

PRINCIPLES TO REFORM THE MEDICARE PHYSICIAN PAYMENT SYSTEM

In December 2012, Congress once again postponed a scheduled reduction in reimbursements paid under the Physician Fee Schedule to physicians and other health care practitioners participating in the Medicare program. Due to the Sustainable Growth Rate (SGR) formula, reimbursement rates were scheduled to be cut 27% on January 1, 2013, in addition to a 2% budget cut mandated by sequestration. This year scheduled cuts will result in a nearly 25% reduction in Medicare payment rates in January 2014.

According to the MedPAC, particularly for newly eligible beneficiaries, it is becoming increasingly difficult to find a primary care physician.ⁱ The threat of looming cuts creates uncertainty and needless stress for Medicare providers and beneficiaries. The SGR formula is fundamentally flawed and permanent changes to the Medicare reimbursement system are long overdue. The Congressional Budget Office (CBO) recently estimated that freezing payment rates at current levels would cost roughly \$138 billion over ten years.ⁱⁱ Past CBO estimates on the cost of repealing the SGR, often estimated at between \$250 and \$300 billion over ten years, hindered prior attempts to secure a permanent solution.

The health needs of the Medicare population demand a reformed payment system that appropriately rewards high-quality, patient-centered primary care, care coordination and preventive services. On the whole, people with Medicare have multiple and significant health needs—40% of beneficiaries have three or more chronic health conditions, and more than one quarter of beneficiaries (27%) report being in fair or poor health. Nearly one in four people with Medicare live with a cognitive or mental impairment, requiring extensive, ongoing care.ⁱⁱⁱ

Despite the long-standing need to revisit the Medicare payment reimbursement system, repeal and replacement of the SGR must be pursued responsibly, taking into account the health and economic needs of the 50 million older adults and people with disabilities who rely on Medicare. Towards this end, the Leadership Council of Aging Organizations (LCAO) believes that any attempt to reform the SGR must adhere to the following principles:

1. Protect people with Medicare from cost shifting

A legislative proposal to repeal or replace the SGR must not be paid for by shifting costs to Medicare beneficiaries. Half of all Medicare beneficiaries—nearly 25 million—live on annual incomes of \$22,500 or less. People with Medicare already contribute a significant amount of their income towards health care. As a share of Social Security income, Medicare premiums and cost-sharing has risen steadily over time. In 2010, Medicare premiums accounted for 26% of the average monthly Social Security benefit compared to 7% in 1980.^{iv}

- **Reject offsets that shift costs to people with Medicare.** Proposals to shift costs to people with Medicare, such as by raising the Medicare age of eligibility, redistributing the burden of Medicare cost sharing through increased deductibles, coinsurances or copayments, limiting first dollar Medigap coverage and further income-relating Medicare Part B and D premiums, must not be used to pay for a permanent SGR solution.
- **Ensure beneficiaries are held harmless from payment adjustments.** Because beneficiary premiums and cost sharing are based on overall Medicare expenditures, provider payment adjustments should not lead to increased Medicare spending. Instead, innovative reimbursement and delivery models should be implemented, which reduce Medicare expenditures by incentivizing quality and value, rather than quantity and volume.

2. Extend a permanent fix to critical Medicare benefits

Averting steep cuts to physician payments is not the only Medicare policy revisited on an annual basis. We are very concerned that a permanent SGR fix could significantly diminish the prospects for continued bipartisan agreements on extenders packages, which always included extensions of two critical provisions with expiration dates that

correspond with the SGR. Any permanent SGR solution must also account for these benefits, including the Qualified Individual (QI) program and therapy cap exceptions.

- **Make the QI program permanent.** The QI benefit pays Medicare Part B premiums for individuals with incomes that are 120% to 135% of the federal poverty level—about \$13,800 to \$15,500 per year. This benefit is essential to the financial stability of people with Medicare living on fixed incomes.
- **In the absence of full repeal of Medicare therapy caps, make the exceptions process permanent.** Therapy cap exceptions ensure access to critical, medically necessary services that allow beneficiaries to live with independence and dignity each day.

3. Promote quality care

SGR reform must gradually replace the current volume-based payment system with a value-driven model. New payment models must reward quality, safety, value and coordination of care, as opposed to the number of services provided. Emphasis on team-based care coordination, effective care transitions, and preventive care can lead to better care, better health and lower costs for people with Medicare.

- **Address the imbalance between primary and specialty reimbursement.** Medicare beneficiaries often have multiple chronic conditions, may have cognitive impairments, and need extra attention from their health care providers. Time spent by primary care providers explaining treatment options or following up with patients is not adequately valued by current reimbursement policies, as reflected in recommendations by the MedPAC.^v
- **Build a strong primary care workforce.** The current payment system discourages providers from pursuing or continuing careers in primary care, including those with the training and skills needed to meet the unique care needs of our nation's growing population of older adults. Reimbursement rates which appropriately reflect the demand for primary care services will strengthen the primary care workforce.
- **Encourage promising delivery models.** A permanent SGR solution must build on lessons learned through ongoing pilot programs, including Patient Centered Medical Homes and Accountable Care Organizations, to coordinate and better manage care. It also should promote better coordination between primary and specialty care providers to address gaps in the quality of care.
- **Utilize consensus-based quality measures.** In order to provide reliable, useful data to practitioners, quality measures must be consensus based, and endorsed by such organizations as the National Quality Forum that include consumers, employers and other purchasers. Allowing non-consensus-based measures undermines the current measure-selection process used by other programs and limits the ability to share quality data across programs. Moreover, a multi-stakeholder process ensures acceptance of and confidence in the measures which are ultimately selected for payment and other purposes. In addition, any new payment system must include quality measures constructed for vulnerable and frail older adults, so that multiple chronic illnesses are accounted for and providers are rewarded for treatment that improves quality of life.
- **Engage the beneficiary community.** Any process to enact a permanent SGR solution must involve the beneficiary community, including people with Medicare, family caregivers, and consumer advocates.

Staying true to the principles outlined above is critical to designing a reformed payment system that provides economic stability and ensures access to high quality care for people with Medicare.

ⁱ MedPAC, [Report to Congress: Medicare Payment Policy](#) (March 2012)

ⁱⁱ Congressional Budget Office, [The Budget and Economic Outlook: Fiscal Years 2013 to 2023](#) (February 2013)

ⁱⁱⁱ Kaiser Family Foundation, [An Overview of the Medicare Program and Medicare Beneficiaries' Costs and Services Use](#) (Statement by J. Cubanski before the Senate Special Committee on Aging, February 2013)

^{iv} Kaiser Family Foundation, [Policy Options to Sustain Medicare for the Future](#) (January 2013)

^v MedPAC, [Re: Moving forward from the sustainable growth rate \(SGR\) system](#) (Letter to Congress, October 2011)