REFORMING MEDICARE

Option: Address the Sustainable Growth Rate (Physician Payment) Formula

In 1997, the law established a new formula for paying Medicare doctors. The goal of the “Sustainable Growth Rate” (or SGR) was to reduce health care costs by setting limits on how much doctors who treat Medicare patients could be paid. Fees have not been reduced in recent years, as the SGR formula calls for, because Congress has repeatedly intervene to prevent payment reductions. There are several proposals to reform the Medicare doctor payment system. Some proposals include freezing payments for primary care physicians while temporarily decreasing rates for specialists.

Ideas for reform:

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Doctors who take Medicare patients rightly complain bitterly about a government payment rule that is designed to cut their fees automatically every year to keep Medicare spending on doctors within a budget. This rule needs to be eliminated and other steps taken to prevent the future cost of Medicare from skyrocketing.

Almost everyone thinks the current rule, known as the SGR, makes no sense. Indeed, ever since it was passed by Congress in 1997 it has regularly been suspended for a year or so by lawmakers. If it were allowed to take full effect this year, physician fees would be cut by more than a quarter. That would be disastrous for doctors and for their older patients. A huge cut like that would cause doctors to leave Medicare in droves, and cause physicians who remained in the program to scale back care for their older Medicare patients and focus more on treating younger ones (non-Medicare) where the fees are better. SGR only remains in law because pretending it will be enforced in the future makes official projections of the future staggering cost of Medicare look a bit lower.

However, simply abandoning the rule without doing anything else is not the right solution. True, given that Congress routinely suspends the rule, eliminating it would force Congress to show Americans the real future cost of Medicare and the financial burden it will impose on our children and grandchildren. But the right approach is to combine the end of SGR with steps that will reform the way doctors are paid and deal with the long-term cost of Medicare.
At least two immediate steps are needed. First, the government should not be trying to set the wage of doctors. Right now, even if you think your doctor is worth more than the low government-set fee she gets from Medicare, it is illegal for you to agree with her on a higher fee for an office visit, say. If the set fee is not enough for your doctor to cover her own practice costs, her only choice is to pull out of Medicare completely and drop you as a Medicare patient. That law needs to change.

Second, to reduce the huge cost of Medicare that faces future generations, the premiums that older people pay for Part B of the program (the part that helps to pay physicians) must go up. That is needed so that physicians can receive fees for older patients that are closer to those from other patients. But premium changes need to be done carefully to avoid hardship for modest-income older people.

Other reforms are also needed throughout Medicare to make it affordable for future older people without burdening them and their families with heavy government debt and taxes. But the broad agreement that the SGR must end stresses the fact that the government trying to control wages and prices just doesn’t work. It results in fewer doctors serving older people and often worse service from those who do.

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As part of its efforts to control Medicare spending, Congress in 1997 established the so-called sustainable growth rate formula. Under that formula, growth of total physician payments was tied rigidly to a broad economic index: If total payments to physicians grew faster than that index in one year, physician fees—what Medicare pays for each service—would be cut in the following year. The formula was expected to produce modest savings.

Like most rigid formulas, this one broke down. Total spending depends on both the number of services and the fee for each service. The number of services doctors prescribed and total spending for physicians services grew much faster than expected. As a result, the formula called for large cuts in fees that no one regarded as fair and that Congress has refused to enforce but was unwilling to abandon.

Year after year Congress postponed action. With each postponement, the backlog of delayed fee cuts grew. After years of such delays, the formula now calls for an unthinkable 27 percent cut in physician fees. So large a cut is unthinkable because it would cause many doctors to stop serving Medicare patients. But canceling the cuts would increase future budget deficits, because estimates of future budgets assume that the cut will be enforced. And increasing deficits is not something any elected official wants to do.

Furthermore, the cuts would apply equally to all doctors, general practitioners and specialists alike. The problem is that general practitioners, now in short supply, are paid less than specialists. So, letting the SGR formula take effect, cutting fees equally for all doctors, and canceling them are all unattractive options.

What should be done? Eventually, how the United States pays for health care and how care is delivered need to be changed. Multispecialty groups of physicians, nurse practitioners, and other providers should be paid to work in teams to provide a broad range of care to patients. In addition, doctors should be paid not for each narrowly defined service, but for the effective treatment of episodes of illness or chronic
conditions—for example, for all care a heart attack victim receives or the long-term
treatment a diabetic requires. The new health law creates incentives to encourage such
reforms, such as incentives for doctors to join with other providers to form so-called
“accountable care” health organizations. Doctors are slow to change, however; so these
reforms will take time. The best and fastest route to such a reformed health system is to
mobilize Medicare’s enormous buying power to promote change.

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