Scraping the sustainable growth rate would be a first step toward fair payment for Medicare physicians.

That approach comes with a high price tag: The Congressional Budget Office estimates it would cost $95 billion to replace the SGR. Exploring that option “really all depends on what the budget outlook is for this year,” the aide said.

No matter what the cost, the fix needs to be done, Robert Doherty, senior vice president for governmental affairs and public policy with the American College of Physicians, said in an interview. “The cost of fixing this may be high, but the reason it’s high is because the hole is so deep—and we did not dig that hole. All we’re asking is to fill in that hole so we’re breaking even.”

The budget situation is clearly the biggest obstacle, Mr. Doherty said. “If the deficit was not bad as it is, it wouldn’t be that difficult.”

While no one can predict whether Congress will pursue a permanent fix or a temporary reprieve as they’ve done in the past, physicians would gain more credibility if Congress didn’t focus solely on fixing the SGR, Mr. Doherty said. “We need to engage in other reforms to the physician payments system to make it more functional for the physician, payer, and patient,” he said.

Malpractice reform is on the top of President Bush’s health care agenda and will likely take precedence over the public health safety net and other health care reforms in 2005. Several physician groups and the administration have long advocated a $250,000 cap on noneconomic damages as part of a reform package.

The hurdle ahead is getting the Senate to avert the cuts that major carriers are looking for more feedback at this point, Robert M. Tennant, MGMA’s senior policy advisor for health informatics, said in an interview. Physicians would prefer a staged implementation date, Mr. Tennant said. “We would like health plans to be compliant first, so physician practices could have time to get their systems upgraded and complete their testing and staff training,” he said. The goal is to make sure the transition is cost effective and causes as little disruption to the industry as possible, he said.

The new year also brings new leadership to the federal health bureaucracy. At press time, President Bush named Michael O. Leavitt as his pick to lead HHS. Mr. Leavitt served as the administrator of the Environmental Protection Agency in the president’s first administration and was previously governor of Utah. Mr. Leavitt must be confirmed by the Senate before assuming his new duties.

At the Centers for Medicare and Medicaid Services, much effort will be focused this year on getting ready to launch the new Medicare prescription drug benefit just 1 year from now.

This will be the final year for the drug discount cards that were instituted as a bridge to Medicare drug coverage. The new drug card should prompt Congress to simplify the Part D drug benefit, said Robert M. Hayes, president of the Medicare Rights Center. But conventionally, Congress won’t do anything to address this issue, and will wait until next year to address problems.

Congress should act to ensure that there is one clear Medicare-run drug plan in every region of the country and that Medicare automatically enrolls low-income seniors. Also, Congress should standardize the benefit packages, he said.

A lot of beneficiary education will be needed this year, said Jon Fetter, director of policy and strategy at AARP (formerly the American Association of Retired Persons), especially since the choices will be different across the country.

Joyce Frieden, Jennifer Silverman, and Mary Ellen Schneider contributed to this report.