MedPAC Recommends 1% Physician Fee Raise

BY NASEEM S. MILLER

Medicare physician fees should be increased by 1% in 2012, and an alternative must be found for the Sustainable Growth Rate formula, according to recommendations in the Medicare Payment Advisory Committee annual March report to Congress.

"For a long time, I've been able to sit before this subcommittee and say that SGR is a problem but we don't see an imminent threat to access," Medicare Payment Advisory Commission (MedPAC) Chairman Glenn Hackbarth testified at a hearing of the Health Subcommittee of the House Ways and Means Committee. But "we think we're getting closer to that tipping point" when that is no longer the case.

In 2009, fee-for-service Medicare spent about $64 billion on physician and other health professional services, accounting for 13% of total Medicare spending, according to the 2011 MedPAC report, which noted that "among the 1 million clinicians in Medicare's registry, about half are physicians who actively bill Medicare." MedPAC is charged with advising Congress on setting payment rates for physicians, hospitals, and other health care providers.

In addressing the SGR, the report notes that "a main flaw of the SGR is its blunt approach. In setting across-the-board updates to Medicare's physician fee schedule, the system neither rewards individual providers who restrain unnecessary volume growth nor penalizes those who contribute most to volume increases. Also, the SGR does little to counter the volume incentives that are inherent in [fee-for-service] payments. In fact, volume growth is one of the major factors that has caused cumulative spending to exceed the SGR's cumulative target."

In the absence of congressional action, the SGR requires physician payments to be cut by approximately 30% in 2012, according to MedPAC calculations.

Every year since 2002, Medicare spending has exceeded SGR targets, causing physician pay, by law, to be reduced. However, just about every year, Congress has stepped in to legislate a way to avoid those cuts. The avoided cuts are becoming an ever-growing debt being carried on the federal ledger.

The White House, in its fiscal 2012 budget proposal, is proposing to reduce that debt over the next 10 years, at a cost of $370 billion. But the administration has figured out only how to pay for that fix for the first 2 years.

Mr. Hackbarth told the subcommittee that MedPAC will look into options for a new payment system, but he added that any new payment system will have a budget score attached to it. The question for Congress is "whether we're going to spend more by making last-minute adjustments piling more money into the existing payment system, or whether we're going to spend more strategically to achieve important goals for the Medicare program," he said.

MedPAC's struggles to find a way around the SGR formula were on display at a February meeting where staff analysts presented options to commissioners. Multiple options exist to permanently fix the formula, but each has its cost to physicians, patients, and the program.

Among those options were adjusting the SGR's spending targets so that they are no longer cumulative, but are calculated on an annual basis and allowing some flexibility in the target. Both of those options would forgive any excess over the target, removing the annual pay cut threat doctors have endured since 2002 under the SGR, according to Cristina Boccuti, a principal policy analyst for MedPAC. However, forgiving any overage will lead to higher costs for the Medicare program. Neither option would leave any room to offer incentives for improved quality and efficiency, she added.

In the past, MedPAC has recommended setting target growth rates – and payment rates – according to particular service categories; the commission is looking in this direction again. For example, separate categories could be established for primary care, imaging, minor procedures, and anesthesia, allowing rates to more closely track volume of services. ■

Alicia Ault contributed to this article.