Understanding the Implications of MACRA

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On April 28, 2015, a piece of legislation often referred to as the "SGR repeal law" was signed. This bill, the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) permanently eliminated the Sustainable Growth Rate (SGR) formula. More importantly, the law made significant changes to the way Medicare will pay physicians and accelerates a shift to value-based payments. These changes will have a lasting impact on all healthcare providers, including orthopaedic surgeons. The previous landmark legislation, the Patient Protection and Affordable Care Act of 2010 (ACA), did not proceed through traditional legislative development and did not have bipartisan support. As a result, the ACA has been under constant challenge. MACRA brings significant clarity to the marketplace, particularly with regard to how the federal government intends to pay physicians. This article reviews some of the important components of MACRA.

Changes to the Medicare PFS
The SGR methodology of determining physician pay updates often resulted in annual uncertainty about physician payments for the next year. Congress was forced to pass several annual temporary "fixes" to avert large cuts to physician payments.

Under MACRA, this uncertainty is being replaced by modest updates (0.5 percent annually from 2015 through 2019 to the Medicare physician fee schedule (PFS)). From 2020 to 2025, payment rates will be frozen. Beginning in 2026, payment rates will be updated 0.25 percent annually for providers participating in the Merit-Based Incentive Payment System (MIPS); providers participating in the Alternative Payment Models (APMs) will receive annual updates of 0.75 percent.

Two value-based payment tracks
MACRA shifts the traditional Medicare PFS payment to two value-based payment tracts. The first track, MIPS, consolidates and expands pay-for-performance incentives in the fee-for-service system. The second track, APMs, provides bonus payments for physicians who participate in "alternative payment models" that hold providers financially accountable for healthcare costs.

MACRA consolidates as well as expands the pay-for-performance incentives of the traditional fee-for-service model. The MIPS program consolidates the Physician Quality Reporting System (PQRS), the Electronic Health Records (EHR) Incentive Program, and the Physician Value-Based Modifier into a single payment adjustment applied to physician payments beginning in 2019 (Fig. 1).

MIPS also broadens the definition of quality to include resource use and clinical improvement measures. The range of adjustments based on performance against MIPS measures will grow through 2022. Because the program is designed to be budget neutral, the total negative adjustments across all providers will equal the total positive adjustments for all providers. This is a zero-sum game. Providers may opt out of MIPS if they participate in the APMs. Under the APMs, lump-sum bonuses to the PFS are available from 2019 to 2024. Qualifying APMs require providers to take on "more than nominal" financial risk, report quality measures, and use certified EHR technology. Table 1 shows the timeline for APM requirements.

Medicare payment cuts
To offset the cost of repealing the SGR, MACRA mandates reduced Medicare payments to hospitals and post-acute providers. Disproportionate Share Hospital (DSH) payment cuts will begin in 2018 and continue to 2025. Hospital payment increases scheduled for 2018 will be phased in over 6 years and the 2018 post-acute care provider payment update is limited to 1.0 percent.

MACRA restricts "first-dollar" Medigap coverage for new Medicare enrollees beginning in 2020. This will result in more financial exposure for out-of-pocket expenses for Medicare beneficiaries and promote consumer-driven behavior and consumerism. High-income Medicare beneficiaries will also pay a higher percentage of premiums for Parts B and D beginning in 2018.

A game changer?
Approximately $70 billion of the $210 billion cost of this legislation was offset by payment changes. This leaves ample opportunity for future legislation to help control the cost of health care in the United States.

The language of MACRA should be considered a "game changer" for physician providers. It has an aggressive timeline to move forward with value-based purchasing of health care services. The fact that this bill had bipartisan support suggests longevity.

Before MACRA, policy uncertainty left many providers on the sidelines cautiously waiting how to plan for the future. This resulted in hesitation to develop new business models and to deploy capital that might have been used to transform physician practices. MACRA has significantly reduced or eliminated this uncertainty, so physicians will need to begin the transition to accepting more financial and actuarial risk for the patients they treat. This will require new skills that most orthopaedic surgeons may not have or perhaps never used. Operating costs to physician enterprises will increase with larger budgets for agency costs, analytics services, and information technology. These additional costs may be offset by revenue that results from increased value and savings of the care provided.

Healthcare cost savings will be obtained from lower cost of care, improved quality of care with reduced complications, and less utilization. MACRA will also support consumerism in health care and the transition to a "retail" marketplace. It is important for orthopaedic providers to reevaluate their value proposition in the new healthcare economy defined by MACRA.

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