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On the Issues

Addicted to the Physician Payment "Fix"

By Bryan E. Dowd

Congressional mismanagement of Medicare is a bipartisan project in which Democrats and Republicans set aside the rancor of party politics and ideological differences and work hand in hand to run the program into the ground. The latest attempts to "fix" physician payments by replacing a sizeable cut in Medicare fees with a small increase provide the evidence.

According to the Medicare Trustees, the Medicare Trust Fund is scheduled to run out of money in 2017. The end could come sooner if the recession continues to depress federal payroll and income taxes. Medicare's unfunded obligation over the next seventy-five years is $32.4 trillion. Yet Congress is determined to give physicians a pay raise rather than trying to solve a long-standing problem that discourages improvements in health care for seniors and wastes taxpayer dollars.

As part of the *Balanced Budget Act of 1997*, Congress established the sustainable growth rate (SGR) legislation that mandated across-the-board cuts in Medicare's physician fee schedule if expenditures on physician services grew too rapidly. The legislation actually resulted in a 5.4 percent cut in physician fees in 2002, but since then, Congress has found ways to ignore or circumvent the legislation. Unless Congress takes action, physicians are slated for a 21 percent cut in Medicare fees next year.

Based on the promise from the American Medical Association (AMA) that twenty-seven Republicans would support a permanent fix that would abolish the SGR, Senator Harry Reid (D-Nev.) put the proposal to a vote on October 21. It was defeated, with Republicans and key Democrats—including Budget Committee chairman Senator Kent Conrad (D-N.Dak.)—voting no. The defeat is only temporary, however. The SGR is not long for this world. Given Congress's track record on Medicare, it is a little odd that the proposal was defeated, but the timing and circumstances of the defeat are even more unusual.

The SGR joins a long list of failed Congressional attempts at self-discipline and responsible management of the Medicare program. The *Medicare Modernization Act of 2003* included a warning trigger if Medicare dips too deeply into tax revenue. If, for two consecutive years, the Medicare Board of Trustees projects that general revenues

Key points in this *On the Issues*:

- Despite legislation mandating that Congress make cuts in Medicare's physician payments if costs grow too rapidly, Congress has ignored or circumvented the rule every year except in 2002.
- The sustainable growth rate legislation should be replaced with sensible policies to reduce unnecessary spending and improve incentives for better health care.
- Medicare has funding problems, and the cost will be passed on to baby boomers' children and grandchildren if unnecessary spending is not curtailed.

Bryan E. Dowd (dowdx001@umn.edu) is a professor and director of graduate studies for health policy and management at the University of Minnesota.

will make up more than 45 percent of total Medicare funding within a seven-year period, the president must submit a proposal to reverse that situation. In 2007, 2008, and 2009, the trustees dutifully reported that the 45 percent "trigger" had been pulled.

President George W. Bush responded with proposals as required and Congress did nothing—that is, nothing except attack the rule itself. On January 6, 2009, the House voted 242–181 to suspend the 45 percent rule for the remainder of the 111th Congress.

Rather than mandate across-the-board cuts in physician fees that no one takes seriously, Congress should scrap the sustainable growth rate and adopt sensible policies.

Congress also has contradicted itself on how Medicare buys medical products and services. Congress has required the Centers for Medicare and Medicaid Services (CMS) to run demonstrations testing whether competitive bidding would reduce prices for Medicare. Even though those demonstrations showed that competitive bidding can produce substantial program savings, Congress blocked virtually every attempt by CMS to purchase durable medical equipment, clinical laboratory services, drugs and biologicals, or anything else through competitive bidding.

Eliminating the SGR will add about $250 billion to the cost of health care reform. Some Democrats had hoped to keep the $250 billion "off the books," but deficit hawks on both sides of the aisle raised a ruckus. The whole issue could have been avoided simply by not mentioning the SGR until the health care reform legislation had passed. If a "trigger" mechanism like the SGR or the 45 percent rule is in law, then the Congressional Budget Office must score the savings resulting from the trigger even if everyone knows perfectly well that the trigger will be ignored.

The House also proposed eliminating the SGR as part of its "tri-committee" health reform bill, claiming the virtue of fiscal honesty. But this is honesty in the same sense that an "honest" husband warns his wife in advance that even though they are penniless, he is going to purchase a new Lexus. Fearing that the physician payment fix might sink broader health reform, Speaker Nancy Pelosi (D-Calif.) moved the proposal to a stand-alone bill, pretending that this was no longer part of the reform package. A more plausible story regarding the whole episode is that the AMA was unwilling to accept an IOU for its support of the reform effort, preferring instead to see cash on the barrelhead.

As a policy instrument, the SGR never had a lot to recommend it. It is too blunt an instrument. Rather than mandate across-the-board cuts in physician fees that no one takes seriously, Congress should scrap the SGR and adopt sensible policies. The following five policies could use physician payment policy to reduce unnecessary Medicare spending and increase incentives for better health care:

1. Reduce the geographic variation in Medicare expenditures by reducing fees disproportionately in market areas with high risk-adjusted fee-for-service Medicare per-capita spending levels;

2. Reduce or eliminate payments for medically ineffective procedures;

3. Reduce fees in areas with high levels of physician market concentration;

4. Reduce fees for services with high growth rates that are not associated with better health outcomes;

5. Increase fees only for lower-cost, higher-quality providers.

The Left is laying the groundwork for its approach to Medicare's fiscal problems; the plan is to let the program hit the shoals, then implement massive tax increases, knowing that in 2017 the great mass of aging baby boomers will no longer be paying payroll taxes, and their income taxes in retirement will do little to cover Medicare's costs.

The bill for the boomers' fiscal irresponsibility will be passed on to their children and grandchildren. It is deplorable—a kind of intergenerational larceny. My hope is that the boomers' children and grandchildren will take President Barack Obama's inauguration speech on responsibility to heart and just say "no."