



Highlights of [GAO-06-1008T](#), a testimony before the Subcommittee on Health, Committee on Energy and Commerce, House of Representatives

Why GAO Did This Study

In 2002, the system Medicare uses to determine annual changes to physician fees—the sustainable growth rate (SGR) system—reduced fees by almost 5 percent. Subsequent administrative and legislative actions averted fee declines in 2003 through 2006. Absent additional actions, fee reductions are projected for 2007 through 2015. Consequently, the appropriateness of the SGR system has been questioned. At the same time, there are concerns about the impact of increased physician services spending on the long-term fiscal sustainability of Medicare.

GAO was asked to discuss the SGR system and Medicare physician payments. This statement addresses (1) how the SGR system is designed to moderate the growth in spending for physician services, (2) why physician fees are projected to decline under the SGR system, (3) trends in the use of services provided by physicians and spending for those services from 2000 through 2005, and (4) options for revising or replacing the SGR system. This statement is based on two GAO reports: *Medicare Physician Services: Use of Services Increasing Nationwide and Relatively Few Beneficiaries Report Major Access Problems* ([GAO-06-704](#), July 21, 2006), and *Medicare Physician Payments: Concerns about Spending Target System Prompt Interest in Considering Reforms* ([GAO-05-85](#), Oct. 8, 2004).

www.gao.gov/cgi-bin/getrpt?GAO-06-1008T.

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 or steinwalda@gao.gov.

MEDICARE PHYSICIAN PAYMENTS

Trends in Service Utilization, Spending, and Fees Prompt Consideration of Alternative Payment Approaches

What GAO Found

To moderate Medicare spending for physician services, the SGR system sets spending targets and adjusts physician fees based on the extent to which actual spending aligns with specified targets. If growth in the number of services provided to each beneficiary—referred to as volume—and in the average complexity and costliness of services—referred to as intensity—is high enough, spending will exceed the SGR target. While the SGR system allows for some volume and intensity spending growth, this allowance is limited. If such growth exceeds the average growth in the national economy, as measured by the gross domestic product per capita, fee updates are set lower than the estimated increase in the average cost of providing physician services. A large gap between spending and the target may result in fee reductions.

There are two principal reasons why physician fees are projected to decline under the SGR system. Recent growth in spending due to volume and intensity increases has been more than double that allowed under the SGR system, resulting in excess spending that must be recouped through reduced fee updates. Legislative actions that specified minimum updates for 2004 through 2006 have also contributed to future physician fee cuts. These actions, which averted fee reductions, did not revise the spending targets. Therefore, the SGR system must offset the additional spending resulting from the excess volume and intensity and the minimum fee updates by reducing fees beginning in 2007.

From 2000 through 2005, Medicare spending for services provided by physicians grew rapidly. Our analysis of Medicare claims submitted during the first 28 days of April in these years shows that an increasing proportion of beneficiaries obtained services and the volume and intensity of the services provided increased. While Medicare physician fees rose by 4.5 percent over the period, program spending on physician services per beneficiary grew by approximately 45 percent. The number of physicians billing Medicare and total allowed charges per billing physician also increased, as did the proportion of claims for which physicians accepted Medicare payment as payment in full.

Potential alternatives to the SGR system cluster around two basic approaches: (1) ending the use of spending targets as a method for updating physician fees and encouraging fiscal discipline and (2) retaining spending targets but modifying the current SGR system to address perceived shortcomings. Either approach could be complemented by focused efforts to moderate volume and intensity growth directly. Because multiple years of projected 5 percent fee cuts are incorporated in Medicare's budgeting baseline, almost any change to the SGR system is likely to increase program spending above the baseline.