

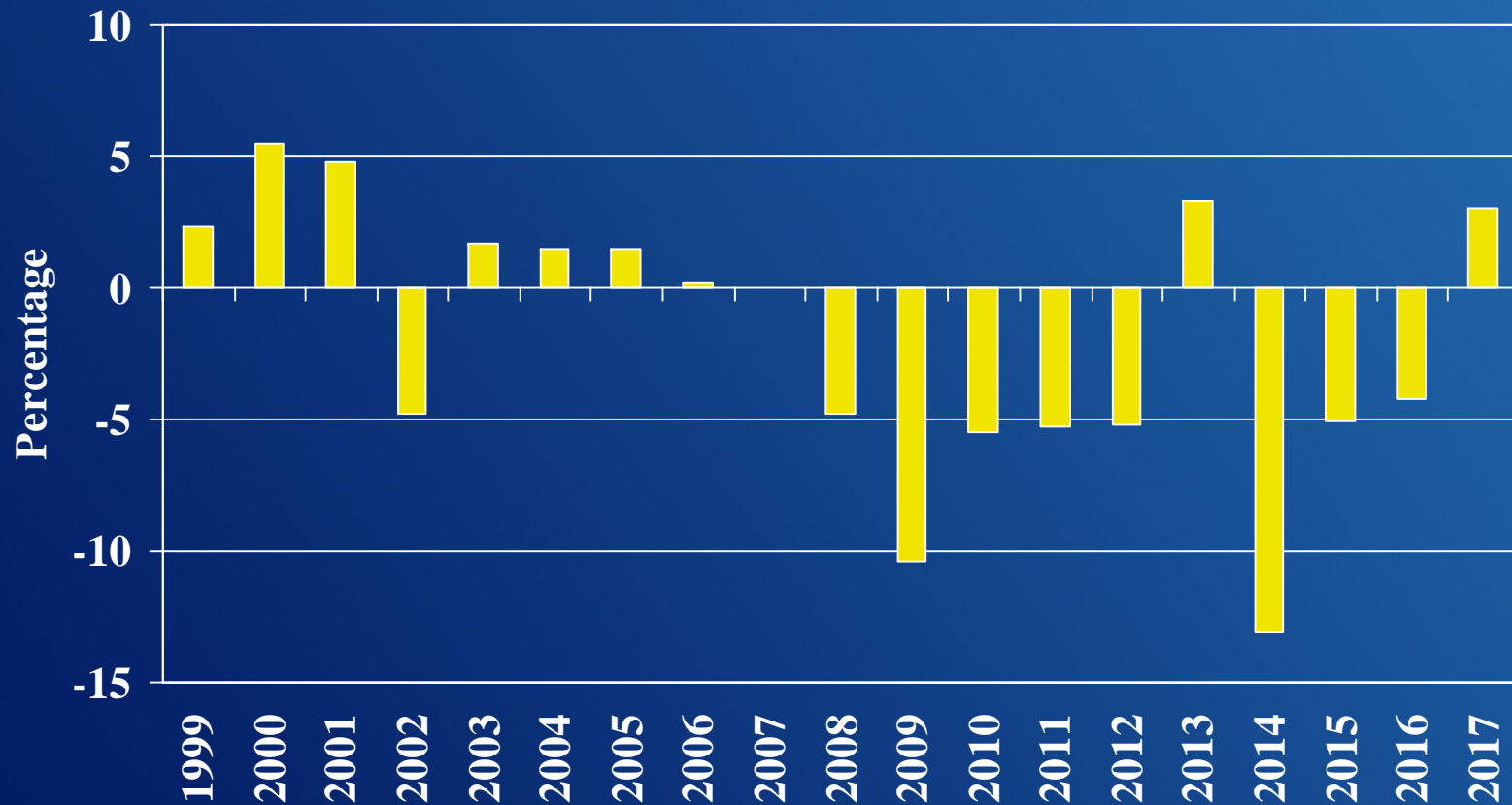


Advising the Congress on Medicare issues

Medicare's payments for physician services

Kevin Hayes
April 15, 2008

Recent and projected payment updates for physician services

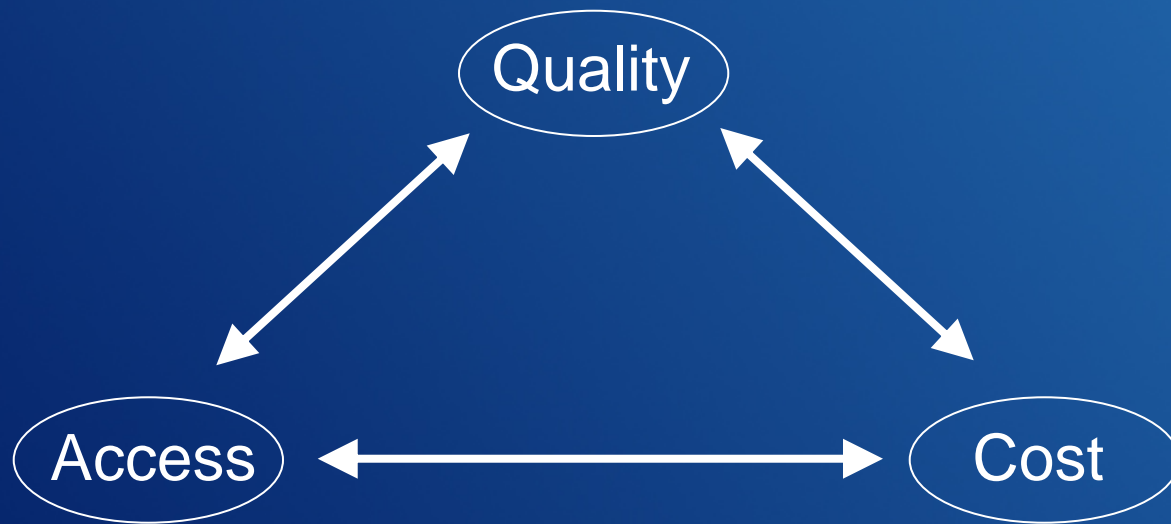


Source: 2008 annual report of the Boards of Trustees of the Medicare trust funds.

Medicare Payment Advisory Commission

- Congressional support agency
 - established in 1997
 - advises the U.S. Congress on Medicare issues
- 17 Commissioners
- Meets publicly to discuss issues and make recommendations
- Two reports, issued in March and June
- www.medpac.gov

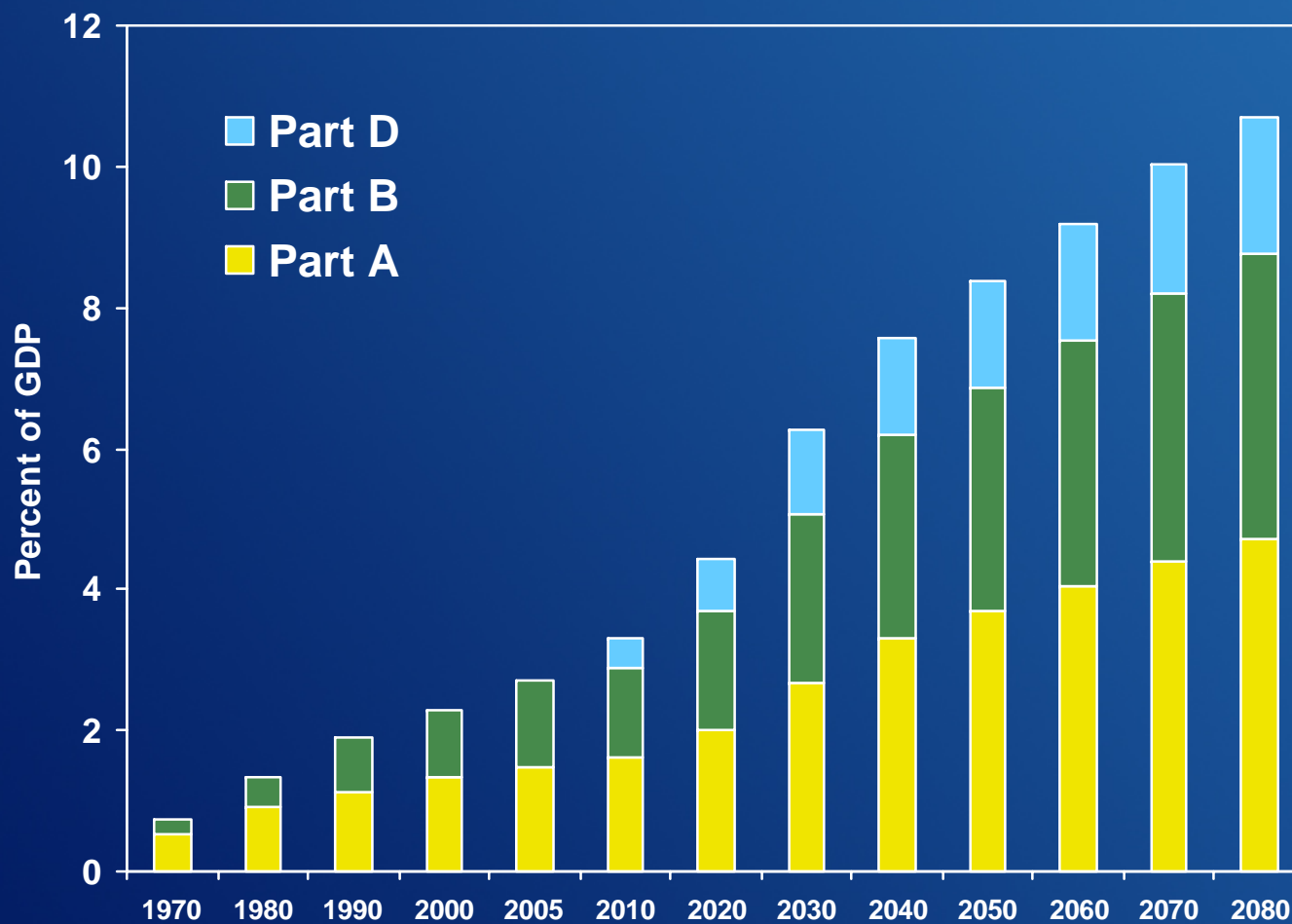
Goals in health policy



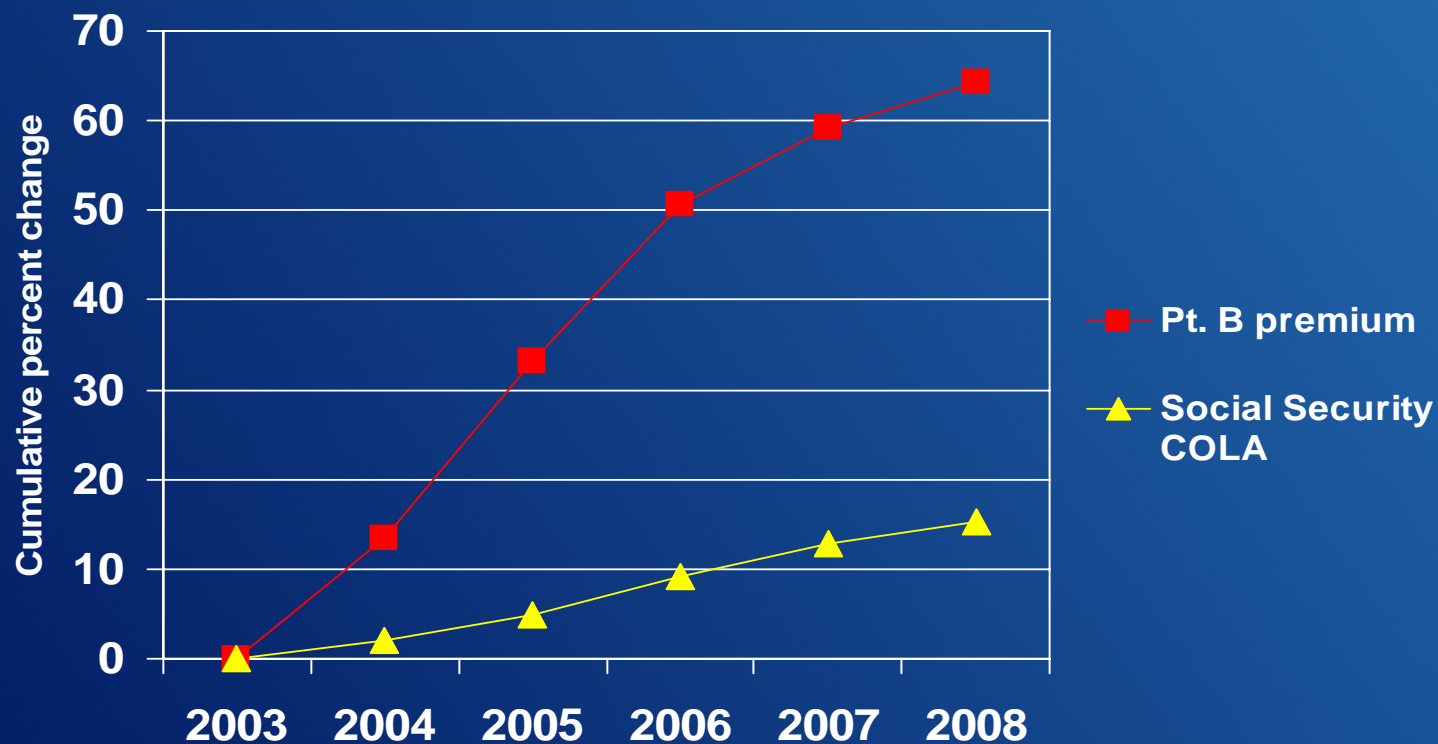
Concerns about quality of care for Medicare beneficiaries

- Gaps in the provision of services to prevent acute episodes
- Medical errors in hospitals
- Gaps between care known to be effective and actual care delivered, including preventive ambulatory care
- Lack of communication among providers
- Inadequate monitoring of patient progress over time

Medicare will consume a growing share of the nation's income



Medicare beneficiaries are already facing growing financial liability



Note: COLA (cost-of-living adjustment).

Source: Social Security Administration and Medicare trustees' report.

Components of spending

$$\begin{array}{l} \text{Payments per} \\ \text{service} \end{array} \times \begin{array}{l} \text{Number of} \\ \text{beneficiaries} \end{array} \times \begin{array}{l} \text{Number and} \\ \text{intensity of} \\ \text{services per} \\ \text{beneficiary} \end{array} = \begin{array}{l} \text{Total program} \\ \text{expenditures} \end{array}$$

Payment per service

Mid-level office visit, Minnesota, 2008

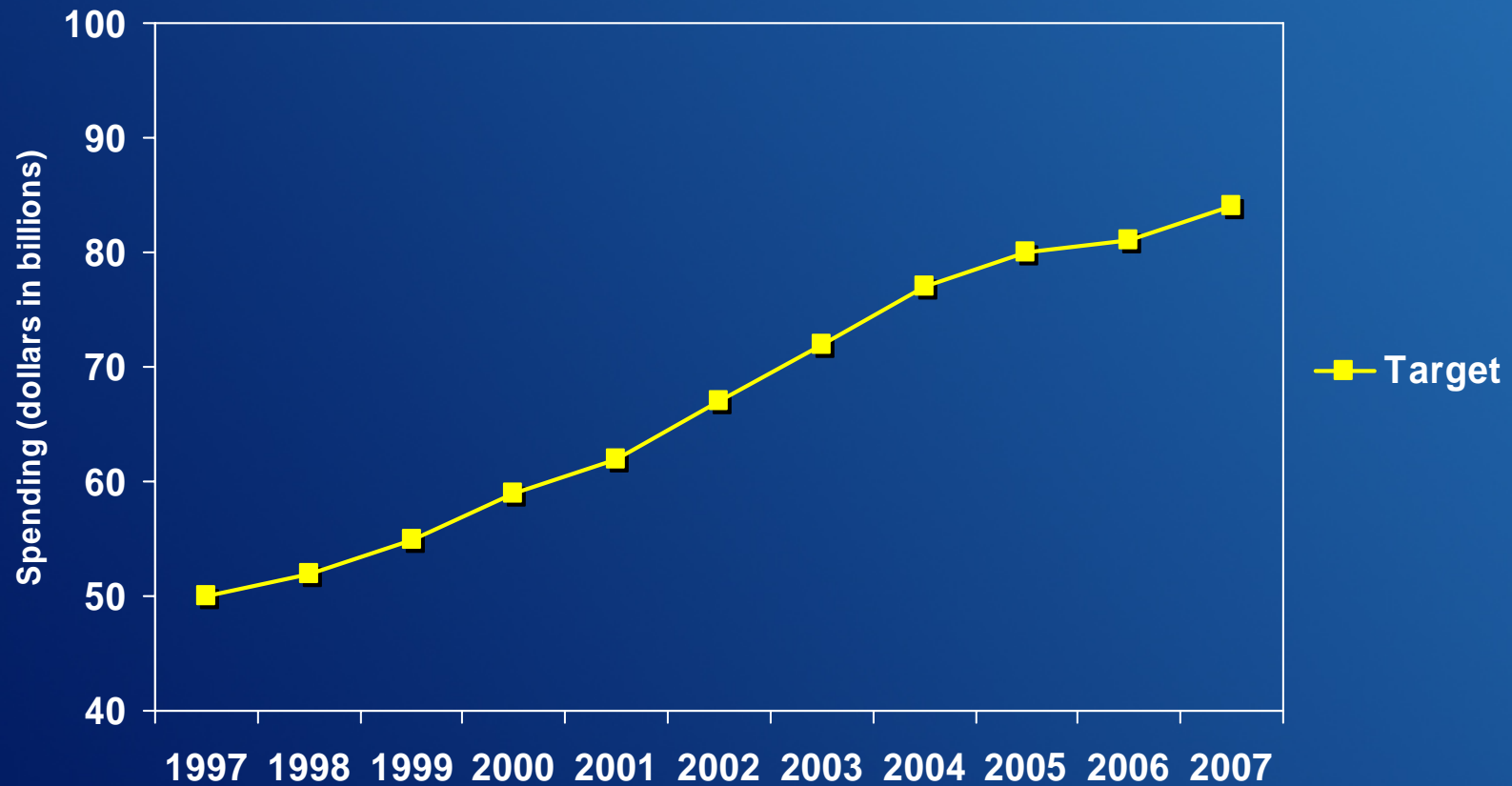
Input	Relative value		Geographic adjustment		Adjusted relative value
Physician work	0.92	X	1.00	=	0.92
Practice expense	0.72	X	0.99	=	0.72
PLI	0.03	X	0.32	=	0.01
					<u>1.65</u>
			Conversion factor	X	<u>\$38.09</u>
			Payment rate		\$62.67

PLI (professional liability insurance).

Current policy on updating fees

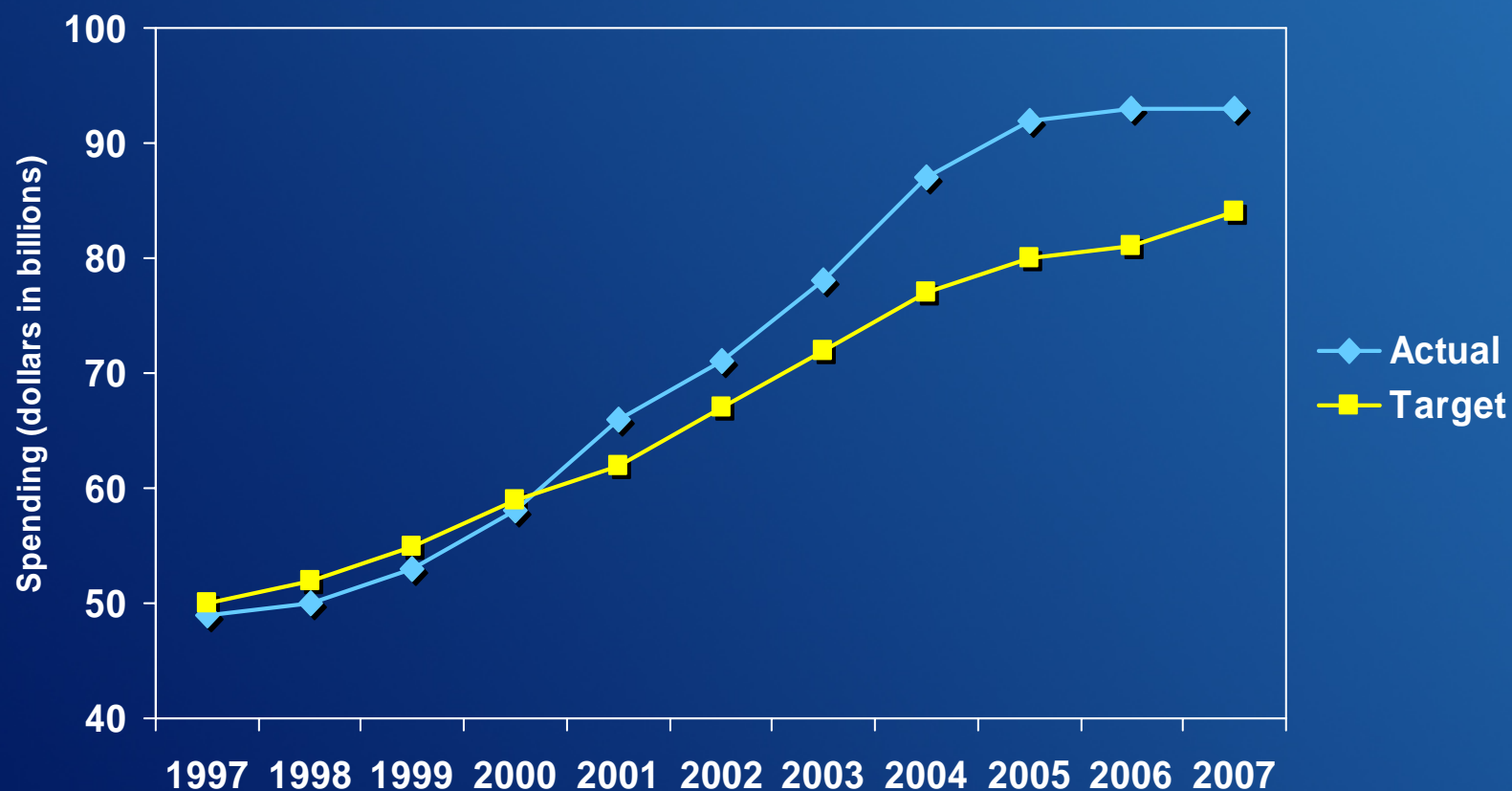
- Target for spending determined by a sustainable growth rate (SGR)
- SGR allowance for:
 - Changes in input prices
 - Growth in FFS enrollment
 - Changes in spending due to law and regulation
 - Growth in real GDP per capita
- Payment updates are adjusted up or down if actual spending differs from the target

Target for physician services spending



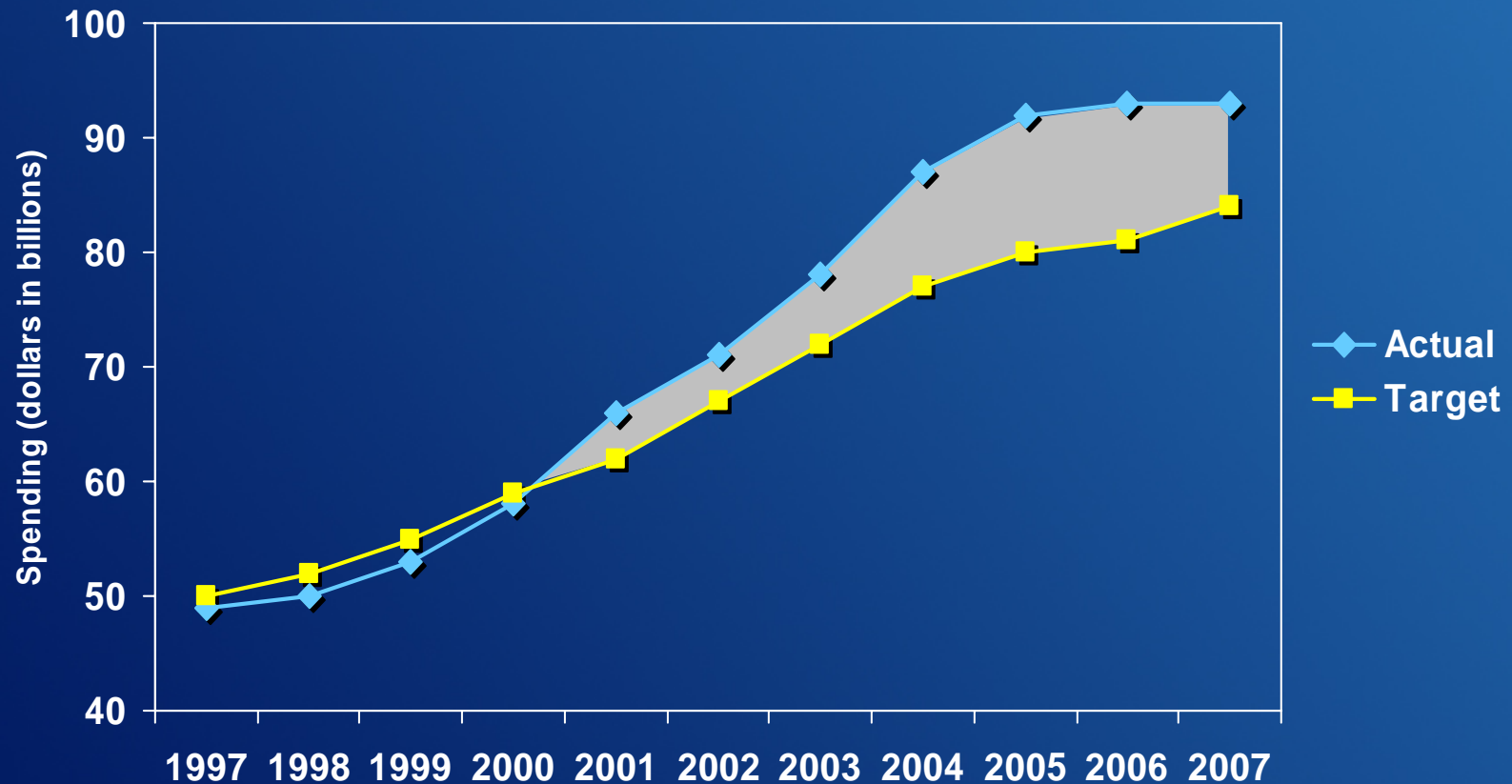
Source: Office of the Actuary 2008.

Since 2001, actual spending has exceeded the SGR target



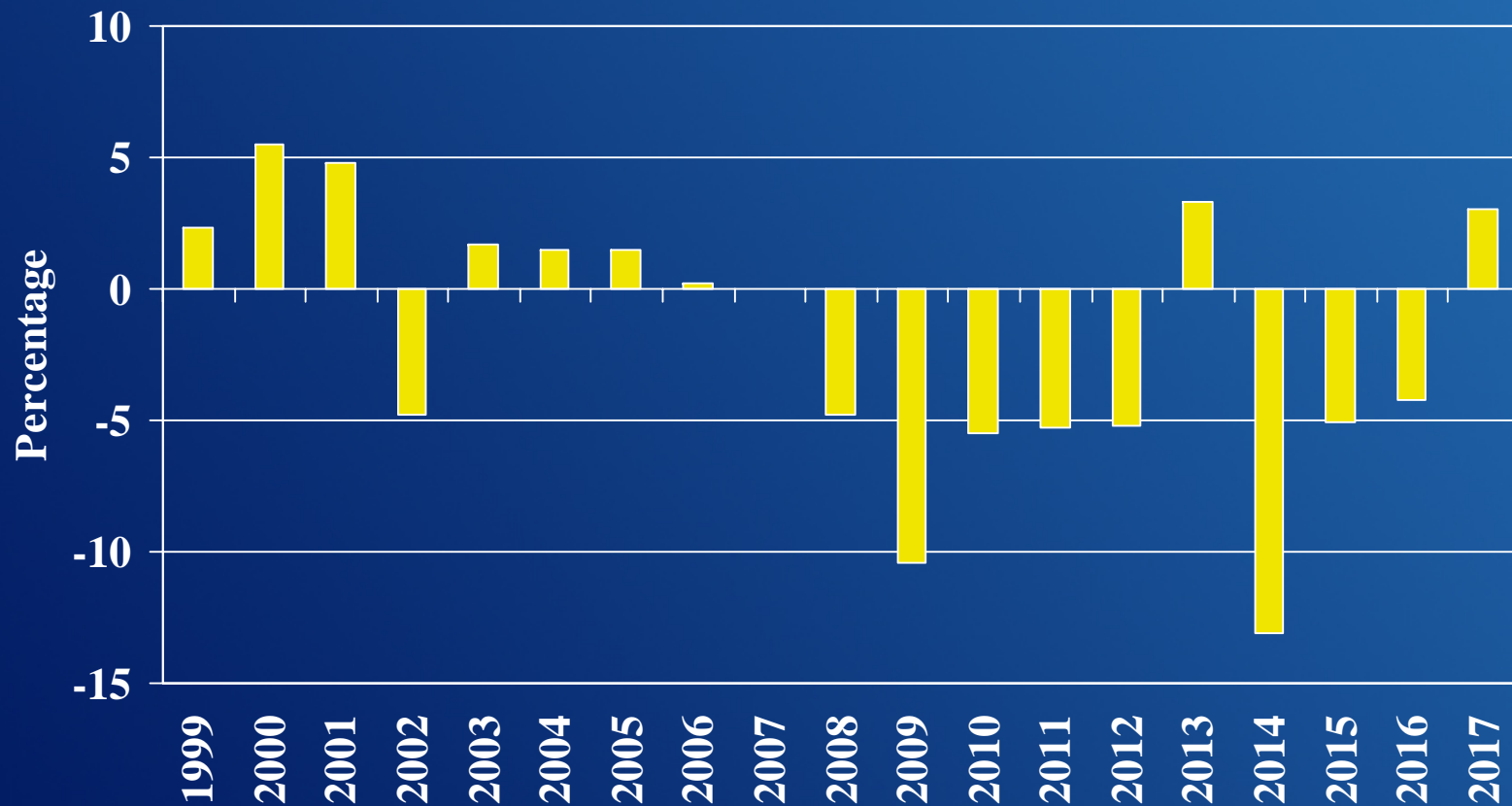
Source: Office of the Actuary 2008.

Formula designed to recoup spending above the target



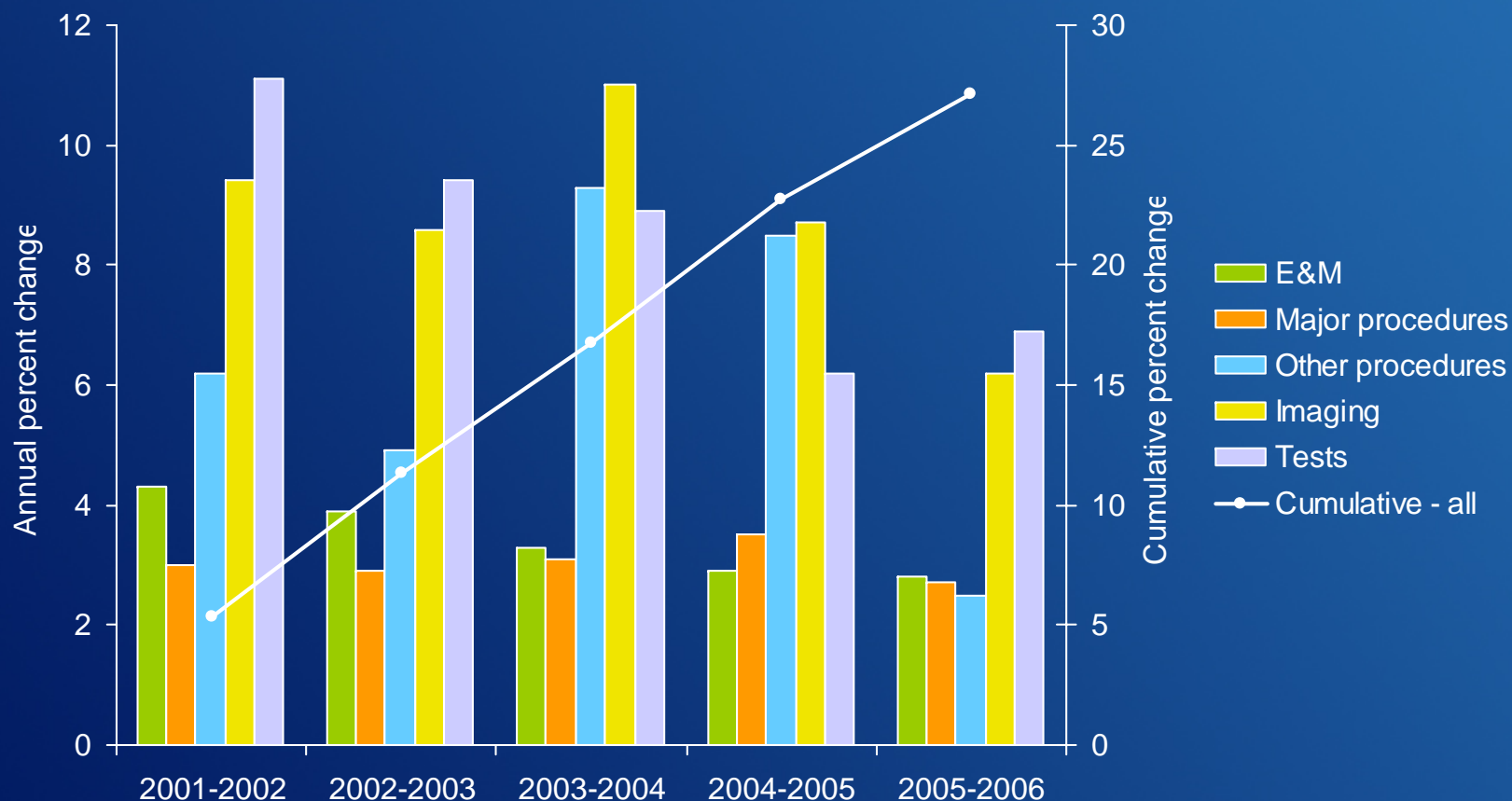
Source: Office of the Actuary 2008.

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Source: 2008 annual report of the Boards of Trustees of the Medicare trust funds.

Continued growth in the use of physician services per beneficiary, 2001-2006



E&M = Evaluation and management.

Source: MedPAC analysis of claims for 100 percent of Medicare beneficiaries.

Payment systems are sending the wrong signals

- Provide incentives to increase the volume of services
- Discourage care coordination and high quality care

MedPAC: Seeking better value for Medicare

- Price accuracy and equity
 - Accurate valuation
 - Coding and payment for imaging
 - Payment adjustment for primary care
- Service volume and quality
 - Measuring resource use
 - Pay for performance
 - Comparative effectiveness
 - Medical home
 - Bundled payments
 - Quality standards and stronger self-referral rules for imaging