Research

Merits of the Proposed SGR Repeal

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Congress has the chance to eliminate an annual legislative nightmare, fix the reimbursement of doctors under Medicare, introduce substantive, structural changes to an entitlement program, and ensure the continued insurance coverage of needy children – all without raising a dime of taxes. Reports indicate that there is a bipartisan, bicameral leadership agreement for Congress to repeal the Sustainable Growth Rate (SGR) mechanism, as well as extend for two years the Children's Health Insurance Program (CHIP) and numerous other health provisions. The legislation isn't perfect – more on that below – but it is an important step forward.

The virtues of the CHIP provisions are obvious; the main focus should be on repealing the SGR. This would end the time-consuming annual legislative folly known as the "doc fix" and would genuinely fix for the long term the reimbursement of physicians under Medicare. Repeal of the SGR is costly however – roughly $175 billion over the next 10 years. The crafters of the legislation owned up to the fact that it will pay the docs more than the current policy of a pay freeze. This increases the cost by $35 billion. However, there is the additional cost to offset not *cutting* doctors' pay as the SGR would have required. This is a $140 billion price tag.

The proposed bill contains structural reforms that roughly offset the $35 billion cost of raising pay in the first 10 years (and another $30 billion in other offsets), but not the full remaining $140 billion. That makes this bill a tougher call for a fiscal conservative.

However, those structural reforms to Medicare will continue to reap benefits in the years beyond the budget window. Specifically, for new retirees (and only new retirees) above the low-income threshold, it would restrict certain Medigap insurance plans from covering the first dollar of health spending.   In addition, after 2017 the bill would reduce the subsidy of Medicare premiums for higher-income beneficiaries; lowering it to 35 percent for those between $133,500 and $160,000, and down to 25 percent for those above $160,000.

It makes sense to improve incentives with less premium subsidy and a modest deductible, thereby making beneficiaries more cognizant of the costs of their health care decisions. The equivalent of Medigap policies that cover the first dollar of care simply do not exist in the employer, individual, small-group and other insurance markets.

Importantly, because these policies are phased in they don't affect Medicare much in the first 10 years. But the savings will continue to rise, grow faster than physician reimbursements, and on balance lower projected Medicare spending indefinitely into the future. A rough projection is that the combination of the Medigap policies and the reduced premium subsidies will cut Medicare outlays by $230 billion over the second 10 years, 2026-2035.

Put differently, one could imagine issuing the $140 billion as a Treasury security. The additional savings from these structural reforms would be sufficient to pay off the IOU *and* interest by the end of the second 10 years.

The proposed SGR repeal bill is not perfect. But it will fix the reimbursement of doctors, introduce structural changes to Medicare, extend CHIP, and more than balance over the next 20 years – without raising taxes.