

On March 1, Medicare physician payments will be drastically cut by 27.4 percent unless Congress acts immediately. Congress should seize the opportunity to permanently repeal the SGR once and for all in 2012.

Permanent Repeal is Fiscally Responsible

Congress has stated that the SGR formula is broken and must be repealed. It is irrational to continue to invest taxpayer money in a broken system.

Permanently repealing the SGR formula is the fiscally responsible course of action in 2012. With each short-term patch enacted by Congress, the scheduled cuts get steeper and the cost to fix the problem increases. In 2005, permanent repeal would have cost less than \$50 billion. Today, the cost is nearly \$300 billion. In the next five years, the combined cost of the short-term patches and accumulated SGR debt will reach \$600 billion.

SGR Credit Card Statement

Short-term patches are akin to paying the minimum on a credit card balance while continuing to make charges on that card – the principal only goes up. Short-term patches (a one or two year freeze) using “cliff financing” will increase the size of future cuts and the future cost to permanently repeal the SGR.

	<u>Today</u>	<u>2012</u>	<u>2013</u>
Size of next cut	-27.4% (in 2012)	-32% (in 2013)	-36% (in 2014)
Cost of SGR Repeal	\$290 billion	\$314 billion	\$346 billion
Cost of SGR Repeal <u>plus</u> cost of short-term patches	\$290 billion	\$335 billion	\$385 billion

So, if Congress enacted a one-year patch it would spend \$21 billion this year while not paying down the principal balance – currently \$290 billion. Rather, the “cliff financing” mechanism increases the balance due in 2013 by \$24 billion – to \$314 billion – and steepens the cut by 5 percent.

The Overseas Contingency Operations Fund – A Reasonable Cost Offset

Using the Overseas Contingency Operations (OCO) fund to offset the cost of SGR repeal is a sensible way to balance the books. The 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 – OCO funds are not used for the troops, they are a completely separate budget item.

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.

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. On the other side of the ledger, 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.

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.