

# Policy Focus

## Doc Fix Problems and Solutions

RECIPES FOR RATIONAL GOVERNMENT FROM THE INDEPENDENT WOMEN'S FORUM

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### WHAT YOU NEED TO KNOW

**M**edicare's Sustainable Growth Rate (SGR) formula, put in place by the Balanced Budget Act of 1997, was meant to control costs in Medicare by automatically reducing doctors' pay. But without fail since 2003, Congress blocks SGR's implementation each year. This is called a "doc fix."

The annual "doc fix" undermines the original purpose of the formula: to control Medicare costs. But allowing the SGR formula to take effect would lead to other problems. More than 50 million seniors depend on Medicare for health insurance. If physician reimbursement becomes too low, more and more doctors will close their doors to Medicare patients in favor of patients with private insurance. The government needs realistic, market-rate reimbursement policies to ensure that Medicare patients have access to the care they need.

The temporary "doc fix" process is also fraught with politics: Congress often uses the annual doc fix to strike other budgetary deals, and increase contributions from medical associations. Allowing the unrealistic cuts to remain on the books also allows Congress to mask the real, long-term costs of our government health care programs.

Clearly, the current system is broken. We need a permanent doc fix to remove doctor pay from Congressional politicking, give certainty to Medicare doctors and patients, and enable realistic cost estimates for our government health care programs. Payment reform should both treat doctors fairly and put Medicare on a fiscally-sustainable path.

## WHY YOU SHOULD CARE

A long-term “doc fix” solution would provide better security for today’s Medicare recipients and ensure responsible budgeting for tomorrow. The current SGR structure:

- **Encourages Costly Lobbying and Politicking:** Congress always passes an annual doc fix. Yet the process takes up lawmakers’ time and encourages an expensive lobbying campaign from powerful health care organizations. This is a waste of resources, and creates a political football that can be exploited for other uses, which aren’t always in America’s best interests.
- **Fails to Control Costs:** Congress is essentially making up Medicare reimbursement rates as they go, without an eye for the long-term sustainability of Medicare. We need a better path forward.
- **Creates Uncertainty for Doctors and Patients:** Doctors lack certainty about their future payments for Medicare patients. This isn’t fair, adds to the high costs of practicing medicine, and could discourage doctors from accepting seniors as patients.
- **Masks the Real Costs of Government Health Care:** Even if everyone knows that Congress will pass a doc fix, budget analysts mostly make estimates based on the law as written. As a result, forecasts often underestimate the real costs of government health care programs.

Seniors, doctors, and taxpayers: We would all benefit from a permanent doc fix.

## MORE INFORMATION

### Medicare’s Need for Cost Controls

The federal government established Medicare in 1965 and intended for the program to be paid for through a trust fund funded by payroll taxes. It functions as a “single-payer” for nearly all American seniors’ health care costs. Workers pay into the program, and then expect Medicare to pay their health care bills when they are senior citizens.

Medicare is what’s called a “Fee-for-Service” program, or one that pays physicians for each service (as opposed to performance-based standards that pay based on health outcomes or compliance with government standards). Health policy experts have long recognized the incentive problems created by this type of third-party payment system: physicians can take advantage of Medicare by performing unnecessary procedures or tests and sending the government more bills.

It’s impossible for the government to monitor each doctor, so the government has instead attempted to put caps on total Medicare expenditures. One problem with this approach is that it creates a collective action dilemma: Spending targets are meant to limit expenditures on all Medicare doctors, but individual doctors are still motivated by self-interest and may still game the system to maximize their pay.

This is an important problem to solve, since today more than 50 million American seniors are enrolled in Medicare, and enrollment will swell as Baby Boomers retire. Meanwhile, the Medicare Trust Fund is scheduled to run out of money. Several factors contributed to this: Seniors take out more money in benefits than they contributed (on average, \$3 in benefits for each dollar contributed). Also, presently low fertility and labor force participation rates mean the program is not collecting enough revenue through today's payroll taxes.

This means Medicare is turning to the general treasury to fund benefits. Medicare today faces a 75-year unfunded liability of **more than \$30 trillion**. Obviously, this should create pressure on lawmakers to reform the program and restore fiscal balance.

## **The Sustainable Growth Rate: History and Challenges**

In 1997, the Balanced Budget Act put the Sustainable Growth Rate formula into effect. The formula ties the growth in Medicare physician reimbursement to economic growth as measured by the Gross Domestic Product (GDP). If physician spending exceeds GDP growth, physicians would face automatic cuts in reimbursements the following year.

When the economy is healthy and growing, following the SGR formula is not as difficult.

But it can create real problems in the health care system, particularly during an economic downturn, since reimbursement rates are supposed to be cut even as seniors still require treatment and medical care remains just as expensive. In 2002, Congress allowed the SGR target rate to result in a 5.4 percent reduction in doctor pay. But Congress has voted to override the SGR formula every year since 2003.

The impact of SGR on physician pay today would be even more significant: If Congress had allowed SGR cuts to take place, physician reimbursement would have fallen by **25 percent in 2014**.

And it's not just doctors who would suffer: If physician reimbursement became too low, doctors would not have enough incentive to treat Medicare patients.

Already doctors face a financial incentive to shift their business away from Medicare patients toward patients with commercial insurance plans that reimburse more and faster. Because of this, **28 percent of Medicare beneficiaries** reported having trouble finding a new primary care doctor in 2013.

Furthermore, when providers do take on a high volume of Medicare and Medicaid patients (both programs reimburse below commercial plan rates), these hospitals or doctors often pass along higher costs to patients with private insurance to try to make up the difference. In 2008, insurance consulting firm Milliman estimated that the average privately-insured family **pays \$1800 more**

each year to help providers cover underpayments from government programs.

We should also keep an eye on the future: Today's medical school students may be discouraged from entering primary care or geriatrics because of Medicare's low or uncertain reimbursement rates. Although Medicare's growing costs can't be left unchecked, slicing payments to doctors is also not a viable option.

For all of these reasons, the SGR is suspended year after year.

## Doc Fix Failures

Not only has the Sustainable Growth Rate formula failed to control Medicare's costs, but it has also created bad political incentives and behavior.

In politics, current legislative or executive bodies often sign off on automatic spending "cuts" that are scheduled in the future. That's what happened in the 1997 Balanced Budget Act with respect to doctor pay. But the SGR shows how these automatic cuts often never take place, because future lawmakers rescind them. This is pure political theatre, another vehicle for lawmakers to cut deals.

Each year the Congressional debate surrounding the "doc fix" serves as an opportunity for doctors' groups and other medical associations to shake down their members for political cash. After all, their reimbursements are at stake. These resources would be better spent elsewhere, and so

would the time and efforts of Capitol Hill staffers who have to take the SGR vote seriously.

The SGR also masks the true cost of government health programs like Medicare. With SGR technically on the books, budgetary score outfits like the Congressional Budget Office have to report on Medicare's future costs as if SGR were going to be implemented. These scores make Medicare look less costly and more financially stable than it actually is.

The Sustainable Growth Rate – and the yearly "doc fix" vote to suspend it – have created uncertainty for doctors, patients, and taxpayers and have unwisely put the health care system for millions of seniors in the hands of politicians and lobbyists.

## Short-term and Long-term Fixes to Medicare's Finances

In the short term, Congress should vote to repeal the Sustainable Growth Rate formula. If we aren't going to follow it, what's the point of having it on the books? Suspending the SGR permanently would be better than the current practice of suspending it annually.

Repealing the SGR would have several immediate benefits: For one, it would allow budget scoring agencies to more clearly depict Medicare's rising costs, and should inspire lawmakers to reform the program entirely (see long-term solutions below).

Another benefit of repealing the SGR would be removing the annual invitation to waste time and money on the “doc fix” vote. These lobbying and legislating resources should be dedicated to serious health policy reforms that could benefit doctors and patients alike.

A long-term solution to the problem of physician reimbursement entails broader reforms to the Medicare program. Rather than relying on government projections and formulas, Congress should act to give Medicare patients more control over their health insurance and allow doctors to work with private insurers to treat these patients.

Medicare should be reformed into a “premium support” program, in which seniors receive funds from the government and are free to find and buy a private health insurance plan of their choice. This would put these patients on equal footing with other (younger) patients who have private insurance, and would leave reimbursement rates between physicians and those insurers, getting government out of the business of setting rates. Lawmakers could even use permanent SGR repeal as a bargaining chip for some of these reforms.

Medicare patients would ultimately be more satisfied with private insurance plans. Private insurers would have to compete for Medicare beneficiaries who would have a *choice* about where to spend their dollars. Not only would they compete on price, but on the quality of insurance (what’s covered, size of provider network, etc.)

And premium-support reforms would benefit taxpayers too. Instead of previous attempts to limit Medicare payments to providers, premium support funding would ask individual Medicare patients to be most responsible of their own health care dollars, and would give them the choice of spending those dollars where they saw the most value.

That’s the kind of “fix” that would benefit us all: doctors, patients, and taxpayers.

### **Other Efforts to Control Medicare Costs**

Lawmakers have tried many different approaches to controlling Medicare’s costs. Congress enacted “volume controls” in 1989, years before the SGR in 1997.

In 2003, the Medicare Modernization Act put triggers into place based on projections from the Medicare Board of Trustees. If the Trustees projected that Medicare would require more than 45 percent of its funding from general revenues, the President would have to submit proposals to reverse course. Congress ignored proposals from President George W. Bush and voted in 2009 to suspend this 45-percent rule.

In 2010, the Affordable Care Act included a (not-yet-implemented) new federal board called the Independent Payment Advisory Board (IPAB) to cut costs in Medicare. This controversial board would be comprised of 15 unelected members, and would have unprecedented power to control Medicare’s budget with little Congressional oversight. Congress could only override an IPAB proposal with a supermajority in both houses, and a Congressional replacement plan for the same cuts.

Although originally scheduled to take effect in 2014, the Obama Administration has not yet appointed or authorized the IPAB, which may be effective in slashing Medicare costs, but would be terrible for individual patient freedom.

## WHAT YOU CAN DO

- **Get Informed:** Learn more about the need for a permanent solution to the doc fix. Visit:
  - [Americans for Tax Reform](#)
  - [The Heritage Foundation](#)
  - [The American Enterprise Institute](#)
- **Talk to Your Friends:** Help your friends and family understand these important issues. Tell them about what's going on and encourage them to join you in getting involved.
- **Become a Leader in the Community:** Get a group together each month to talk about a

political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

- **Remain Engaged Politically:** Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

## ABOUT THE INDEPENDENT WOMEN'S FORUM

The Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility.

IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.

We rely on the support of people like you! Please visit us on our website [www.iwf.org](http://www.iwf.org) to get more information and consider making a donation to IWF.

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