



American Optometric Association

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**Statement  
of the  
American Optometric Association  
to the  
Committee on Small Business  
Subcommittee on Regulations, Healthcare and Trade  
United States House of Representatives  
Re: The Medicare Sustainable Growth Rate (SGR) Payment Formula  
Presented by: John B. Whitlow, OD  
November 8, 2007**

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The American Optometric Association (AOA), representing over 34,000 doctors of optometry, appreciates the opportunity to provide the House Small Business, Subcommittee on Regulations, Healthcare and Trade, with our views and recommendations concerning the current state of Medicare payments to physicians, specifically doctors of optometry, and other health care providers. It is our position that the Sustainable Growth Rate (SGR) formula currently used for Medicare payment is producing dire results for all health care professionals, especially for small and rural health care provider practices/businesses. This is having a chilling affect on the efficient and effective delivery of health care in America, including the delivery of eye and vision care for America's seniors.

The AOA commends you, Chairman Gonzalez, Ranking Member Westmoreland, and Members of the Subcommittee, for the leadership and vision you have shown in recognizing the fundamental need to address the hopelessly flawed Medicare-SGR payment formula. It is time to find an equitable and long-lasting replacement for this payment formula in order to ensure the health of the Medicare program, both for the short-term and long-term, particularly in light of the program preparing to usher in an unprecedented number of new enrollees as baby boomers reach eligibility age. Moreover, a long-lasting solution must be found to ensure that health care remains accessible to America's seniors, especially in small towns and rural communities, because these cuts have a disproportionate effect on small and rural health care providers/businesses and their patients.

We are confident that working together, Congress, the Centers for Medicare and Medicaid Services (CMS), the AOA, and other health care provider organizations can achieve our common objective and deliver on Medicare's long-held promise to Medicare patients and to the American people—access to health care services, including eye and vision care services, that are high quality, furnished by the beneficiary's provider of choice, and cost-effective for the federal government and the nation.

As the frontline providers of eye and vision care in over 6,500 communities across the nation, doctors of optometry are well aware of the many obstacles health care providers face as they strive to provide care to an ever-increasing number of Medicare patients. Access to quality care, particularly that provided by small health care providers, is increasingly at risk because of the strains on the current system that threaten the ability of providers to deliver needed care. Low payments from federal health care programs and administrative burdens put on providers by the ongoing transformation of the current health care system are creating an undue burden on

America's health care provider network. Our members feel these strains on a daily basis and would like to work with Congress to find a more equitable solution.

Doctors of optometry are often the only eye care providers available in rural communities and underserved areas and, like other rural health care providers, are struggling to serve America's children, seniors, and the underserved while keeping pace with health care demands and rising costs. When reimbursement rates are pegged at artificially low levels that do not reflect genuine practice costs, patient access suffers because clinicians will be financially unable to serve many patients. That is the inherent evil in any flawed payment formula. Medicare beneficiaries are experiencing difficulties accessing health care services because providers have limited the number or are no longer accepting new Medicare patients.

The impact of Medicare payment cuts affects the entire health care community, including optometrists, podiatrists, chiropractors, audiologists, nurse anesthetists, nurse practitioners, occupational therapists, physical therapists, psychologists, speech language pathologists, and social workers. PARCA, a coalition of organizations representing the interests of millions of patients and non-MD/DO health care providers, is committed to quality, cost-effective care, and ensuring patients have options in the delivery of such care. PARCA applauds the efforts put forth by Members of Congress and congressional staff as they work to address Medicare payment reform. PARCA supports congressional efforts to bring forward legislation that will provide multi-year positive updates to bring stability to the Medicare payment system.

### **The Search to Find a Solution to the Medicare Payment Formula**

Since the Medicare program was created in 1965, several methods have been used to determine how much doctors are reimbursed for covered services. Initially, the program compensated doctors on the basis of their charges and allowed health care providers to bill for the full charge of their services. In 1975, Congress then determined that the annual increase in fees could not exceed the increase in the Medicare Economic Index or MEI – a conservative government index of practice cost inflation. In 1992, the system was replaced by a fee schedule that was updated annually by a combination of the MEI and an adjustment factor known as the Volume Performance Standard (VPS), which was based on historical trends in volume. However, this payment formula soon led to highly variable changes in payment rates, and Congress again searched for a payment formula solution.

In 1997, the *Balanced Budget Act* created the Sustainable Growth Rate (SGR) payment formula as a target rate of growth in Medicare spending for health care services. It aimed to control spending for services provided under Part B of Medicare, and aimed to do so by setting an overall target amount of spending for certain types of goods and services under Part B. The key factors in setting the SGR are Gross Domestic Product (GDP) growth, changes in law and regulation, and Medicare enrollment and price changes. However, if expenditures exceed the SGR targets, then annual payment updates are less than annual increases in practice cost inflation.

## **The SGR-Induced Medicare Meltdown on the Horizon**

AOA, in concert with other health care provider organizations, asserts that the SGR payment formula has produced disastrous results for both doctors and patients. It has kept the average 2007 Medicare payment rates about the same as they were in 2001; it continually sets the target too low because the utilization of health care services tends to grow more rapidly than the GDP. Therefore, Medicare payments do not cover current practice costs, preventing doctors from making needed investments in staff and health information technology to support quality improvement. In addition, the flawed payment formula punishes health care providers for participating in initiatives that encourage greater use of preventive care in order to reduce hospitalizations. None of the factors in the SGR take into account Medicare spending due to technological advances, or track shifts from care being provided in hospitals to being provided in doctors' offices, or track any other such practice trends. Payment policy must also take into consideration where utilization has increased because of new Medicare coverage policies and expanding preventive services. Omitting these costs from the SGR targets increases the likelihood of pay cuts. The SGR formula has led to a budget baseline that is widely viewed as unrealistic and has driven policymakers to enact short-term interventions that have increased the duration of the cuts and the cost of a long-term, permanent solution.

The Congressional Budget Office (CBO) recently forecast that Medicare payment rates would be reduced by 10 percent in 2008, under current law, and a 2006 Medicare Trustees report predicts cumulative reductions in Medicare payment rates of nearly 40 percent by the year 2015. Health care providers cannot absorb these additional draconian Medicare cuts and continue to fulfill the promise that America has made to Medicare beneficiaries. Medicare payments already lag far behind the cost of caring for seniors. Furthermore, these cuts come at a time when the baby-boomers are ready to enter the Medicare program. In 2010, Medicare enrollment has been projected to rise to 43 million beneficiaries, and will grow to 49 million in 2015.

In the last five years, Congress has shown tremendous leadership and vision by taking action in each of those years to prevent unreasonable Medicare payment cuts due to the flawed SGR payment formula. The AOA applauds these temporary "fixes." However, a permanent solution is needed to resolve a full-blown meltdown of the Medicare system that looms on the horizon.

**The AOA urges the Subcommittee and Congress to work with CMS to avert future cuts by repealing the SGR and enacting a system that produces rational health care provider payments that accurately reflect increases in practice costs.**

### **The Way Forward**

After five years of "band-aid" approaches, we are well acquainted with the cost concerns associated with any substantive reform of the Medicare payment formula. We understand that the path to reform may not be as direct or rapid as we would like, and we acknowledge that the health care professional community must do their part to help make Medicare more efficient. The AOA joins its physician colleagues in laying out a transitional path to reform, and outlines a number of steps that Congress could take to support and encourage optometry's efforts to ensure that Medicare beneficiaries receive the most appropriate care in the most appropriate setting at a value for the taxpayer.

**The AOA firmly believes that successful efforts to encourage judicious use of care are best fostered through positive incentives that inspire physicians, including doctors of optometry, and other health care providers to work toward this end, not by top-down spending targets that cannot distinguish between appropriate and inappropriate care.**

*Recommendations on Eliminating SGR and Developing a Sustainable Payment Formula*

1. The SGR should be repealed and replaced with a payment update system that reflects increases in physicians' and other health providers practice costs. Given that an immediate repeal poses budgetary challenges, Congress should:
  - Establish by law a transition, pathway, and "date certain" to complete elimination of the SGR.
  - Provide positive physician and other health care provider updates set by statute for each year until repeal takes effect.
  - Stabilize payments for a minimum of two years by providing positive baseline updates to all physicians and other health care providers.
  - Urge the Administration to exercise its authority to remove physician-administered drugs from the SGR and make other refinements in the formula to help reduce the cost of Congressional action.
2. Congress should support initiatives by the AOA and other health care provider organizations to bridge gaps in care and assure the appropriateness of services provided to Medicare beneficiaries.
3. To make Medicare sustainable in the future, Congress should identify and begin to enact additional reforms that will be necessary to create incentives for judicious use of services and to adequately fund the program.

The AOA appreciates the opportunity to provide our views to the Subcommittee on these critical matters. We look forward to working with the Small Business Committee and Congress to pass immediate legislation that preserves patient access, averts the next two years of payment cuts, and provides a positive update that reflects optometric practice cost increases.