



Highlights of [GAO-05-326T](#), a testimony before the Subcommittee on Health, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Concerns were raised about the system Medicare uses to determine annual changes to physician fees—the sustainable growth rate (SGR) system—when it reduced physician fees by almost 5 percent in 2002. Subsequent administrative and legislative actions modified or overrode the SGR system to avert fee declines in 2003, 2004, and 2005. However, projected fee reductions for 2006 to 2012 have raised new concerns about the SGR system. Policymakers question the appropriateness of the SGR system for updating physician fees and its effect on physicians' continued participation in the Medicare program if fees are permitted to decline. At the same time, there are concerns about the impact of increased spending on the long-term fiscal sustainability of Medicare.

GAO was asked to discuss the SGR system. Specifically, this statement addresses the following: (1) how the SGR system is designed to moderate the growth in spending for physician services, (2) why physician fees are projected to decline under the SGR system, and (3) options for revising or replacing the SGR system and their implications for physician fee updates and Medicare spending. This statement is based on GAO's most recent report on the SGR system, *Medicare Physician Payments: Concerns about Spending Target System Prompt Interest in Considering Reforms* (GAO-05-85).

www.gao.gov/cgi-bin/gettrpt?GAO-05-326T.

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.

MEDICARE PHYSICIAN PAYMENTS

Considerations for Reforming the Sustainable Growth Rate System

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, spending will exceed the SGR target. While the SGR system allows for some volume and intensity spending growth, this allowance is limited. If such growth exceeds the average growth in the national economy, as measured by the gross domestic product per capita, fee updates are set lower than inflation in the cost of operating a medical practice. A large gap between spending and the target may result in fee reductions.

There are two principal reasons why physician fees are projected to decline under the SGR system beginning in 2006. One problem is that projected volume and intensity spending growth exceeds the SGR allowance for such growth. Second, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) increased the update for 2004 and 2005—thus increasing spending—but did not raise the spending targets for those years. The SGR system, which is designed to keep spending in line with its targets, must reduce fees beginning in 2006 to offset excess spending attributable to both volume and intensity growth and the MMA provision.

In general, proposals to reform Medicare's method for updating physician fees would either (1) eliminate spending targets and establish new considerations for the annual fee updates or (2) retain spending targets, but modify certain aspects of the current system. The first approach emphasizes stable and positive fee updates, while the second approach automatically applies financial brakes whenever spending for physician services exceeds predefined spending targets. Either approach could be complemented by focused efforts to moderate volume and intensity growth directly. As policymakers consider options for updating physician fees, it is important to be mindful of the serious financial challenges facing Medicare and the need to design policies that help ensure the long-term sustainability and affordability of the program.