reimbursement has suffered a precipitous drop.

**A sustainable growth rate?**
Under the Balanced Budget Act of 1997, Congress established the Sustainable Growth Rate (SGR) formula, which replaced the Medicare Volume Performance Standard as a method of calculating reimbursements doctors receive for treating Medicare patients. The formula was constructed to track both healthcare costs and the overall economy.

By 2001, however, healthcare costs began to outpace economic growth. As a result, the SGR formula began to call for a cut in Medicare payments to doctors. Every year since then, Congress has passed some sort of “patch” to prevent a cut and, in some cases, to provide a nominal increase.

Although there is widespread agreement that the SGR formula is too flawed to maintain, Congress has not yet identified a politically acceptable alternative. Nowadays is the flaw more evident than in the case of physician reimbursements.

**Declining reimbursements**
The AAOS analysis focused on reimbursements for some common orthopaedic Current Procedural Terminology (CPT®) codes from 1992–2010. During this period, the total dollar value of reimbursements not only decreased in nominal dollars, but also in real dollars.

Payments badly lag behind inflation, to the point that they are now headed in the opposite direction of the Consumer Price Index (CPI). This means that the negative gap between what orthopaedic surgeons have to pay in operational and practice costs and what they receive in reimbursements has progressively widened over the 18-year period studied (Fig. 1).

A good example of this is total knee arthroplasty (TKA). In 1992, the national Medicare physician reimbursement rate for TKA was $2,102. By 2010, the reimbursement had dropped by 30 percent, to $1,470.45. A true “apples to apples” comparison, however, would have assumed zero inflation, such significant reductions in reimbursement would be problematic for all orthopaedic surgical specialties. Though the costs of running an orthopaedic practice have increased, reimbursements for a wide variety of codes have been falling.

**A widening gap**
Legislators and others rightly recognize that the escalating cost of the Medicare program to the taxpayer is unsustainable in the current budgetary environment. However, the natural increases in costs that orthopaedic and other physician practices face—from supplies to employee cost-of-living increases to medical liability and health insurance premiums—continue to grow even as reimbursements do not. When the decline in reimbursements is compared to the increase in the CPI, the devastating nature of the situation faced by orthopaedic surgeons comes into clear focus (Fig. 1).

Moreover, the declining rate of Medicare reimbursement has a direct impact on reimbursements from private insurers. Like it or not, many commercial insurers base their reimbursement schedules on a percentage of Medicare reimbursement, although no rational market basis for them to do so or for physicians to accept such an irrational discount for their services exists.

The sheer market power of a handful of commercial insurers enables them to impose copy-cat Medicare discounts. Those commercial insurers know that physicians cannot collectively resist the discounts under current federal antitrust enforcement policies.

For example, if an insurer reimburses at a rate of 150 percent of the Medicare reimbursement for a specific procedure, the real dollar value of the private reimbursement will be higher than it is under Medicare. However, every time Medicare rates are reduced, reimbursements from these insurers will correspondingly be reduced, putting payments on the same precipitous decline as the Medicare rate.

Because orthopaedic practices must rely on private insurance patients as increasingly necessary to offset the cost of treating Medicare patients, this decline in private payments is every bit as threatening to the future of orthopaedic practices as the decline in Medicare payments.

**What’s next?**
As the cost of operating a medical practice has steadily increased, Medicare and some commercial physician reimbursements have steadily decreased. The artificial suppression of physician fees using the SGR formula has had unintended consequences, including longer physician work hours, more use of physician extenders, earlier retirement of experienced physicians, higher patient volumes and shorter times with each patient, abandonment of private practice in favor of hospital employment, delay in conversion to electronic health records, concierge medicine, and more demands by physicians for collective bargaining rights against insurers.

Replacement of the SGR with a fair payment formula is desperately needed. The biggest losers in this