

Medicare Physician Payment Reform

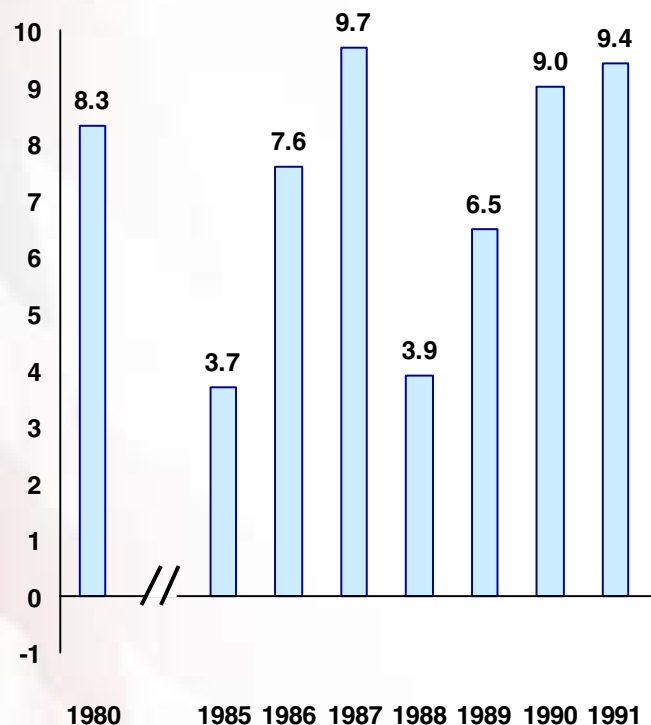
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Director, Health Care
July 13, 2007

OVERVIEW

- What's driving the movement toward Medicare physician payment reform?
- What were GAO's findings on payer profiling for efficiency and physician inefficiency in Medicare?
- What potential exists for Medicare to improve its efficiency through profiling?

Growth in Volume and Intensity of Medicare Physician Services per FFS Beneficiary, 1980-2006

Percentage

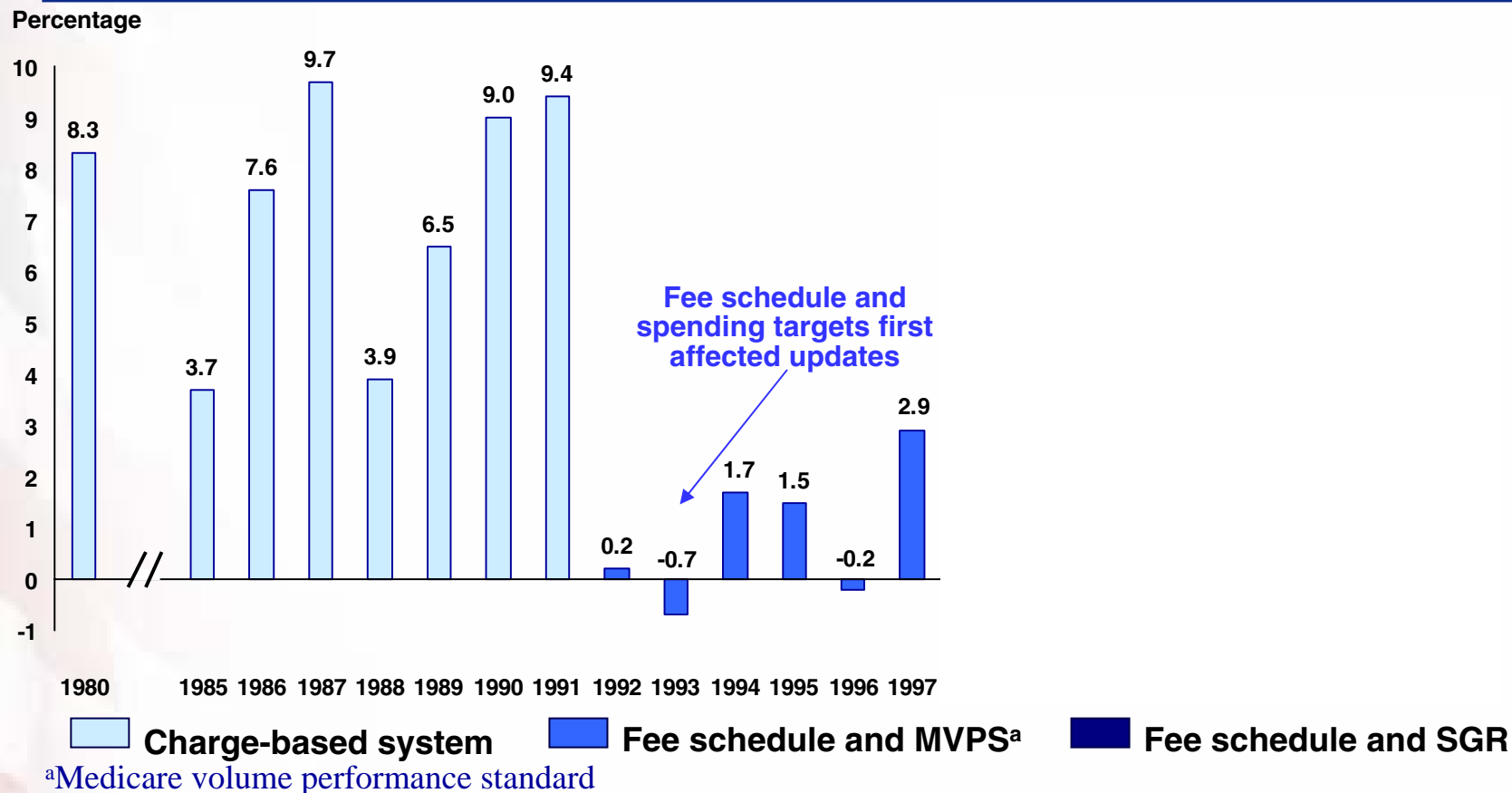


Charge-based system
 Fee schedule and MVPS^a
 Fee schedule and SGR

^aMedicare volume performance standard

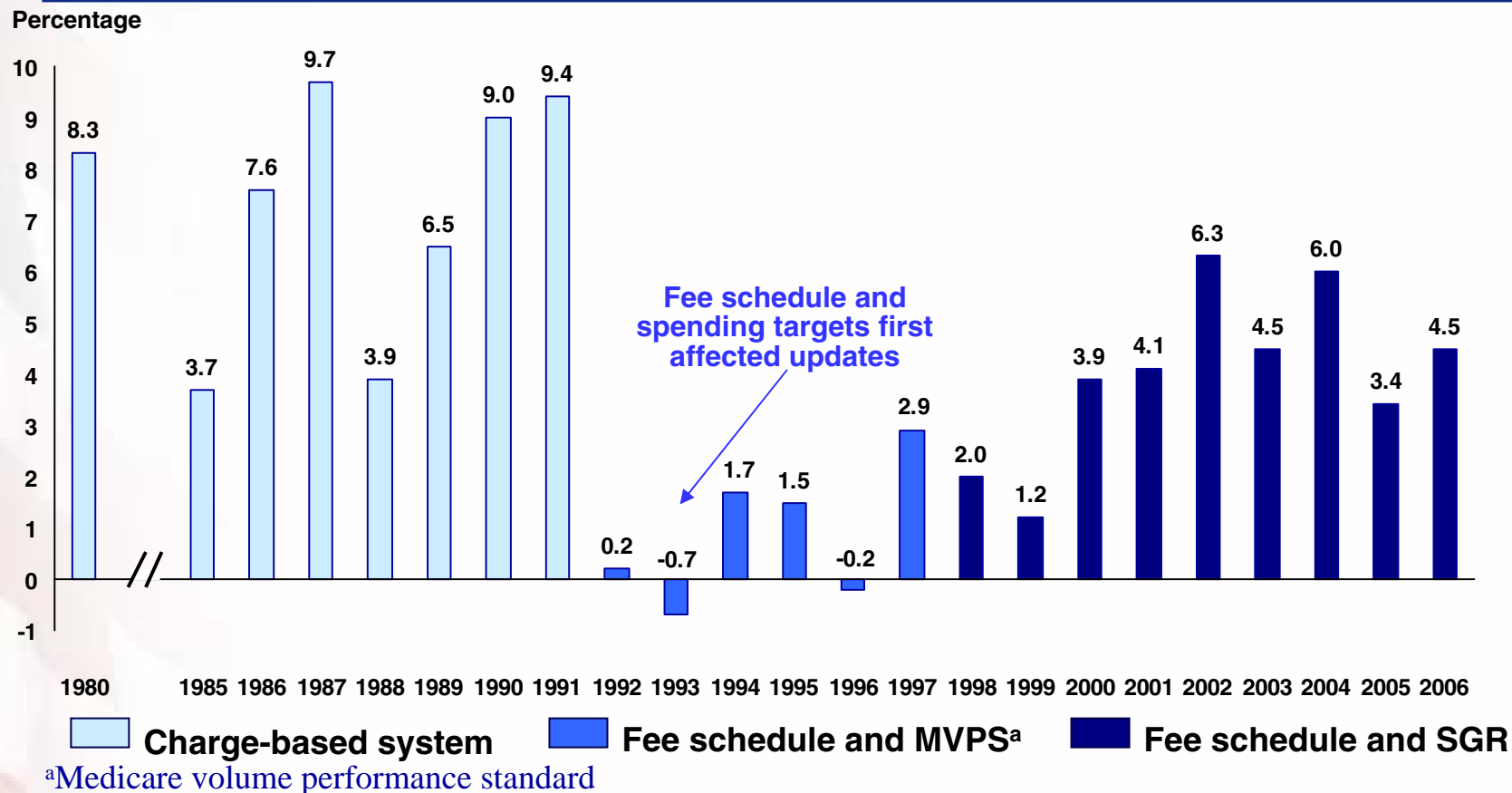
Source: GAO analysis of data from CMS and the *Boards of Trustees of the Federal Hospital Insurance (HI) and Supplementary Medical Insurance (SMI) Trust Funds*. Data for 1997 through 2006 are based on the *2007 Annual Report of the Boards of Trustees of the Federal HI and SMI Trust Funds*.

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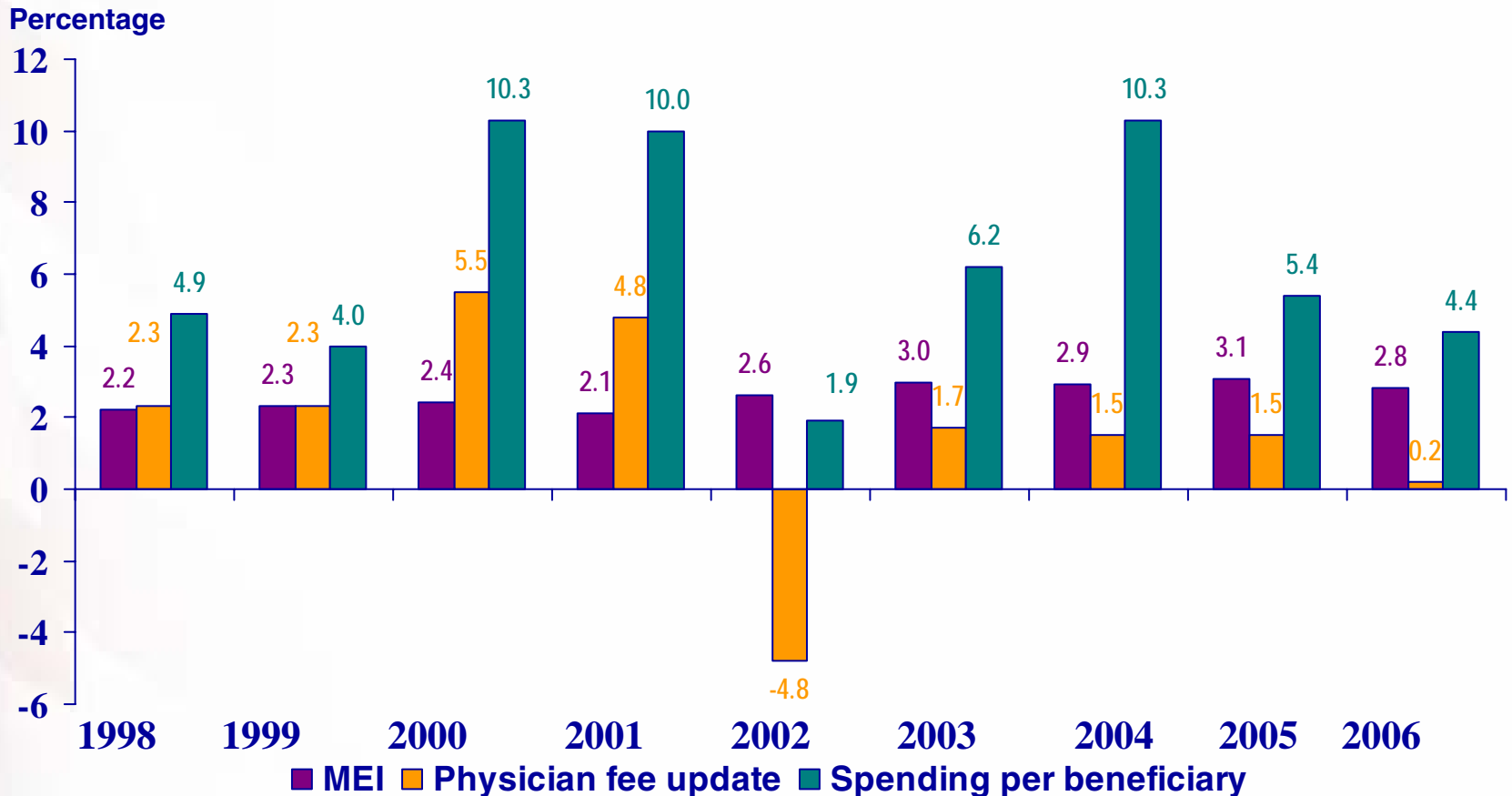
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Percentage Change in MEI, SGR Physician Fee Update, and Medicare Spending per Beneficiary, 1998-2006



Sources: GAO analysis of data from the 2007 Annual Report of the Boards of Trustees of the HI and Supplementary Medical Insurance (SMI) Trust Funds.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA)

The MMA required GAO to study:

- (1) Sustainable Growth Rate (SGR)¹
- (2) Physician compensation generally

¹ *Medicare Physician Payments: Concerns about Spending Target System Prompt Interest in Considering Reforms*, GAO-05-85

GAO Physician Compensation Study

- Examined physician-focused strategies used by 10 health care purchasers to encourage efficiency
- Estimated the prevalence of generalist physician inefficiency in Medicare in 12 metropolitan areas
- Analyzed what Medicare can and cannot do to use physician profiling to improve efficiency

10 Purchasers

- Not a random sample
- Generally profiled for quality as well as efficiency
- Used claims data to compare actual to expected expenditures
- Used a variety of strategies to encourage physician efficiency

Ways purchasers use profiling to promote efficiency

Purchasers' actions include:

- Educating physicians on profiling results
 - Designating physicians based on efficiency or quality
 - Using tiered arrangements to promote efficiency
 - Providing bonuses or imposing penalties
 - Excluding inefficient physicians from the network
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GAO's examination of inefficiency in Medicare physician practices

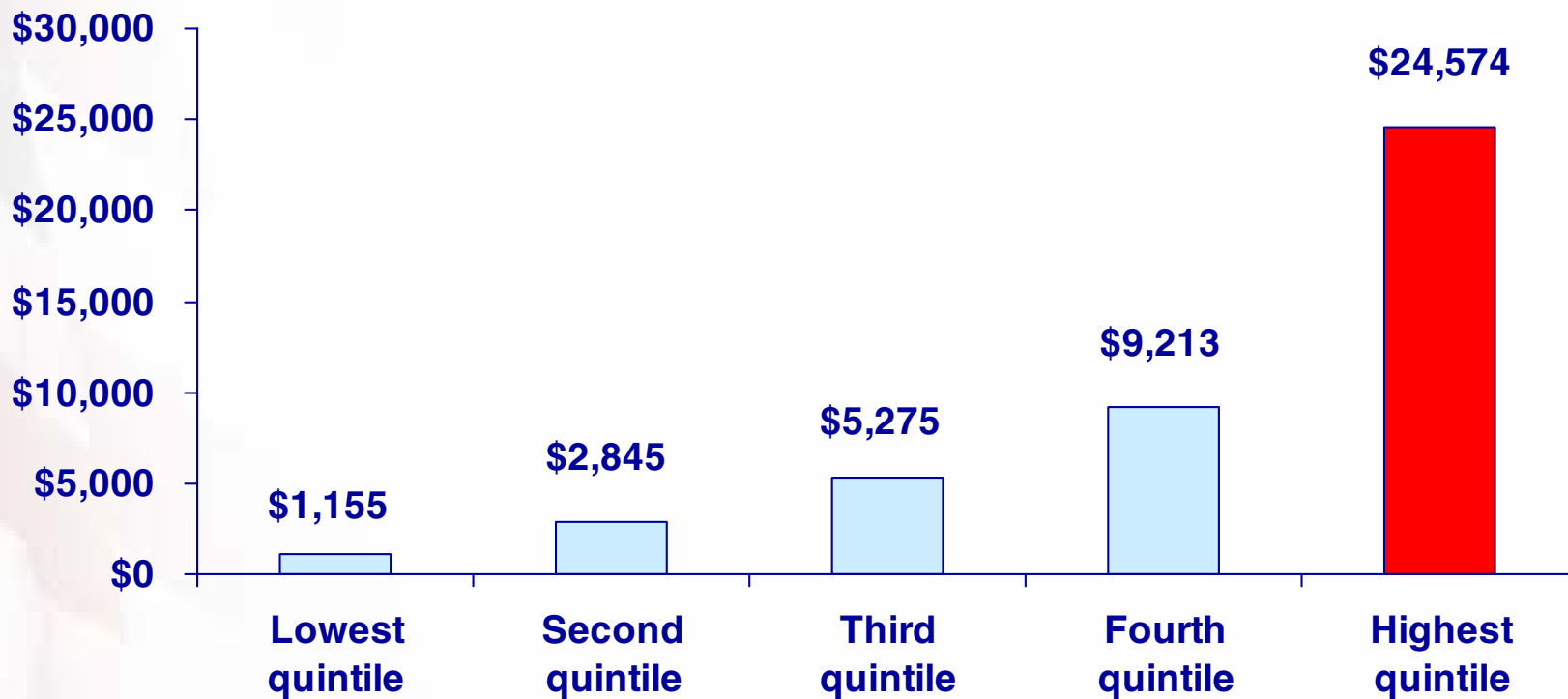
GAO:

- Examined 2003 Medicare claims data from 12 metropolitan areas
- Defined patients as overly expensive if they had high health expenditures given their health status
- Defined physicians as outliers if the proportion of overly expensive Medicare patients was high
- Concluded outliers were likely to practice medicine inefficiently

Finding: Physicians who were likely to practice medicine inefficiently were present in each of the 12 metropolitan areas.

Example of Disparity in Spending between Beneficiaries in Top Quintile and Other Beneficiaries with Same Health Status

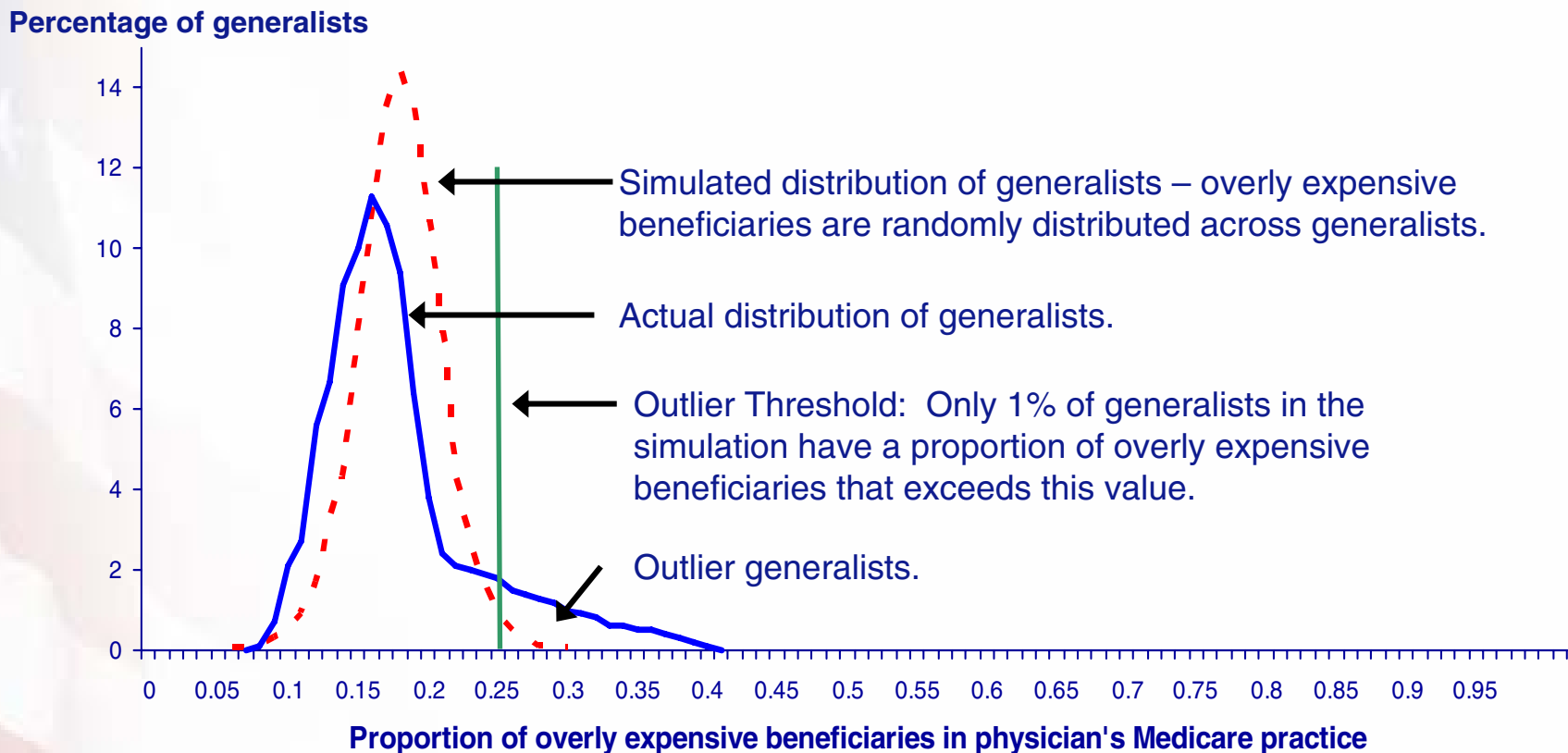
Average Medicare expenditures



Source: GAO analysis of 2003 Medicare claims and enrollment data.

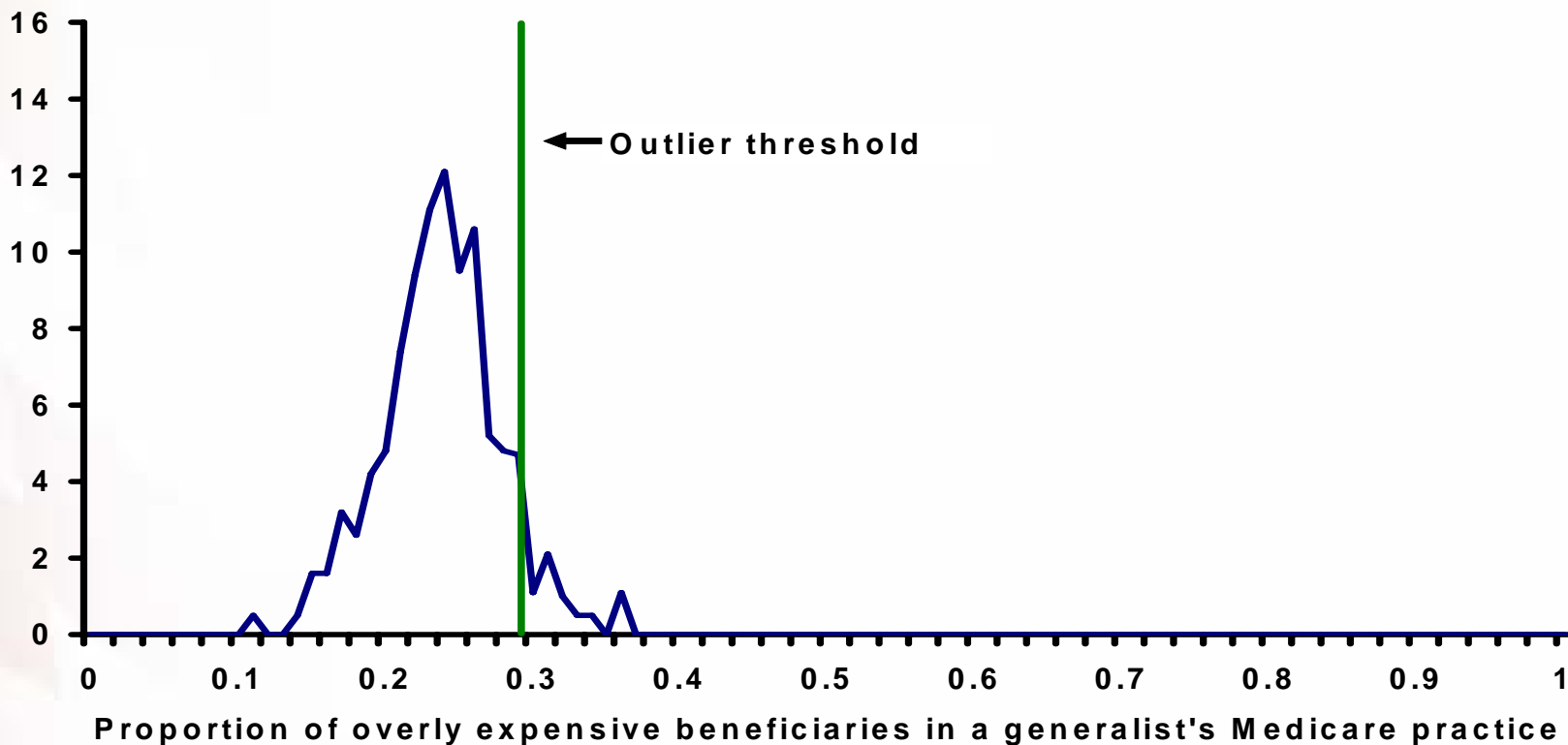
Note: Beneficiaries who died during 2003 are excluded in this figure.

Illustration of How We Identified Physician Outliers



Outlier Generalist Physicians in 2003 – Cape Coral, Florida

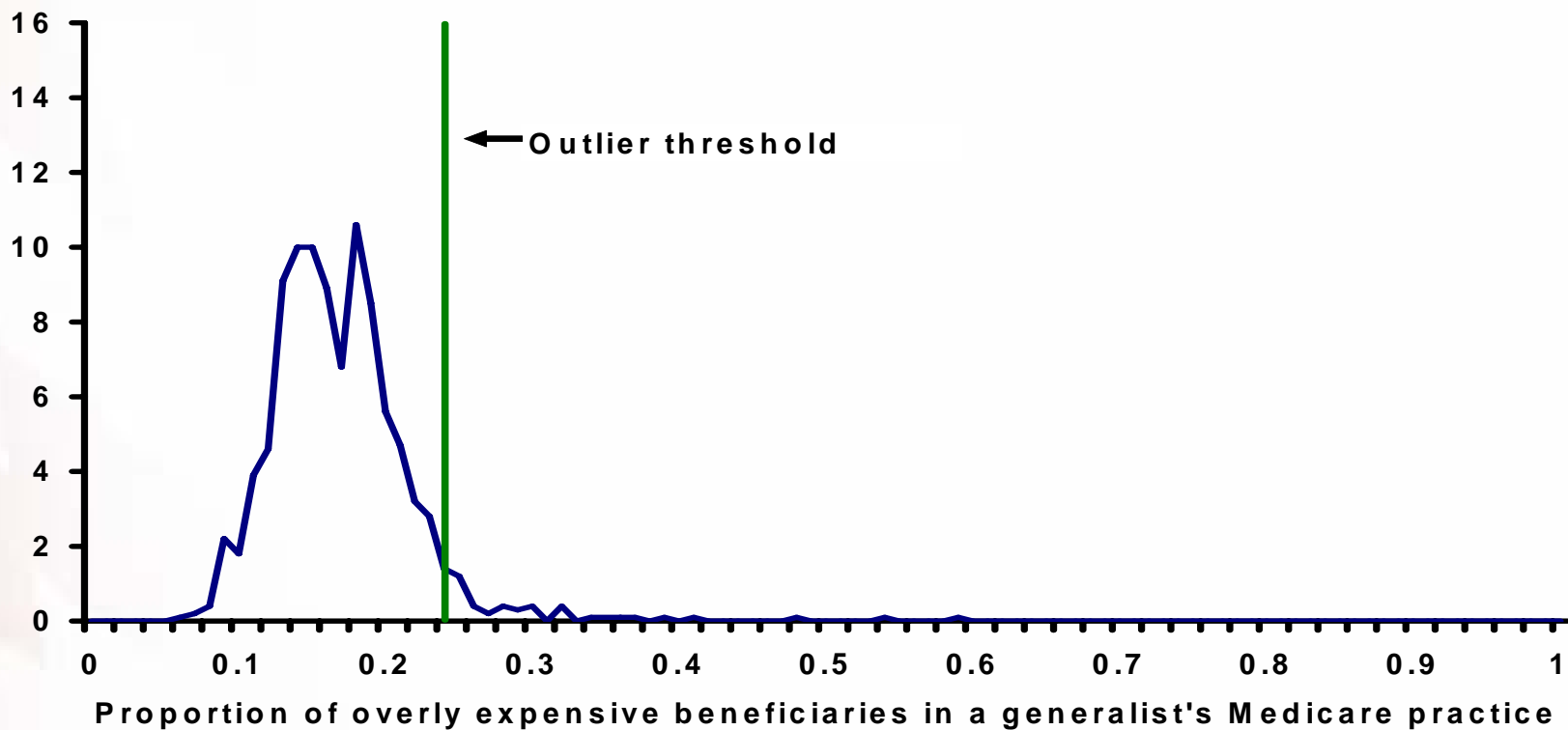
Percentage of generalists



Source: GAO analysis of 2003 Medicare claims data.

Outlier Generalist Physicians in 2003 – Columbus, Ohio

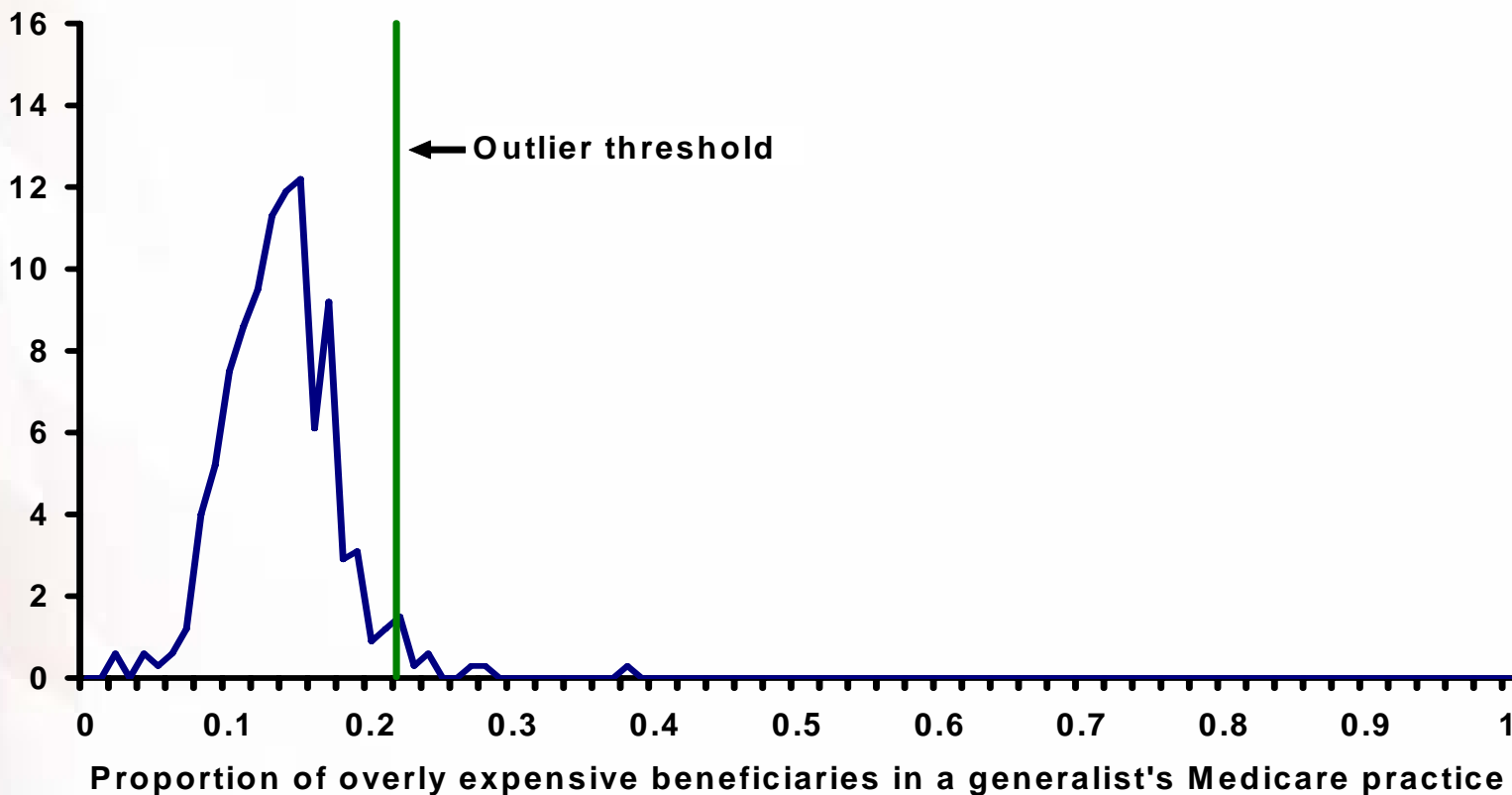
Percentage of generalists



Source: GAO analysis of 2003 Medicare claims data.

Outlier Generalist Physicians in 2003 – Albuquerque, New Mexico

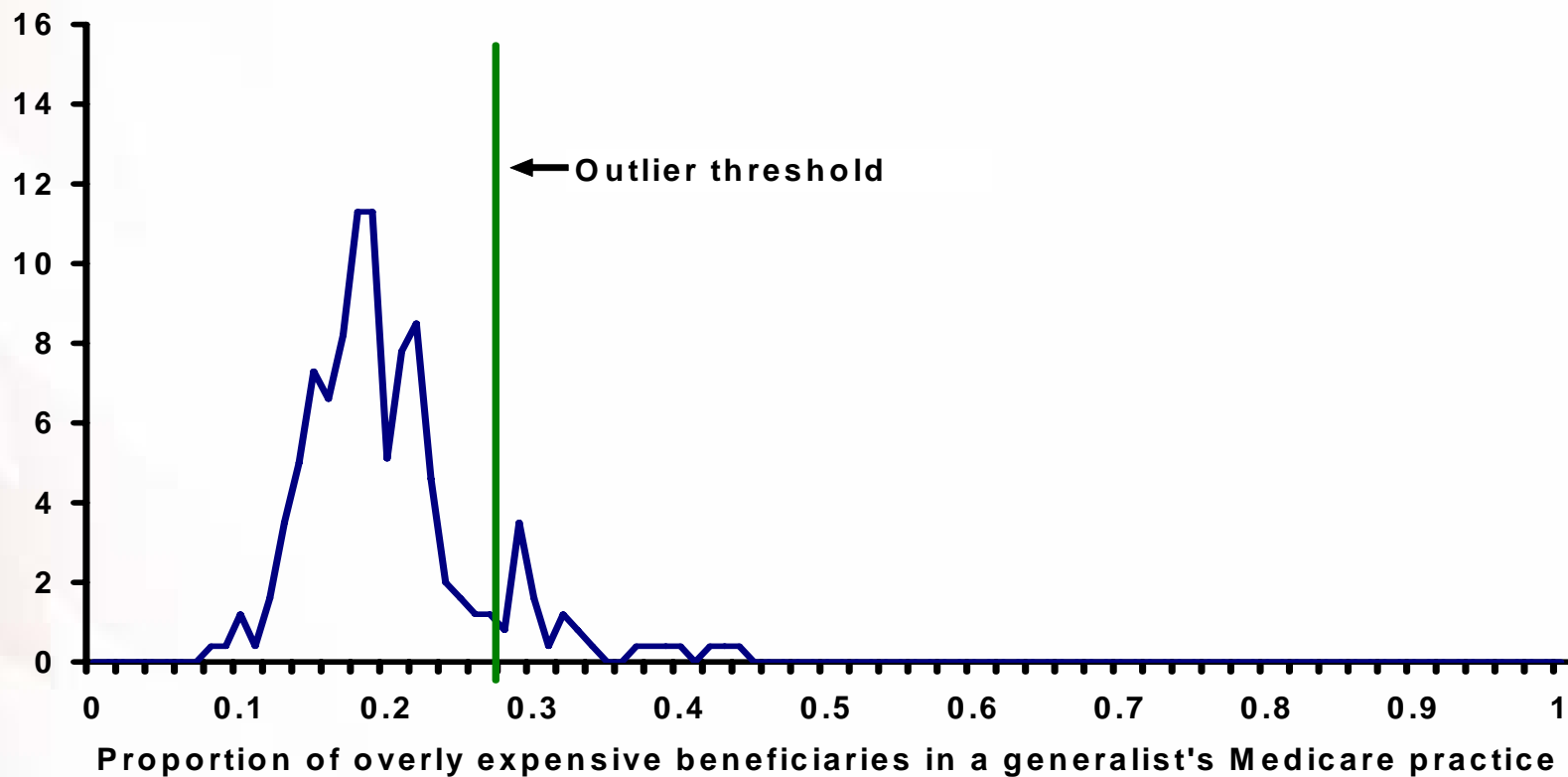
Percentage of generalists



Source: GAO analysis of 2003 Medicare claims data.

Outlier Generalist Physicians in 2003 – Baton Rouge, Louisiana

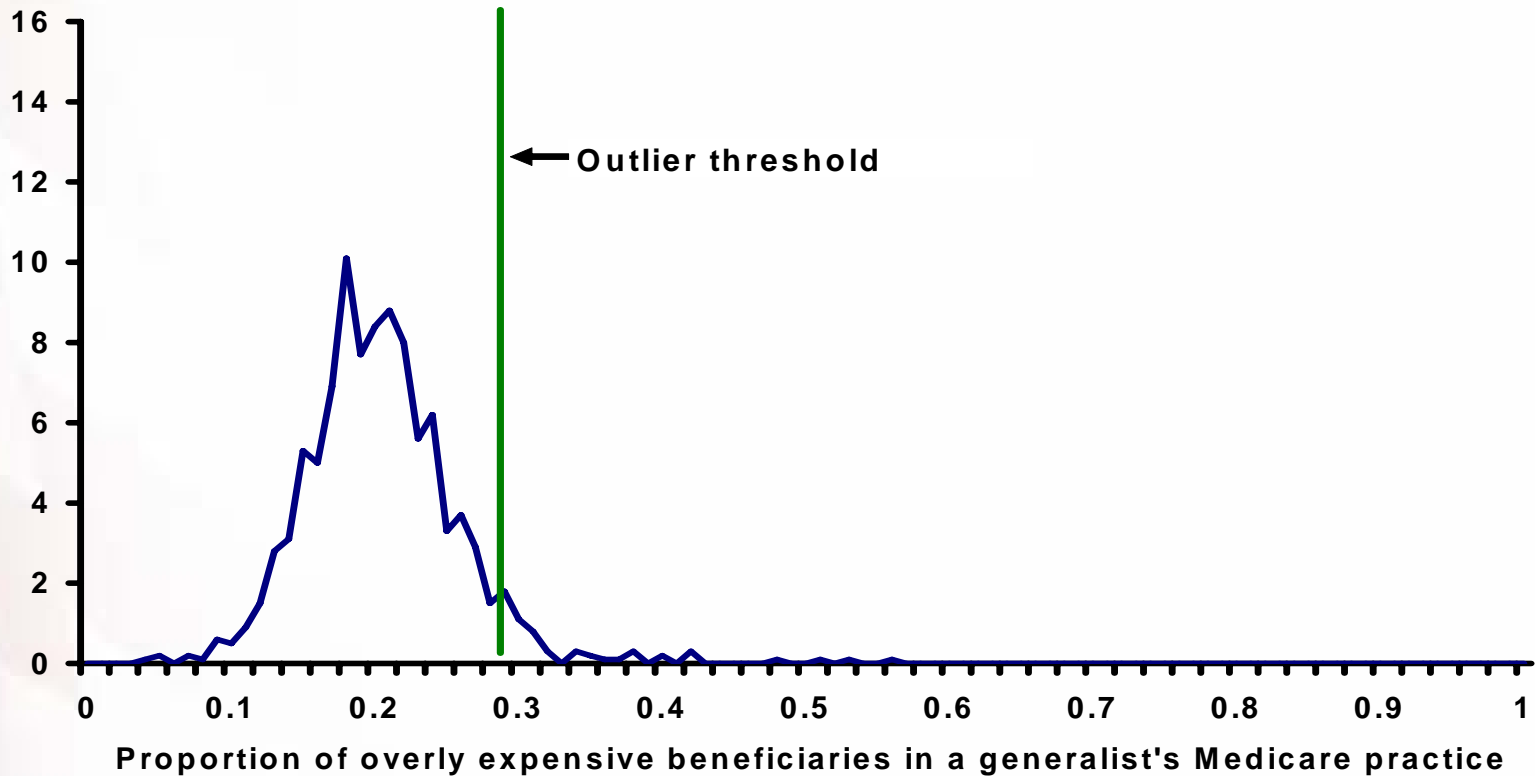
Percentage of generalists



Source: GAO analysis of 2003 Medicare claims data.

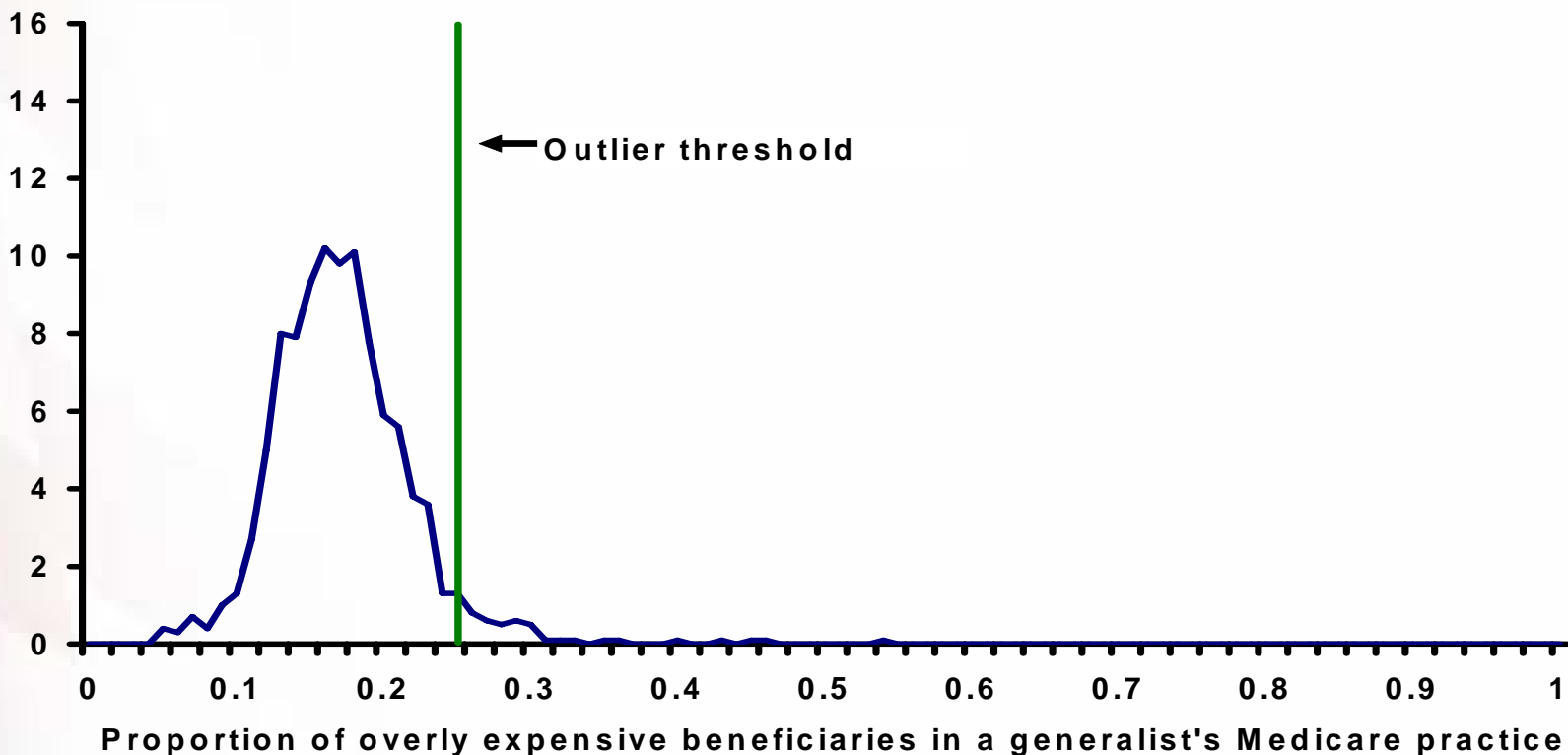
Outlier Generalist Physicians in 2003 – Phoenix, Arizona

Percentage of generalists



Outlier Generalist Physicians in 2003 – Pittsburgh, Pennsylvania

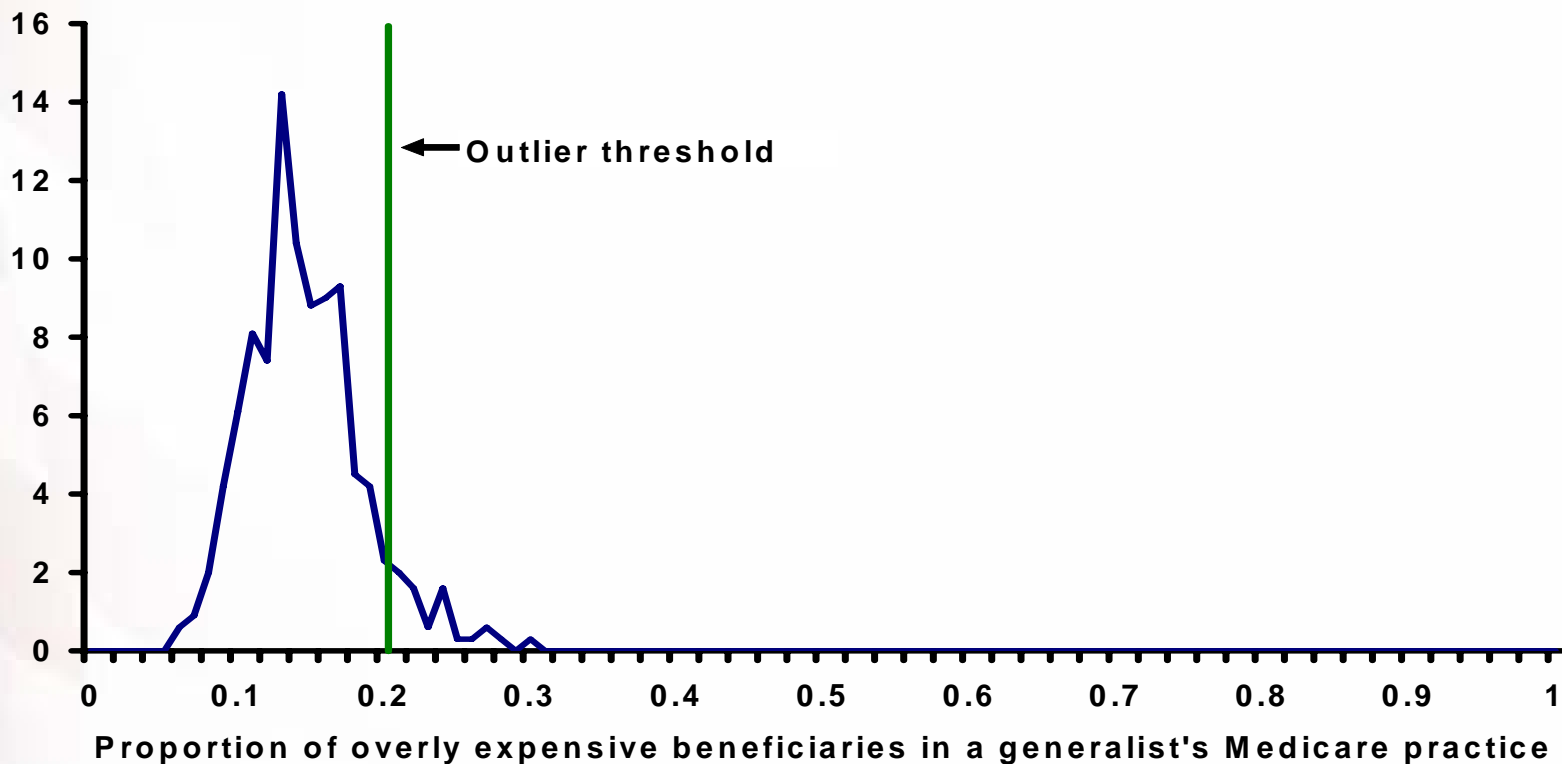
Percentage of generalists



Source: GAO analysis of 2003 Medicare claims data.

Outlier Generalist Physicians in 2003 – Portland, Maine

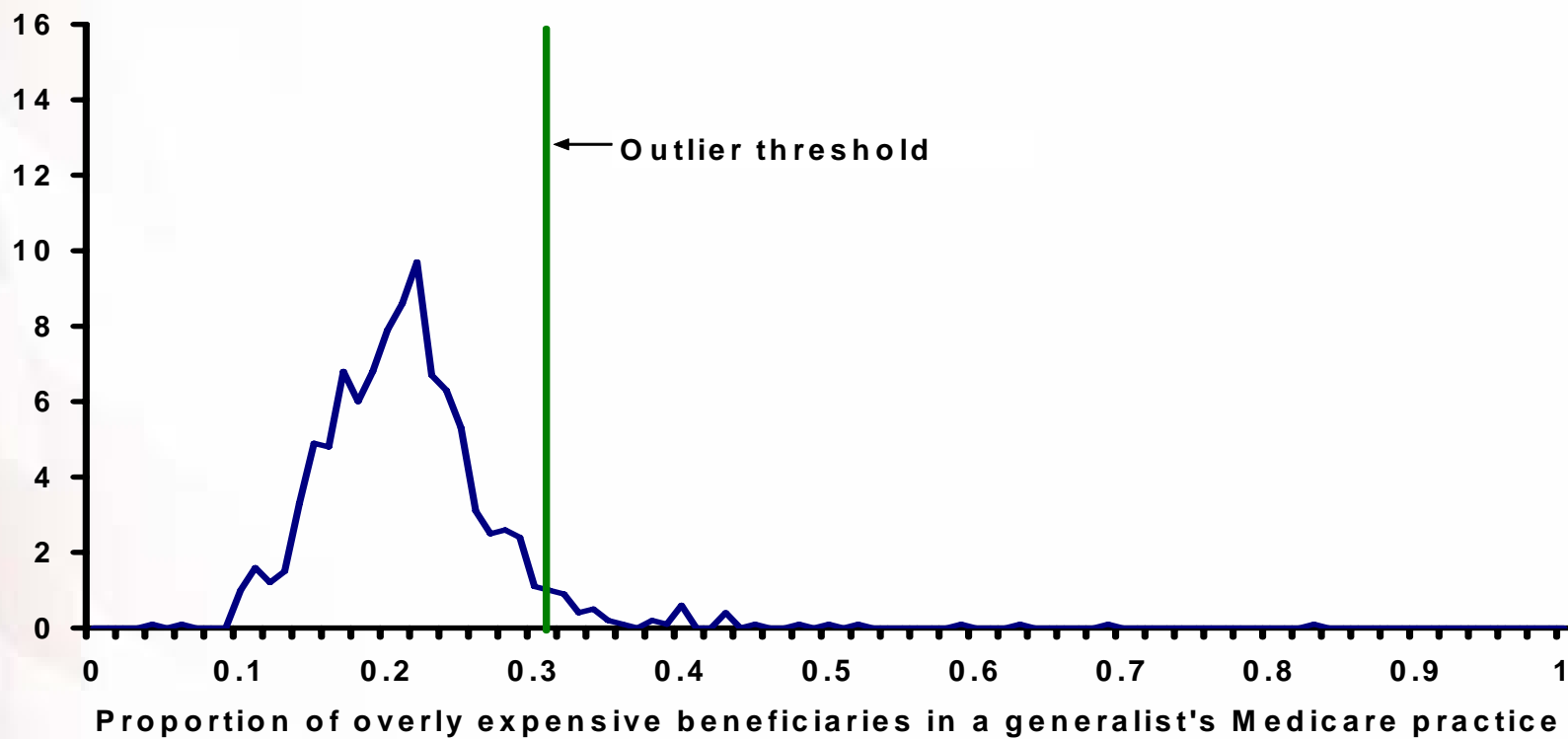
Percentage of generalists



Source: GAO analysis of 2003 Medicare claims data.

Outlier Generalist Physicians in 2003 – Riverside, California

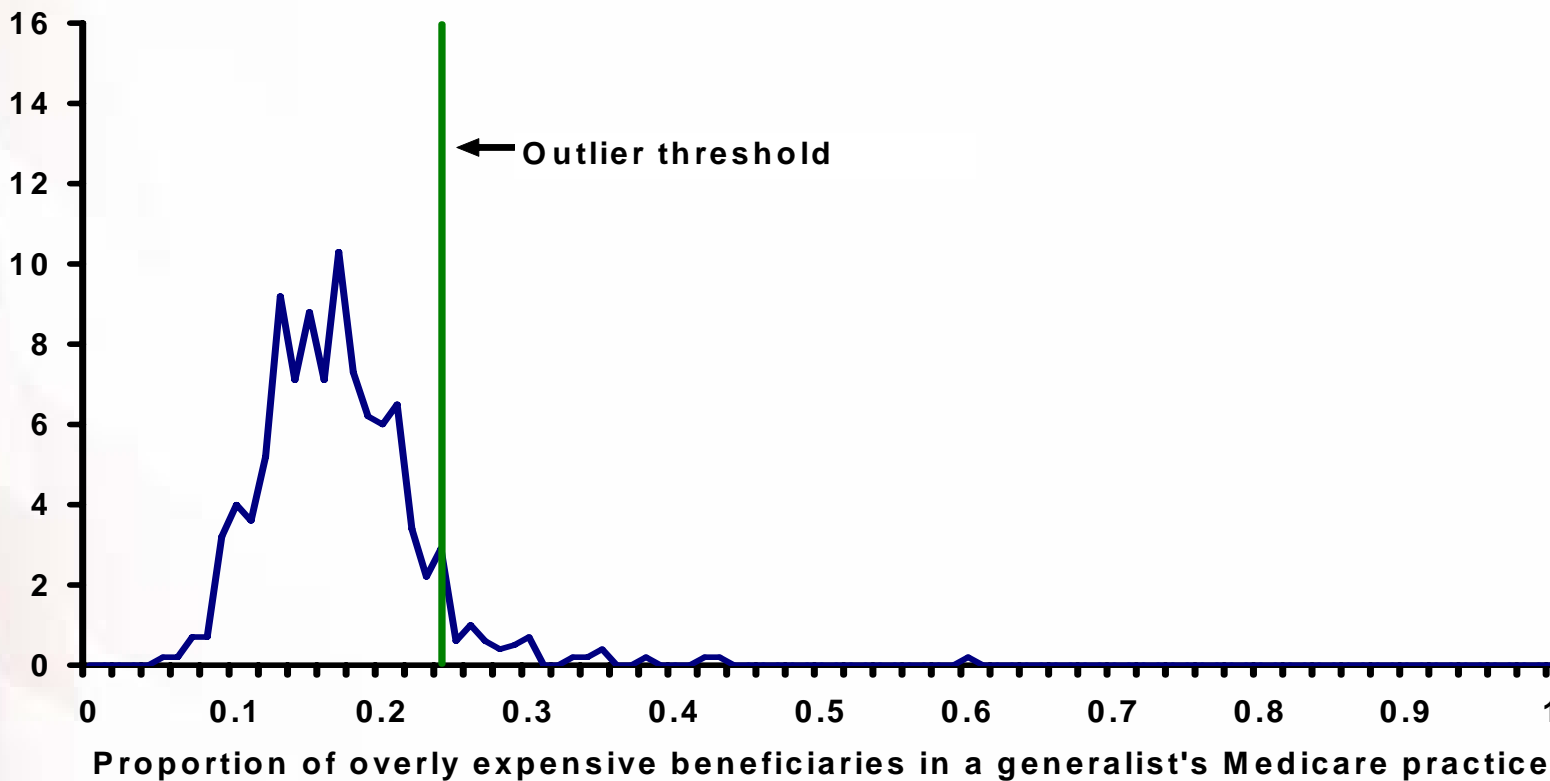
Percentage of generalists



Source: GAO analysis of 2003 Medicare claims data.

Outlier Generalist Physicians in 2003 – Sacramento, California

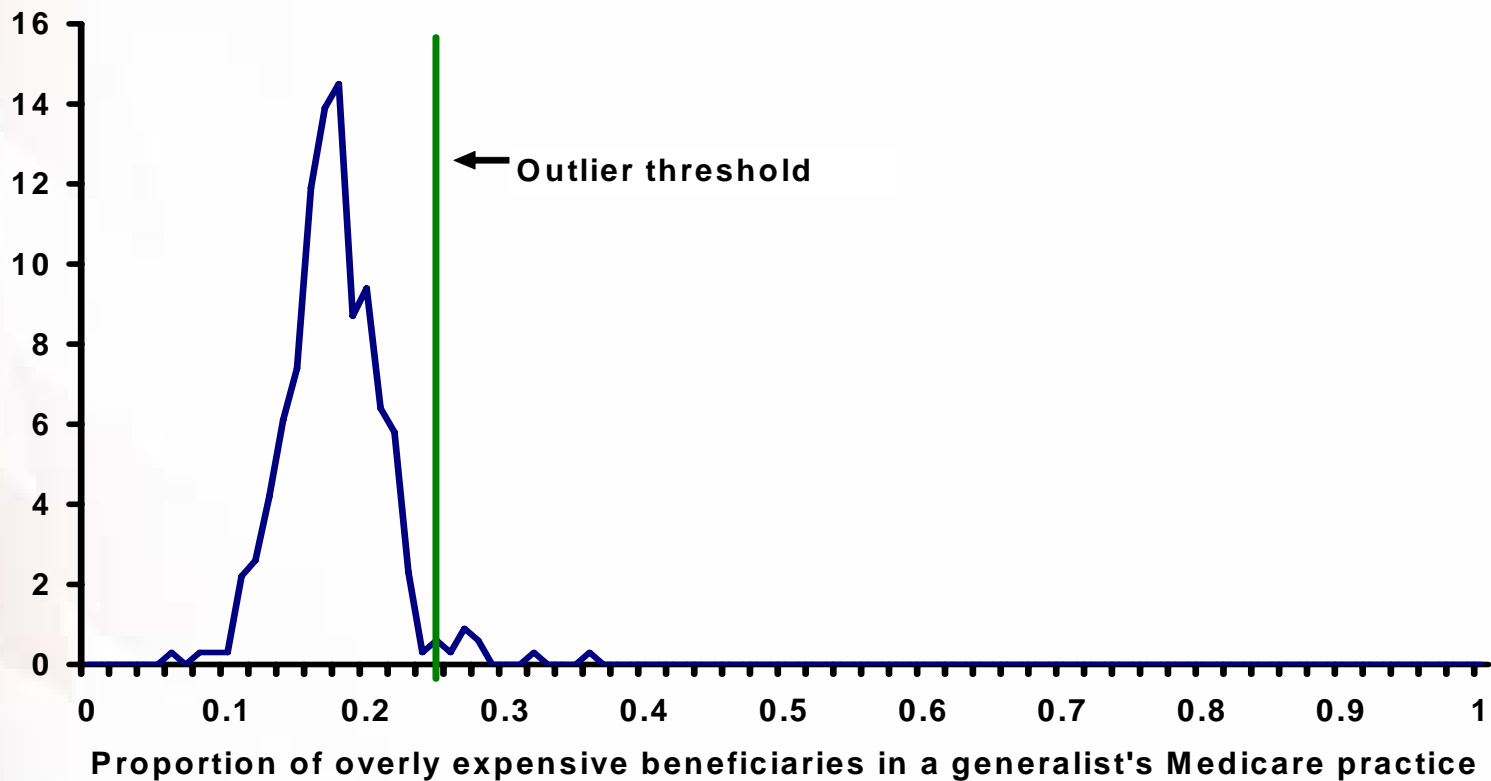
Percentage of generalists



Source: GAO analysis of 2003 Medicare claims data.

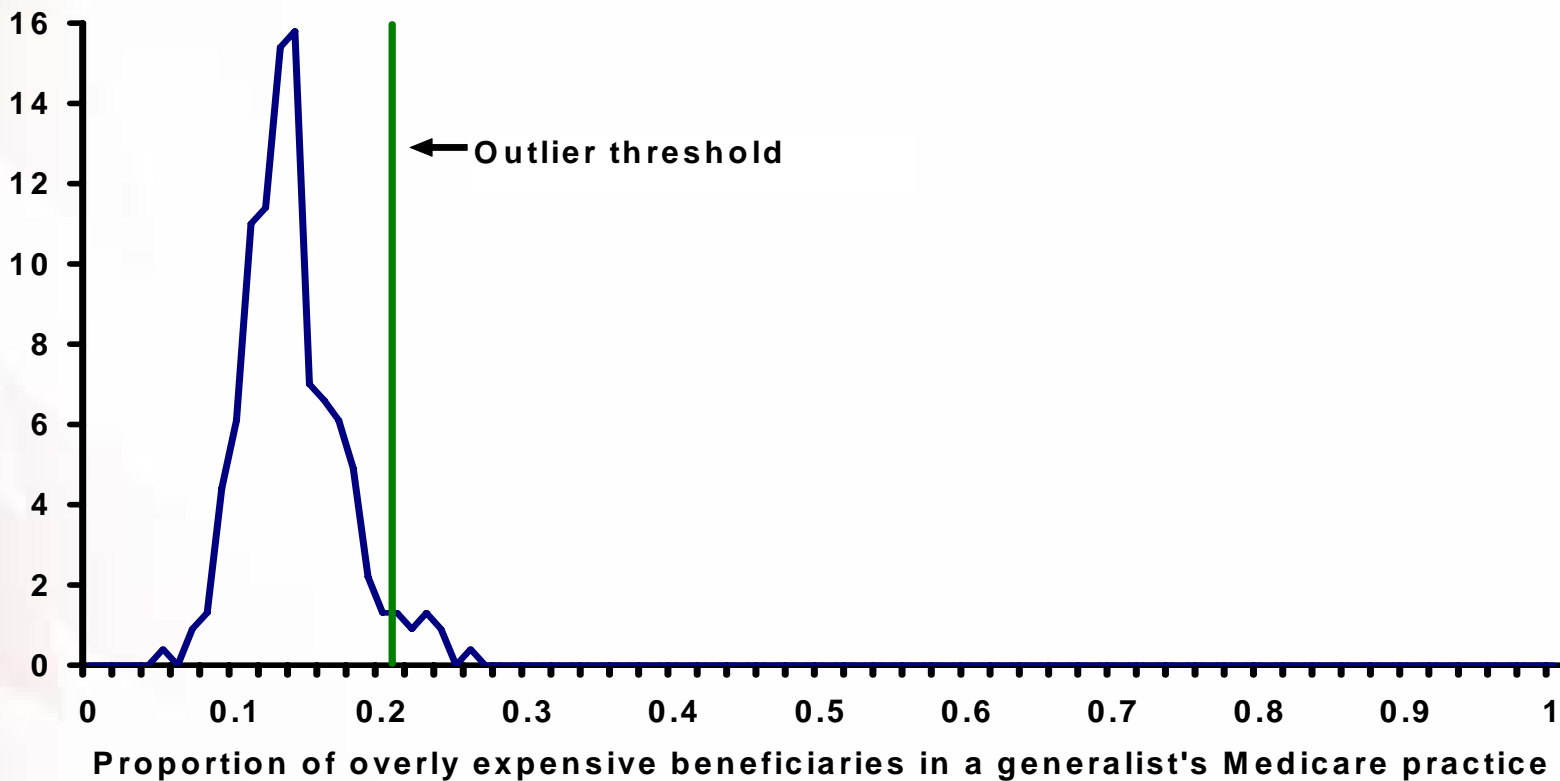
Outlier Generalist Physicians in 2003 – Springfield, Massachusetts

Percentage of generalists



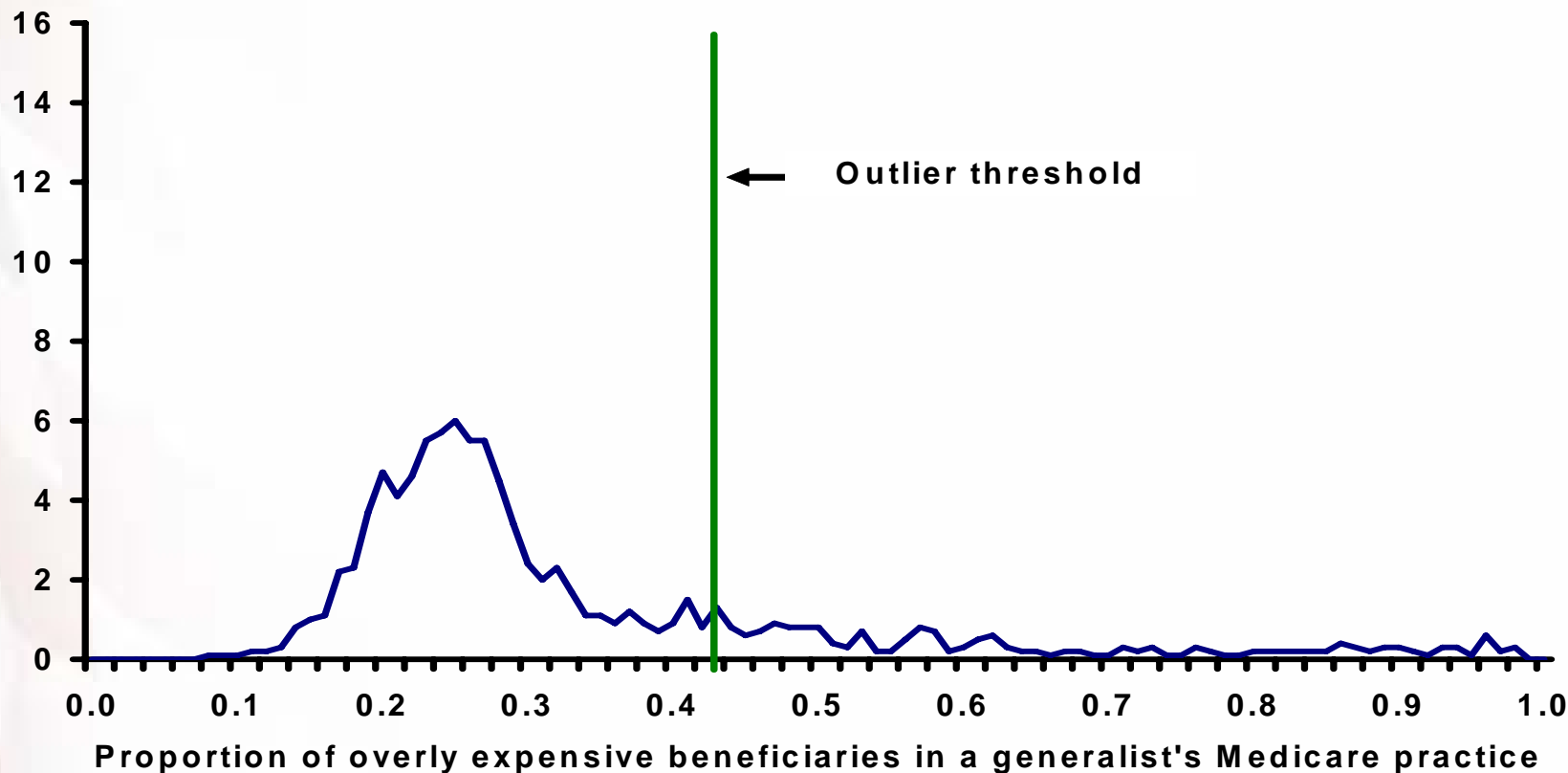
Outlier Generalist Physicians in 2003 – Des Moines, Iowa

Percentage of generalists



Outlier Generalist Physicians in 2003 – Miami, Florida

Percentage of generalists



Percentage of Outlier Physicians in 12 Metropolitan Areas, 2003

Metropolitan Area	Percentage of Outlier Physicians
Miami, Florida	20.9
Baton Rouge, Louisiana	11.2
Cape Coral, Florida	6.3
Portland, Maine	5.8
Riverside, California	5.8
Phoenix, Arizona	5.2
Sacramento, California	5.2
Des Moines, Iowa	4.8
Columbus, Ohio	4.6
Pittsburgh, Pennsylvania	3.8
Springfield, Massachusetts	2.9
Albuquerque, New Mexico	2.0

Source: GAO analysis of 2003 claims and enrollment data.

Note: Outlier percentages greater than 1percent indicate that an area has an excessive number of outlier physicians.

Aspects of Medicare conducive to profiling

Tools currently available in Medicare include:

- Comprehensive claims database on patients' Medicare covered health care
 - Enough physicians in most geographic areas to ensure meaningful comparisons
 - Experience in using methods to account for differences in patient health status
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6 Principles for Physician Profiling System

- Examine total Medicare expenditures
 - Adjust for differences in beneficiary health status
 - Determine efficient standards empirically and ensure transparency
 - Make physician education integral to all efforts
 - Structure meaningful incentives to improve efficiency
 - Measure fiscal and institutional impact of profiling efforts
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CONCLUSIONS

- Physician profiling for efficiency is being employed outside Medicare
- Medicare has the tools needed to profile for efficiency
- Profiling is not a blunt instrument
- The need to control Medicare spending growth is compelling