**MedPAC Calls SGR Flawed, Urges Replacement**

**BY ALICIA AULT**

**FROM A BRIEFING HELD BY THE MEDICARE PAYMENT ADVISORY COMMISSION**

WASHINGTON – The Sustainable Growth Rate is “flawed in many ways,” according to the Medicare Payment Advisory Commission, which presented several possible alternatives in its semi-annual report to Congress.

Reform of the Sustainable Growth Rate formula (SGR) is essential to fixing the American health care system, MedPAC Chairman Glenn M. Hackathorn said in a statement. “The Commission believes payment reform is a necessary, although not sufficient, condition for reform of the health care delivery system.”

It is not the first time that the MedPAC commissioners have expressed their concern about the SGR and its continuing threat to both physicians and patients. Under the SGR, Medicare is on track to cut physician pay by 30% in 2012.

To eliminate the cuts that have mount- ed over the years is an expensive proposition – about $300 billion, according to estimates by MedPAC and others.

Thus, the commission has suggested several alternatives as well as potential ways to create Medicare savings to cover the cost of replacing the SGR.

One idea that has garnered strong support from the commission is overhauling the fee-for-service system by rewarding primary care physicians and encouraging a medical home model of care. Under that scenario, payments essentially would be shifted away from specialty care and procedure-based medicine to primary care, said MedPAC executive director Mark Miller.

The report also called for possible short-term fixes to the SGR to last for at least 2 years. In 2010, updates were so short-lived that they were often applied retroactively. The lack of predictability was difficult for physicians, according to the report, which added that “the most disturbing outcome resulting from the short-term fixes was damage to patients’ and providers’ confidence in Medicare.”

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Medicare payments to physicians will be slashed by 29.4% on Jan. 1 unless Congress acts to avert the scheduled cut, according to an estimate from the Congressional Budget Office.

Last year, Congress passed a 1-year pay fix that kept Medicare fees to physicians at 2010 rates through the end of 2011. Come January, though, physicians will be faced with paying the bill on years of accumulated pay cuts.

The new report from the nonpartisan Congressional Budget Office also contains projections of the cumulative effects of various proposals to replace or revamp Medicare’s Sustainable Growth Rate (SGR), the formula that requires annual cuts to physician pay whenever actual spending on physician services is below projected levels.

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The outright denial rate (in which no payment is made) ranged from a low of 17% of claims at Regence to 25% at Anthem and Cigna. Prior authorization is a growing problem for physicians and constitutes one of the top eight reasons for denial of claims, according to Mark Rieger, CEO of National HealthCare Exchange Services, the company that conducted the analysis for the AMA. Coping with prior authorization is the second-largest administrative task for physicians, consuming at least 20 hours a week of physician and staff time, he said at the meeting.

Cigna had highest rate (6%) of claims requiring prior authorization; Regence had the lowest (0.04%). There were some bright spots in the report. The vast majority of claims are now being paid within the first 15 days, with the remainder coming largely within 16-30 days of submission. Humana and Medicare were the fastest, paying out claims within 15 days. Cigna and Health Care Services were close behind.

The data were compiled by National HealthCare Exchange Services. The company analyzed claims submitted between Feb. 1 and March 31, 2011. Claims came from 42 states, and included 4 million services billed on $2.4 million claims made by 400 practices covering 80 specialties.