Reforming SGR and the Physician Payment System:
Rewarding Primary Care, Coordination, and Efficiency

The draft health reform bill being developed by the leading Chairmen in the House of Representatives proposes to fundamentally and permanently reform the sustainable growth rate (SGR) formula that updates reimbursement for physician services in Medicare. It will also contain additional provisions to encourage and reward efficient, high-quality care and care coordination.

Key Features

- Provides an update for 2010 based on the Medicare economic index;
- Wipes away accumulated deficits to provide for a fresh start;
- Excludes items (e.g., prescription drugs, lab services) not paid under the Medicare fee schedule;
- Provides an extra growth allowance for primary care services;
- Encourages Accountable Care Organizations to take responsibility for quality and costs; and
- Encourages efficiency by retaining limits on volume growth

Additional Details

Under current law, physician fees in Medicare are slated to be reduced by 21% in January 2010 and by about 5% for the subsequent four years. This constrains spending on physician services to growth rates much less than those in other parts of the medical system. The current formula includes many items and services not paid directly to physicians and other practitioners. It also makes no allowance for the added value of primary care or volume growth that occurs because of a greater emphasis on preventive services. The proposed reform eliminates accumulated deficits under the existing SGR. It would provide a defined update for 2010 to allow a new system to be developed.

The SGR would then be replaced with a new formula that:

- Removes items such as drugs and laboratory services not paid directly to practitioners from spending targets;
- Allows the volume of most services to grow at the rate of GDP plus 1 percentage point per year (compared to GDP without any adjustment today);
- Allows the volume of primary and preventive care services to grow at GDP plus 2% per year; and
- Encourages coordinated, innovative care by allowing Accountable Care Organizations to be responsible for their own growth paths, irrespective of reductions or increases that apply elsewhere in the system.

The proposed reforms would cost less than $300 billion over ten years.

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