

ISSUE BRIEF

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The “Doc Fix” Dilemma Calls for Immediate Medicare Reforms

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Once again, Congress stopped a scheduled 27 percent payment cut to physicians who serve Medicare patients. This frequent exercise serves as a perfect example for the need to move Medicare away from its current price-control model toward a market-based, premium support model. Ten months from now, when faced with this predicament again, Congress should not focus just on yet another “fix” but attach structural Medicare policy reforms that end this dilemma for good.

Sustainable Growth Rate Is Unsustainable. The Sustainable Growth Rate (SGR) is a complex government formula that sets payment rates to physicians for providing Medicare services based on economic growth. Each year, physician payments are supposed to be cut. When enacted as part of the Balanced Budget Act of 1997, these cuts (on

paper) helped Congress meet their balanced budget targets.

But the scheduled cuts are so deep that, if they are left in place, many physicians would find it unaffordable to participate in Medicare, leaving millions of seniors without doctors. While Congress has not allowed these scheduled cuts to go into place since 2003, delays only compound the problem by making the next round of cuts more drastic to keep up with the budget projections.

The Administration and some in Congress further complicated the SGR problem during the debate over Obamacare. Proponents of the law could claim that their bill would be paid for and reduce the deficit only by assuming that the scheduled cuts would be put into place—while passing yet another delay just weeks after the health care bill became law.

Obamacare Promises More of the Same. Worse yet, Obamacare bases many of its Medicare “reforms” on the same flawed model. It assumes over \$500 billion in cuts to Medicare, many of which depend on imposing further cuts to other Medicare health care providers, such as hospitals. The chief actuary has already noted that these Medicare payment changes in Obamacare are unsustainable.¹

The creation of the Independent Payment Advisory Board (IPAB) is centered on the price-control model. This unelected board is charged with imposing further Medicare reimbursement cuts to meet fixed budget targets. Last year, the President reinforced his commitment to the price-control model by proposing to expand the role of IPAB, and he has signaled the same in this year’s budget proposal. The IPAB model is just more of the same and is incompatible with any permanent “fix” to the SGR.

Opportunity for Real Medicare Reform. The best way to “fix” the SGR is to end it. The Heritage Foundation’s *Saving the American Dream* offers a pathway out of the failed price-control model and transitions Medicare to a more sustainable and rational market-based, premium support system.² When the current SGR patch expires later this year, Congress should use the opening to secure immediate structural reforms that move toward premium support, starting with³:

- **Raising the retirement age.** Today’s retirement age has not kept up with longevity. Congress should raise the retirement age gradually to 68.

This paper, in its entirety, can be found at <http://report.heritage.org/ib3520>

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- **Increasing the premiums for Parts B and D.** Today, there is a 25 percent premium associated with Parts B and D benefits. Congress should increase those premiums to 35 percent over the next five years.
- **Adding a premium to Part A.** Today, Medicare Part A has no premium associated with its benefits. Congress should add a premium to Part A benefits to close the deficits in the Part A trust fund.
- **Tightening the income thresholds.** Medicare already reduces its government subsidy based on income. Those subsidies should be phased out for couples earning over \$165,000 and individuals earning over \$110,000.

Seize the Moment. Instead of adding another temporary “fix” to the SGR problem by patching a broken model, Congress should advance reforms that make Medicare sustainable for the long term. The only permanent solution for the SGR is to end it and adopt a Medicare premium support model that is free from government price controls on doctors and hospitals.

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1. Richard S. Foster, Chief Actuary, Centers for Medicare and Medicaid Services, “Estimated Financial Effects of the ‘Patient Protection and Affordable Care Act,’ as Amended,” April 22, 2010, at http://www.cms.gov/ActuarialStudies/downloads/PPACA_2010-04-22.pdf (February 27, 2012).
 2. Robert E. Moffit, “The Second Stage of Medicare Reform: Moving to a Premium Support Program,” Heritage Foundation *Backgrounder* No. 2626, November 28, 2011, at <http://www.heritage.org/research/reports/2011/11/the-second-stage-of-medicare-reform-moving-to-a-premium-support-program>. See also Stuart M. Butler, Alison Acosta Fraser, and William W. Beach, eds., *Saving the American Dream: The Heritage Plan to Fix the Debt, Cut Spending, and Restore Prosperity*, The Heritage Foundation, 2011, at <http://savingthedream.org/about-the-plan/plan-details/>.
 3. See Robert E. Moffit, “The First Stage of Medicare Reform: Fixing the Current Program,” Heritage Foundation *Backgrounder* No. 2611, October 17, 2011, at <http://www.heritage.org/research/reports/2011/10/the-first-stage-of-medicare-reform-fixing-the-current-program>.