

Medicare and private payers' payment rates to physicians

Now available on the MedPAC website are the final reports from two contractors on the differences between Medicare and private payer payment rates for physician services. If Medicare's payment rates do not compare favorably to the rates of other payers, some physicians may be less willing to accept Medicare patients and instead focus their practice on other patients. In addition to MedPAC's survey of physicians about the Medicare program (www.medpac.gov/publications/contractor_reports/Mar03_02PhysSurvRpt2.pdf), the reports completed under contract for MedPAC by Direct Research, LLC, and Dyckman and Associates, LLC, helped to inform the Commission's assessment of payment adequacy for physician services for MedPAC's March 2003 Report to Congress (www.medpac.gov/publications/congressional_reports/Mar03_Ch2B.pdf).

To assess the difference between Medicare and private rates, Direct Research used claims data and other information to estimate average private payment rates for physician services for 1999-2001, and to compare those rates with Medicare's. To provide information on the actions of private plans after Medicare's rates were reduced in 2002, Dyckman and Associates interviewed private health plan executives and collected survey data from the plans on their physician payment methods and their changes in payment rates from 2001 to 2002.

Key findings of the reports are:

- The difference between Medicare and private rates is smaller now than it was in the mid-1990s, primarily because of shifts in

private plan enrollment from higher-paying indemnity plans to lower-paying PPOs and HMOs. Medicare's rates were about 66 percent of private rates in 1994, but this percentage rose to about 83 percent in 2001.

- During the recent period of volatility in Medicare's payment updates, the difference between Medicare and private rates fluctuated. In 2000 and 2001, Medicare's updates for physician services exceeded inflation. Since 2001, the difference has started to widen again because the shift in private sector enrollment to HMOs has stopped and because private payers generally did not reduce rates in 2002.
- Private plans report that Medicare reductions in payment rates have increased pressure on them to raise their rates. Despite this pressure, none of the plans said that the Medicare reduction had a strong or direct impact on their decisions about payment rates for 2002 or 2003.

The two studies agreed that private rates exceed the Medicare level, but they disagree on the extent. The methodological differences between the two studies that likely explain most of the differences are discussed in a brief, separate report written by both contractors.

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