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MEDICARE PHYSICIAN PAYMENTS

Information on Spending Trends and Targets

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Highlights

Highlights of GAO-04-751T, a testimony before the Subcommittee on Health, Committee on Energy and Commerce, House of Representatives

Why GAO Did This Study

The Sustainable Growth Rate (SGR) system, implemented in 1998 and subsequently revised, is used to update Medicare's physician fees and moderate the growth in Medicare spending for physician services. SGR, and a predecessor system implemented in 1992, were designed to reduce physician fee updates if spending growth exceeded a specified target. Although spending growth slowed substantially under both systems, concerns about SGR arose when the system caused fees to decline by 5.4 percent in 2002.

GAO was asked to discuss (1) Medicare physician spending trends both before and after the implementation of spending targets and (2) the evolution and mechanics of the SGR system. This statement is largely based on GAO's previous work on Medicare spending trends and the SGR system.

What GAO Found

Medicare spending on physician services grew rapidly through the 1980s, at an average annual rate of 13.4 percent, even though physician fee increases were subject to some limits. The spending growth was driven by increases in the number of services provided to each beneficiary—referred to as volume—and an increase in the average complexity and costliness of those services—referred to as intensity. Recognizing that expenditure growth of this magnitude was not sustainable, the Congress attempted to impose fiscal discipline by establishing a system of spending targets for Medicare physician services along with a fee schedule beginning in 1992. Following the introduction of spending targets, volume and intensity growth slowed substantially during the 1990s. In recent years, under the SGR system, volume and intensity growth has increased, but not by the rates experienced during the 1980s before spending targets were in place.

SGR, the current system of spending targets, evolved from the target system that went into effect in 1992. Under the SGR system, physician fees are adjusted up or down, depending on whether actual spending has fallen below or has exceeded the target. Fees increase at least as fast as the costs of providing physician services as long as volume and intensity growth remains below a specified rate—currently, a little more than 2 percent a year. If volume and intensity grows faster than the specified rate, SGR lowers fee increases or causes fees to fall. Physicians raised concerns about SGR when fees dropped significantly in 2002, a decline that was, in part, a correction for fees that had been set too high in prior years because of errors in forecast estimates and other data. Congressional action averted fee reductions, and projected fee reductions, for 2003 through 2005. However, beginning in 2006, fees are projected to resume falling for several years, partly to recoup the excess spending accumulated from averted cuts in previous years and partly because real per beneficiary spending on physician services is projected to grow faster than allowed under SGR. A dilemma for policymakers posed by projected fee reductions is that while SGR's automatic responses work as intended from a budgetary perspective, the consequences for physicians and their patients are uncertain.

www.gao.gov/cgi-bin/getrpt?GAO-04-751T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7101.