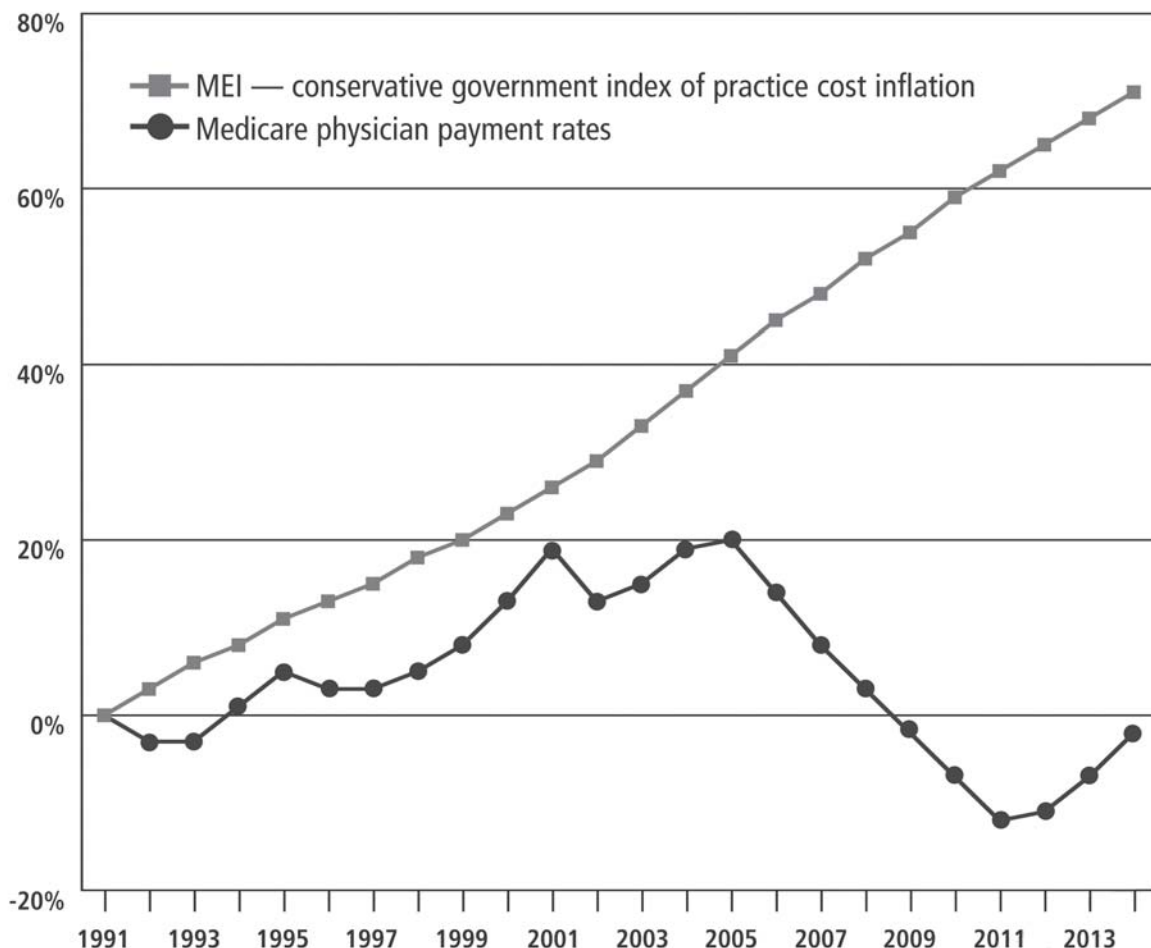
As physicians we have always been our patient’s strongest advocates, and again, it is time to let our legislators hear our voices loud and clear. 

## The Un-Sustainable Growth Rate Formula

2006 through 2011:

Physicians’ costs up 15 percent

Medicare payments down 26 percent



Source: [www.ama-assn.org](http://www.ama-assn.org)