SUSTAINABLE GROWTH RATE

An Idea Whose Time has Gone

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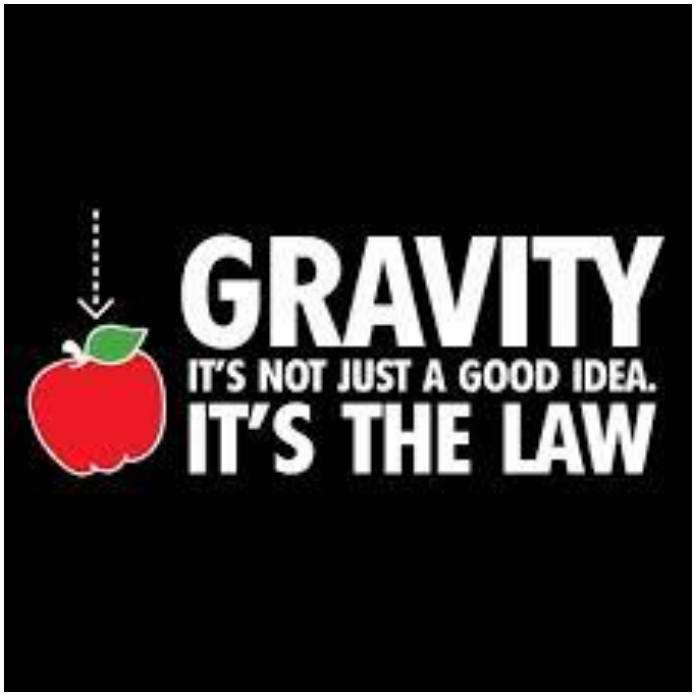
SGR – UNLIKE GRAVITY…



…not such a good idea

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SUSTAINABLE GROWTH RATE (SGR)

$$(x+a)^n = \sum_{k=0}^{n} \binom{n}{k} x^k a^{n-k} \text{*}$$

- A formula sets an annual expenditure target for physicians' services, and other Part B services "incident to" physician services
- Target includes
  - Trends in cost of the market basket of goods and services purchased to produce the covered services
  - Anticipated productivity adjustment
  - Change in Medicare FFS enrollment
  - Long-term annual trend in *real* GDP (inflation adjusted)
  - Impact of changes in law and regulation on benefit costs (i.e. a new benefit would result in an increase in the target)
  - Adjustments for prior year estimation errors, or Congressional overrides

* Actually, this is the equation for the binomial theorem. SGR isn't this simple…

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  - Adjustments for prior year estimation errors, or Congressional overrides
- **Spending in excess of the target produces an off-setting reduction in physician fees. Spending below the target has generated fee increases.**

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SUSTAINABLE GROWTH RATE

- Negative every year since 2002
- In 2002, the SGR generated a cut to physician fees of 4.8%
- In 2003, the SGR would have cut an additional 4.4%. Instead, Congress increased fees by 1.7% (an annualized swing of 6%, although only effective for 10 months).
- In 2004, the SGR would have cut physician fees by 4.5%. Congress increased fees by 1.5%.
- And so on every year to this very day
- Cumulative cost of annual fixes: $150 billion
- Each year, the overrides are added to the SGR, increasing the problem.
- 2014 projected cut is 24.1% -- postponed until 4/1.

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SOLUTION EXISTS

- Long-term solution
  - Bi-partisan, bi-cameral bill to repeal the SGR and enact value-based pricing for physician services
  - Approved by House Energy & Commerce and Ways & Means, and Senate Finance Committees
- But, how to pay for it??
  - 10 year cost is $138 billion
  - Congress' "Pay-Go" rule requires offsetting 10 year savings.

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SOLUTION EXISTS

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SOLUTION ~~EXISTS~~

- Long-term solution
  - Bi-partisan, bi-cameral bill to repeal the SGR, enact value-based pricing for physician services, and…
  - …House of Representatives passed the bill, but tied SGR fix to a 5-year postponement in the Obamacare individual mandate
  - Obamacare's broad coverage goal requires guaranteed issue (no pre-existing limitations), and guaranteed issue without an individual mandate allows people, in effect, to wait until the house catches fire before buying fire insurance.
  - President will veto this, even if it were to pass the Senate (it won't).

See Stuart Butler, "The Heritage Plan", Heritage Foundation, 1989, for justification of individual mandate

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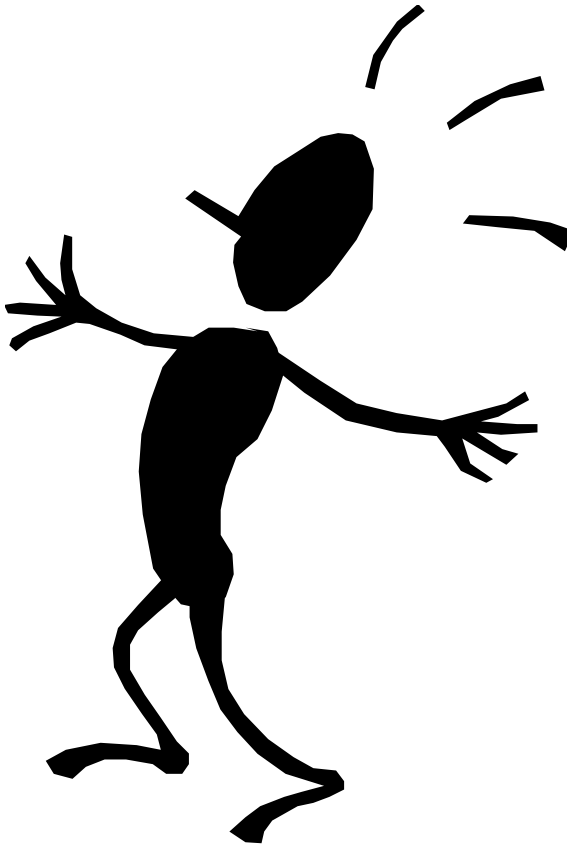
SOLUTION EXISTS

- Short-term solution
  - The bill that rolled back a reduction in certain military pensions paid for change by extending the 2% Medicare sequestration by one year, to 2024.
  - The “savings” anticipated ten years hence are more than enough to fund the pension increase
  - The difference, $2.3 billion, is available for a short-term postponement of the 2014 SGR cut.
  - **Still needed: about $7 billion for a 9-month postponement, until 1/1/2015.**



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SOLUTION EXISTS

- Path of least resistance is…

…deal with the SGR again after the election

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SOLUTION EXISTS

- So who will pay?
  - Medicare providers and health plans: One year extension of 2% sequestration, 10 years from now. Done deal.
  - Hospitals? Possible one year extension of DSH reduction (but no one expects to see that money come back, anyway).
  - Congress will probably find the rest in other provider payments.
  - Expect a bill this week??

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BUT WHAT IF??

Details of the bi-partisan, bi-cameral proposal

1. Repeal the SGR
2. 5-year period (2014 – 2018) of 0.5% annual increases in physician fee schedule (update to conversion factor)
3. Updates from 2019 – 2023 = 0%
4. Updates from 2024 onward = 0.5% or 1.0%, depending…
5. Consolidates three existing quality programs into one Merit-based Incentive Payment System (MIPS):
   a. EHR meaningful use
   b. Physician Quality Reporting System (PQRS)
   c. Value based payment modifier (VBPM)

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SGR REPLACEMENT

- MIPS*: Positive and negative adjustments for…
  - Quality
  - Resource use
  - EHR meaningful use
  - Clinical practice improvement activities
- Absolute and relative improvement (relative to peers)
- Range
  - 2018 = -4% to +12%
  - 2021 = -9% to +27%, plus

*In Geek Speak, MIPS means “millions of instructions per second”

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SGR REPLACEMENT

- Alternative Payment Models (APM)
  - Physicians with significant revenue through APMs may opt out of MIPS
  - APM involves financial risk, quality, EHR
  - 5% bonus
  - After 2024, 1% annual update rather than 0.5%
  - Payment Model Technical Advisory Committee

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DETAILS

- MIPS
  - Implements a process to improve payment accuracy for individual provider services.
  - Incentivizes care coordination efforts for patients with chronic care needs.
  - Introduces physician-developed clinical care guidelines to reduce inappropriate care that can harm patients and results in wasteful spending.
  - Requires development of quality measures and ensures close collaboration with physicians and other stakeholders regarding the measures used in the performance program.

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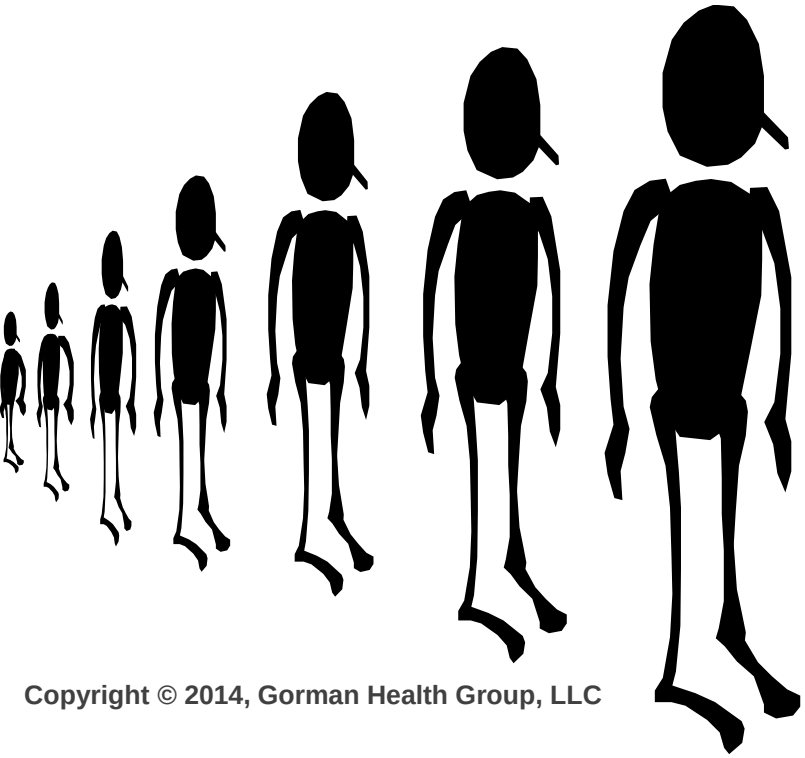
DETAILS

- MIPS
  - Implements a process to improve payment accuracy for individual provider services.
    - Studies and reports
    - Factors associated with desired outcomes – quality and resource use
    - Race, health literacy, limited English, patient activation, health status, other factors
    - HHS to recommend payment adjustments for risk related to the identified factors
  - Code creep? Improved accuracy and completeness of data?

DETAILS

- Episodes of Care and Condition Groups
  - With stakeholder input regarding composition and expected resource use
    - To ultimately cover 2/3 of Medicare spending
    - Attribution rules: patient to episode, and episode to physician
    - Resource use measurement
    - Could be basis for payment (not in the bill)



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DETAILS

- Quality metrics to be developed
  - Clinical care
  - Safety
  - Care coordination
  - Patient and caregiver experience
  - Population health and prevention
  - Input and output measures

DETAILS

- Chronic care
  - New HCPCS code or codes for management
  - Payment for management starting 1/1/2015
  - For practitioner functioning within a patient-centered medical home – certified
  - Budget neutral payment
- Relative Value Scale
  - Improve resource use quantification
  - Fix mis-valued services
  - Still a relative cost scale, not relative value
  - Goal is saving money

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DETAILS

- Evidence-based Care
  - Imaging guidelines: ordering criteria, location, appropriate use
  - Tied to payment
  - Prior authorization for outlying ordering professionals (up to 5%)
- “Consumer Reports”
  - Physician-specific data on charges and payments, number/frequency of services
- Consideration of broader gain-sharing with hospitals

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Gorman Health Group (GHG) is a national health care and federal programs consultancy staffed by subject matter experts, former health plan executives, and seasoned regulators. For over 16 years, hundreds of clients serving millions of consumers have leveraged GHG's strategic counsel, technology, and knowledge-based solutions to achieve growth objectives, maximize and maintain compliant operations, improve market positions, develop new market opportunities, advance profitability, and provide timely, industry-based content and education. GHG's solutions continually evolve to meet the needs of our clients.

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