Highlights of GAO-05-85, a report to congressional committees

October 2004

MEDICARE PHYSICIAN PAYMENTS

Concerns about Spending Target System Prompt Interest in Considering Reforms

Why GAO Did This Study

Concerns were raised about the current system Medicare uses to determine annual changes to physician fees—the sustainable growth rate (SGR) system—when fees were reduced by 5.4 percent in 2002. Subsequent administrative and legislative actions modified or overrode the SGR system, resulting in fee increases for 2003, 2004, and 2005. However, projected fee reductions for 2006-2012 have raised new concerns about the SGR system. Policymakers are considering whether to eliminate spending targets or modify them.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) required that GAO study SGR and potential alternatives to the system. This report examines (1) how the SGR system is designed to control spending for physician services, (2) what concerns have been raised about the SGR system and its components, (3) what affects the stability and predictability of physician fee updates under the SGR system, and (4) what alternatives to the current SGR system exist. GAO reviewed relevant laws and regulations and interviewed officials and organizations representing physicians. On the basis of this information, GAO identified potential alternatives to the SGR system and requested illustrative simulations of fee updates and spending on physician services from the Centers for Medicare & Medicaid Services (CMS).

www.gao.gov/cgi-bin/getrpt?GAO-05-85.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7101.

What GAO Found

To moderate Medicare spending for physician services, the SGR system sets spending targets and adjusts physician fees based on the extent to which actual spending aligns with specified targets. If growth in the number of services provided to each beneficiary—referred to as volume—and in the average complexity and costliness of services—referred to as intensity—is high enough to cause spending to exceed the SGR target, fee updates are set lower than inflation in the cost of operating a medical practice. A wide enough gap between spending and the target results in fee reductions.

Physician groups are dissatisfied with SGR as a system to update physician fees. For example, they question the fairness of including rapidly growing spending for physician-administered drugs in the SGR system's definition of physician services expenditures. The groups also contend that the allowance for growth in volume and intensity is too low and lacks the flexibility to allow for factors outside physicians' control.

Fee updates under the SGR system have varied widely within an allowed range largely because of annual fluctuations in the growth of the volume and intensity of services that physicians provide to beneficiaries. Certain system design features, such as the use of cumulative spending targets and the need to estimate data, also reduce the stability and predictability of updates. However, MMA's revision of the allowance for growth in volume and intensity of services from an annual change to a 10-year moving average will help to make future updates more stable and predictable.

Possible alternatives to the SGR system cluster around the two broad approaches under consideration: (1) end the use of spending targets and separate fee updates from explicit efforts to moderate spending growth or (2) retain spending targets but modify the current SGR system to address perceived shortcomings. CMS projects that either of the two approaches will result in higher aggregate spending, thereby increasing the difficulty of addressing Medicare's long-run financial challenges. The first approach emphasizes stable fee updates, while the second approach automatically adjusts fee updates if spending growth deviates from a predetermined target. While seeking to pay physicians appropriately, it is important to consider how modifications or alterations to the SGR system would affect the long-term sustainability and affordability of the Medicare program. In this context, the choice between the two approaches may hinge on whether primary consideration should be given to stable fee increases or to the need for fiscal discipline within the Medicare program.

CMS agreed with the concluding observations in the draft report. Groups representing physicians commented that overall, the draft report offered a good analysis of problems with the SGR system, but did not fully reflect their concerns. We modified the draft as appropriate.