



Medicare Physician Payment Updates and the Sustainable Growth Rate (SGR) System

Jim Hahn

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Each year since 2002, the statutory method for determining the annual updates to the Medicare physician fee schedule, known as the sustainable growth rate (SGR) system, has resulted in a reduction in the reimbursement rates (or a “negative update”). With the exception of 2002, when a 4.8% decrease was applied, Congress has passed a series of bills to override the reductions. The SGR system was established because of the concern that the Medicare fee schedule itself would not adequately constrain overall increases in spending for physicians’ services. While the fee schedule limits the amount that Medicare will pay for each service, there are no limits on the volume or mix of services. The SGR system was intended to serve as a restraint on aggregate spending. If expenditures over a period are less than the cumulative spending target for the period, the update is increased. However, if spending exceeds the cumulative spending target over a certain period, future updates are reduced to bring spending back in line with the target.

In the first few years of the SGR system, the actual expenditures did not exceed the targets and the updates to the physician fee schedule were close to the Medicare economic index (MEI, a price index of inputs required to produce physician services) in the first two years (2.3% in 1998 and 1999, compared with a MEI of 2.2% in 1998 and 2.3% in 1999). For the next two years, in 2000 and 2001, the actual physician fee schedule update was more than twice the MEI for those years (5.5% update vs. MEI of 2.4% in 2000, 5.0% update vs. MEI of 2.1% in 2001). However, beginning in 2002, the actual expenditure exceeded allowed targets and the discrepancy has grown with each year, resulting in a series of ever-larger cuts under the formula.

Some criticisms of the SGR system point to purported flaws in the technical details behind the formula, while others have just expressed displeasure with the resultant outcome. Although modifications have been proposed to replace the SGR system, no proposal has garnered sufficient support and almost all proposals would be expensive to implement compared against the current baseline, which necessarily assumes that significant cuts to the fee schedule will occur.

Legislative activity in the current session of Congress includes several bills. The FY2010 Defense Appropriations Act delayed the implementation of the reductions for two months, through February 28, 2010. The Statutory Pay-As-You-Go Act of 2010 (P.L. 111-139) exempts the amount it would cost to freeze payments for five years from PAYGO rules. H.R. 4691, which became law on March 2, 2010, delayed the payment cuts through March 31, 2010. On April 15, the Senate passed an amended version of H.R. 4851 that extended the payment cut delay through May 31, 2010. The House passed the amended bill, and the President signed P.L. 111-157 into law that day. On June 25, 2010, several weeks after the expiration of the extension created by the Continuing Extension Act, an amended version of H.R. 3962 was signed into law that increases fee schedule payments 2.2% retroactive to June 1 and continuing through November 30, 2010.

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