

MedPAC Releases March 2008 Report to the Congress: Medicare Payment Policy

The Medicare Payment Advisory Commission (MedPAC), the independent Congressional agency established to advise the U.S. Congress on issues affecting the Medicare program, has recently released its March 2008 Report to the Congress: Medicare Payment Policy. The 17 commissioners represent diverse points of view and include health care providers; payers; beneficiary representatives; employers; and individuals with expertise in biomedical, health services, and health economics research.

The March report concluded that Congress and the Centers for Medicare and Medicaid Services (CMS) will need to make sweeping changes across a broad front to increase quality, slow the growth in Medicare expenditures, and address Medicare's long-term sustainability. The report focuses on policy recommendations that create incentives for greater efficiency, reward quality, and modify payment rates to private plans and providers to ensure accuracy and equity. To slow the growth in Medicare expenditures, MedPAC concluded that changes will need to be made, including paying differentially for quality, measuring physician resource use to identify those with more or less intense practice patterns, and analyzing comparative effectiveness. However, the underlying incentives in current payment systems and the structure of the delivery system make significant gains in value difficult to realize.

There is continued concern on the part of the commission that repeated annual reductions in physician payment rates could threaten beneficiaries' access to physician services. Medicare's current fee-for-service payment system does not systematically reward physicians who provide higher quality care or care coordination, and it offers higher revenues to physicians who furnish the most services—whether or not the services add value. In addition, MedPAC feels that the current distribution of Medicare physician payments undervalues primary care services and introduces other distorted incentives that encourage overuse of some services and underuse of others. These deficiencies will need to be

corrected for the Medicare program to promote high-quality health care and avert unsustainable growth in spending.

MedPAC has made the following additional recommendations regarding the amount by which the base payment for all providers in a prospective payment system is changed:



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- For inpatient and outpatient services, MedPAC recommends that updates equal to the hospital market basket (a measure of input prices) be implemented concurrently with a quality incentive payment program.
- For the physician fee schedule, an update is recommended equal to the increase in input prices less MedPAC's adjustment for productivity growth (the 10-year average of productivity gains in the general economy, 1.5% for 2009; this factor links Medicare's adjustment for efficiency to the gains achieved by the firms and workers who pay taxes that fund Medicare).

The sustainable growth rate formula continues to call for substantial negative updates through 2016. MedPAC is concerned that consecutive annual cuts would threaten beneficiary access to physician services over time.

In addition, Congress should enact legislation requiring CMS to establish a process for measuring and reporting physician resource use on a confidential basis for a period of 2 years. This is intended to improve the value of physician services purchased by Medicare, with the eventual goal being that Medicare base physician payment rates at least in part on physician resource use.

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