



NOW IS THE TIME TO REPEAL THE SGR

On March 1, Medicare physician payments will be slashed by 27.4 percent unless Congress acts immediately. Congress should take the opportunity provided by the Conference Committee on payroll taxes, unemployment insurance, and the SGR to repeal this failed formula once and for all.

Repealing the SGR formula now is the fiscally responsible thing to do:

- With each short term patch, the scheduled cuts get steeper and the cost of payment reform grows. In 2005, the formula could have been repealed for less than \$50 billion. Today, the cost is nearly \$300 billion. In five years, the combined cost of short-term patches and accumulated SGR debt will reach \$600 billion.
- It is irrational to invest more taxpayer money to support a policy that is a proven failure. A two year patch will cost \$39 billion **AND** increase the cost of future efforts to repeal the SGR by an additional \$56 billion **AND** increase the projected cut in 2014 to 36%.
- Furthermore, if allowed to continue, the SGR will require rapidly escalating amounts of politically challenging pay-fors in the future to prevent additional cuts.

Using the Overseas Contingency Operations (OCO) fund to offset the cost of SGR repeal is a sensible way to balance the books. Due to CBO scoring requirements, it is widely acknowledged that the current baseline projects much more spending for Iraq and Afghanistan under the OCO than is likely to occur. It is also widely accepted that the current baseline projects much lower spending on Medicare services because the CBO is required to assume steep physician cuts will occur despite broad acknowledgement that Congress has not and likely will not allow such cuts to be implemented.

Capping OCO expenditures, as was done in the House adopted Budget Resolution (H. CON. RES. 34), should be used to offset the cost of repealing the SGR – eliminating both of these distortions in the current baseline while not increasing the deficit.

Now is the time to act in a bipartisan, bicameral manner to address this ongoing threat to physician access for Medicare and TRICARE patients once and for all.



OCO Talking Points

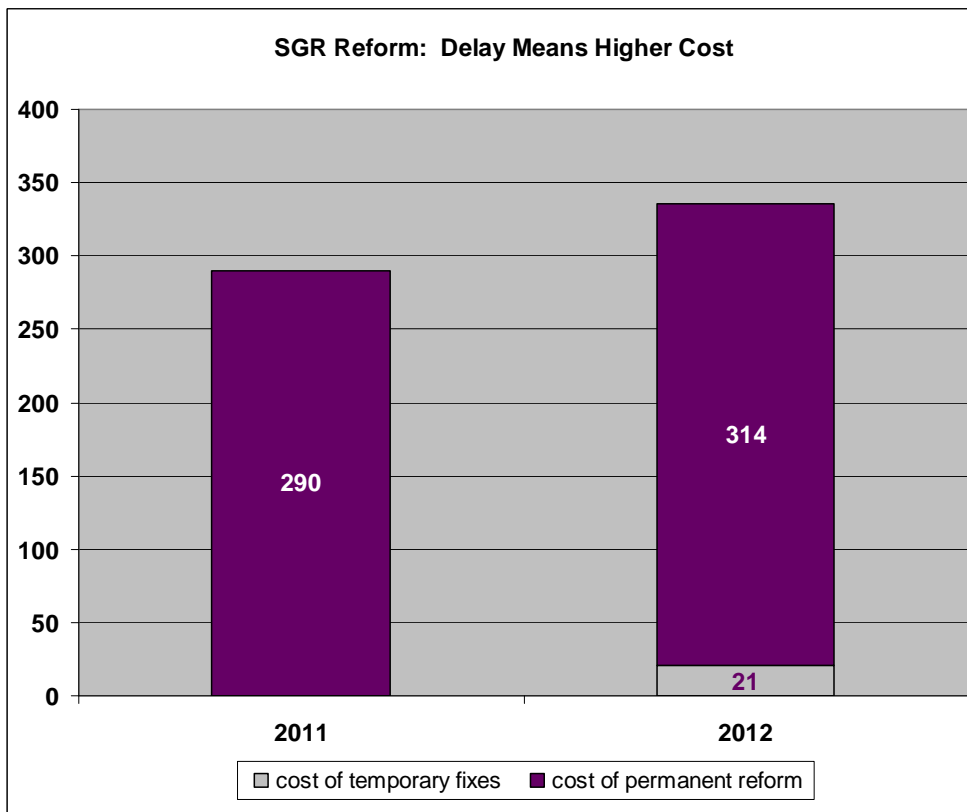
- Overseas Contingency Operations (OCO) funding refers to the discretionary funds for the wars in Afghanistan and Iraq and similar activities. Funding levels for OCO are established each year in the Department of Defense Appropriations Bill.
- Because OCO funds are discretionary and subject to annual appropriations, the Congressional Budget Office (CBO) assumes that OCO will be funded at the current year's level for each of the next 10 years when estimating OCO expenditure over the 10 year budget window.
- Even though operations in Iraq and Afghanistan are winding down and are expected to wind down significantly in the coming years, CBO cannot downwardly adjust its estimate for OCO spending over the next 10 years until the next (FY 2013) Defense Appropriations bill is passed. CBO will estimate OCO expenditures over the next 10 years based on the FY 2012 level, which is expected to be somewhat higher than subsequent years. Thus, because of its scoring rules, CBO's estimate of OCO spending over the next 10 years is artificially high.
- OCO is an appropriate offset for eliminating the SGR. CBO scoring conventions require it to unrealistically assume that Medicare physician payments will be cut by approximately \$290 billion over the next 10 years. Members of Congress routinely state that cuts of this magnitude would destroy Medicare and should not be implemented. Bills to temporarily halt the cuts have become routine. Nonetheless, the CBO is required to assume that the cuts will occur because Medicare law requires them to happen absent Congressional intervention. The cost to repeal the SGR actually represents money that has already been spent due to temporary SGR patches passed by Congress that were not fully paid for.
- This is the same offset that was utilized as part of the House adopted Budget Resolution, H. CON. RES. 34, to account for more than \$1 trillion in deficit reduction.
- Using the OCO baseline as an offset for the SGR baseline essentially amounts to "cleaning up the books," by eliminating bad fiscal policies and allowing for a more accurate accounting of future government expenditures without increasing the deficit.
- OCO provides a unique and time-limited opportunity to resolve a problem that has been a burden to patients, physicians, and to Congress. Passing up this opportunity means that Congress will have an even more costly problem to resolve in future years, requiring even more difficult choices.



Implications of a One-Year Medicare Physician Payment Freeze Using Cliff Financing

Currently, physicians are facing a Medicare physician payment cut under the SGR of 27.4%. Freezing Medicare payments to physicians for one year will cost \$21 billion over 10 years. Temporary patches using “cliff financing” will increase the size of future cuts and the future cost of repeal of the SGR.

	<u>Today</u>	<u>2012</u>
Size of next cut:	-27.4% (in 2012)	-32% (in 2013)
Cost of SGR Repeal	\$290 billion	\$314 billion
Cost of SGR Repeal <u>plus</u> cost of temporary patches	\$290 billion	\$335 billion



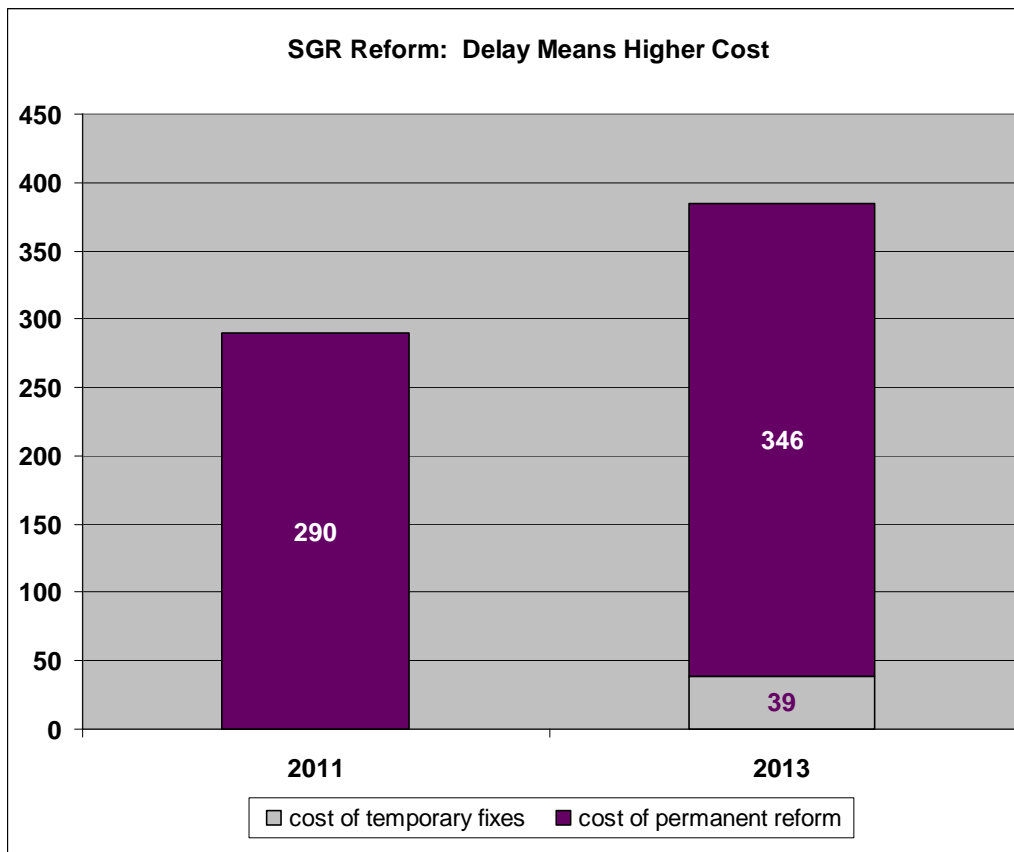
Conclusions: Enacting a one-year Medicare physician payment freeze using cliff financing will (1) increase the size of the next cut by almost 5 percent and (2) increase the total amount that Congress will spend on the SGR in temporary patches and repealing it by \$45 billion.



Implications of a Two-Year Medicare Physician Payment Freeze Using Cliff Financing

Currently, physicians are facing a Medicare physician payment cut under the SGR of 27.4%. Freezing Medicare payments to physicians for two years will cost \$38.6 billion over 10 years. Temporary patches using “cliff financing” will increase the size of future cuts and the future cost of repeal of the SGR.

	<u>Today</u>	<u>2013</u>
Size of next cut:	-27.4% (in 2012)	36% (in 2014)
Cost of SGR Repeal	\$290 billion	\$346 billion
Cost of SGR Repeal <u>plus</u> cost of temporary patches	\$290 billion	\$385 billion



Conclusions: Enacting a two-year Medicare physician payment freeze using cliff financing will (1) increase the size of the next cut by almost 9 percent and (2) increase the total amount that Congress will spend on the SGR in temporary patches and repealing it by \$95 billion.