

Variation in private-sector payment rates

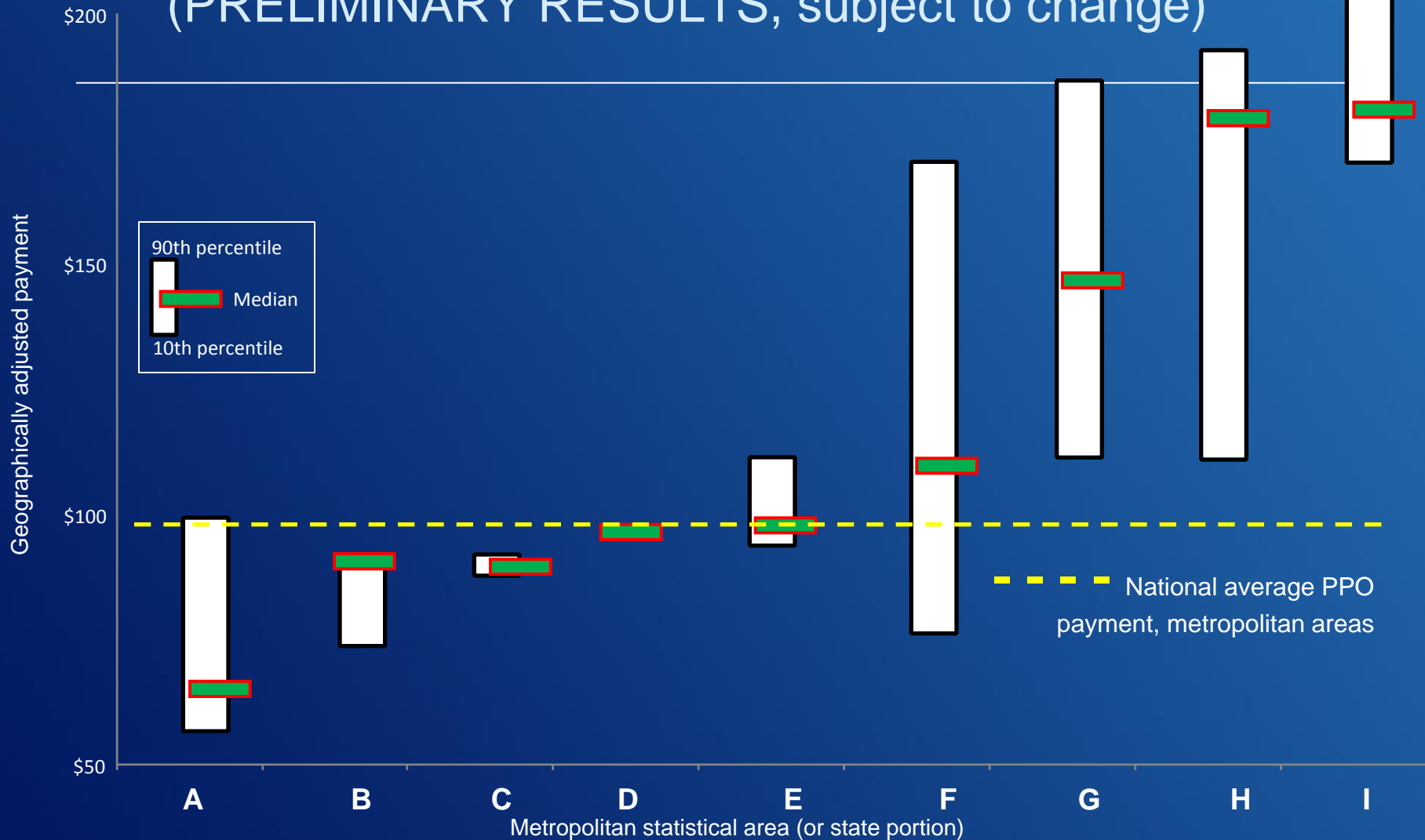
Julie Lee and Carlos Zarabozo

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Why examine private-sector payment rates?

- Argument that Medicare should follow private-sector model of market-based payments established through negotiation, but
 - Wide variation exists across and within markets
 - Insurer or provider concentration affects private-sector payments
- Medicare is affected by, and can influence, market dynamics of the private sector
 - Indirectly affected by Medicare-to-private payment comparisons
 - Medicare's encouraging greater integration among providers can lead to higher market concentration, affecting private-payer payment rates

Wide inter- and intra-area variation in payments for an office visit (PRELIMINARY RESULTS, subject to change)



Source: MedPAC analysis of 2008 Thomson Reuters MarketScan® Commercial Claims and Encounter Data, © Copyright 2009 Thomson Reuters.

Other research and findings

- GAO found that PPO plans in the FEHBP had different payment rates for hospital inpatient and physician services across MSAs—hospital concentration affected prices (2005)
- Attorney General of Massachusetts found wide variation in payments made to hospitals and physician groups—market leverage was a factor (2010)
- A recent study of 6 California markets reported the shift of negotiating power from insurers to hospitals and physicians (2010)

Definitions and data sources

- Payment rate is defined as the allowed payment for a particular service by an insurer; analysis based on input-price-adjusted rate
- Market area is defined as the MSA or each single-state portion of an MSA (e.g., DC-MD-VA separated)—432 metro areas
- Physician services are defined as items and services billed through the HCPCS
- Source is commercial-sector claims for 2008 (Thomson Reuters MarketScan®)

Methodology

- Define a “market basket” of physician services
- Adjust payment for differences in practice costs at the MSA level
- Weight each service in the basket by the share of national spending associated with that service
- Impute payment rates for codes where we have no claims

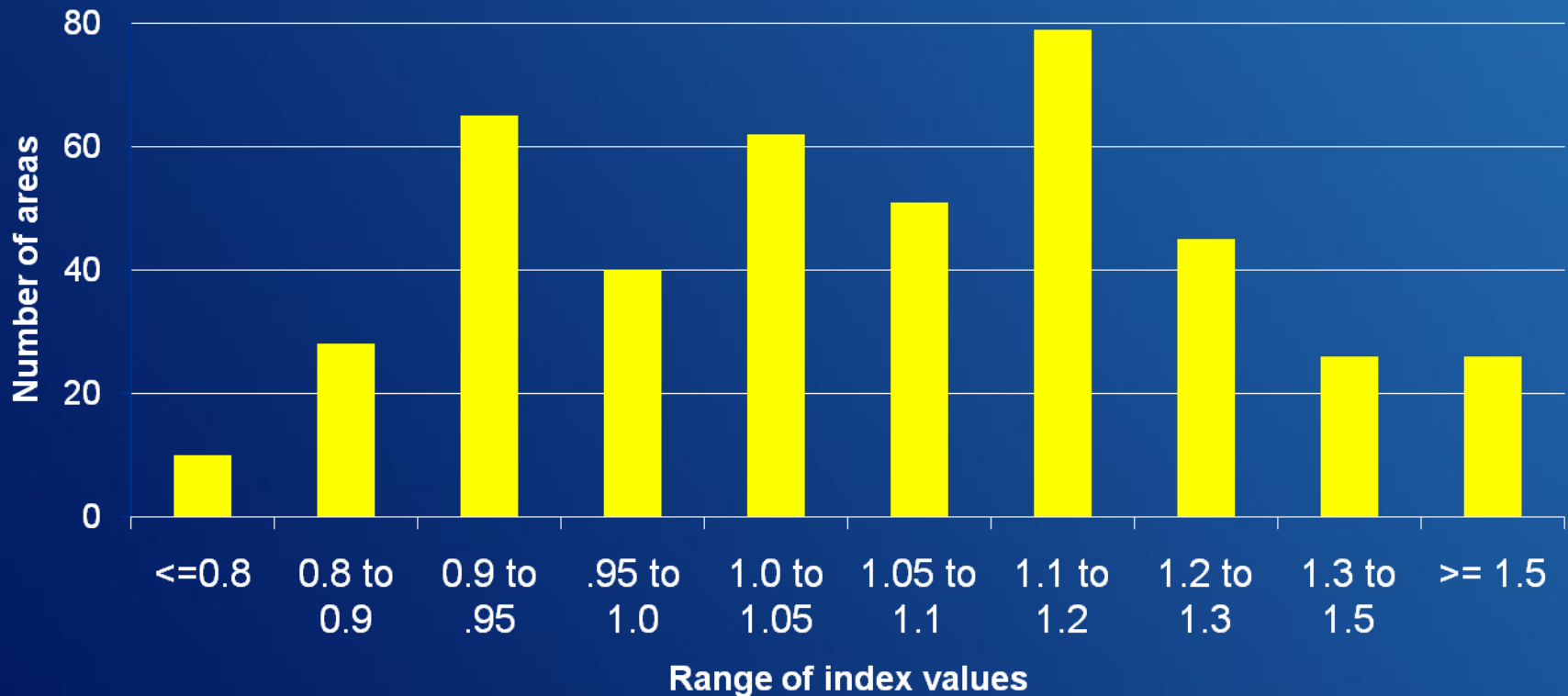
Summary of findings on physician payments

- Wide variation in average payment rates across areas (from one metropolitan area to another)
- Some types of services show more variation than other types of services
- Notable intra-area variation (within a given metropolitan area)—less studied

Private payer rates for physician services vary widely across metropolitan areas

(PRELIMINARY RESULTS, subject to change)

Distribution of input-price-adjusted physician payment index values across metropolitan areas

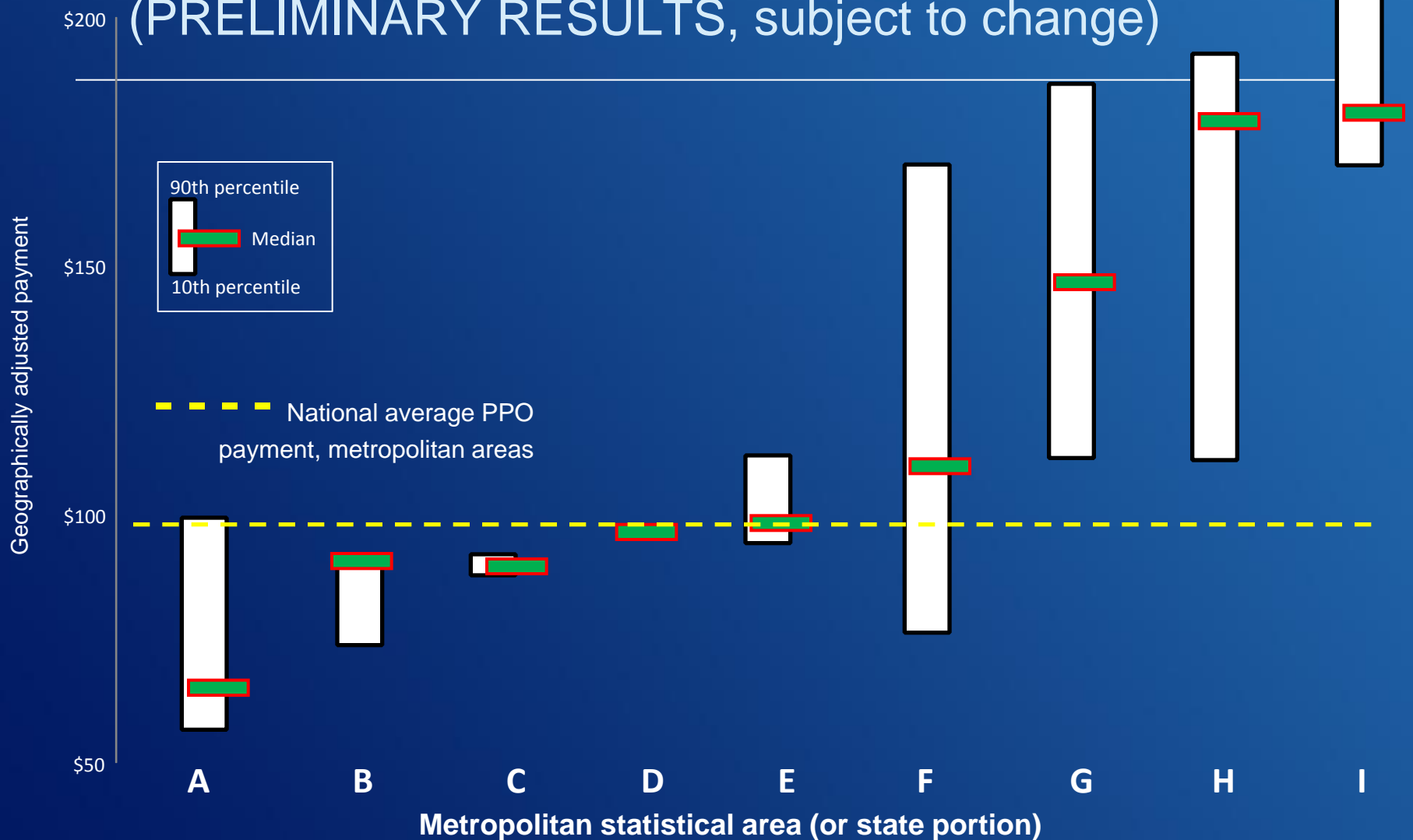


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Importance of intra-area variation

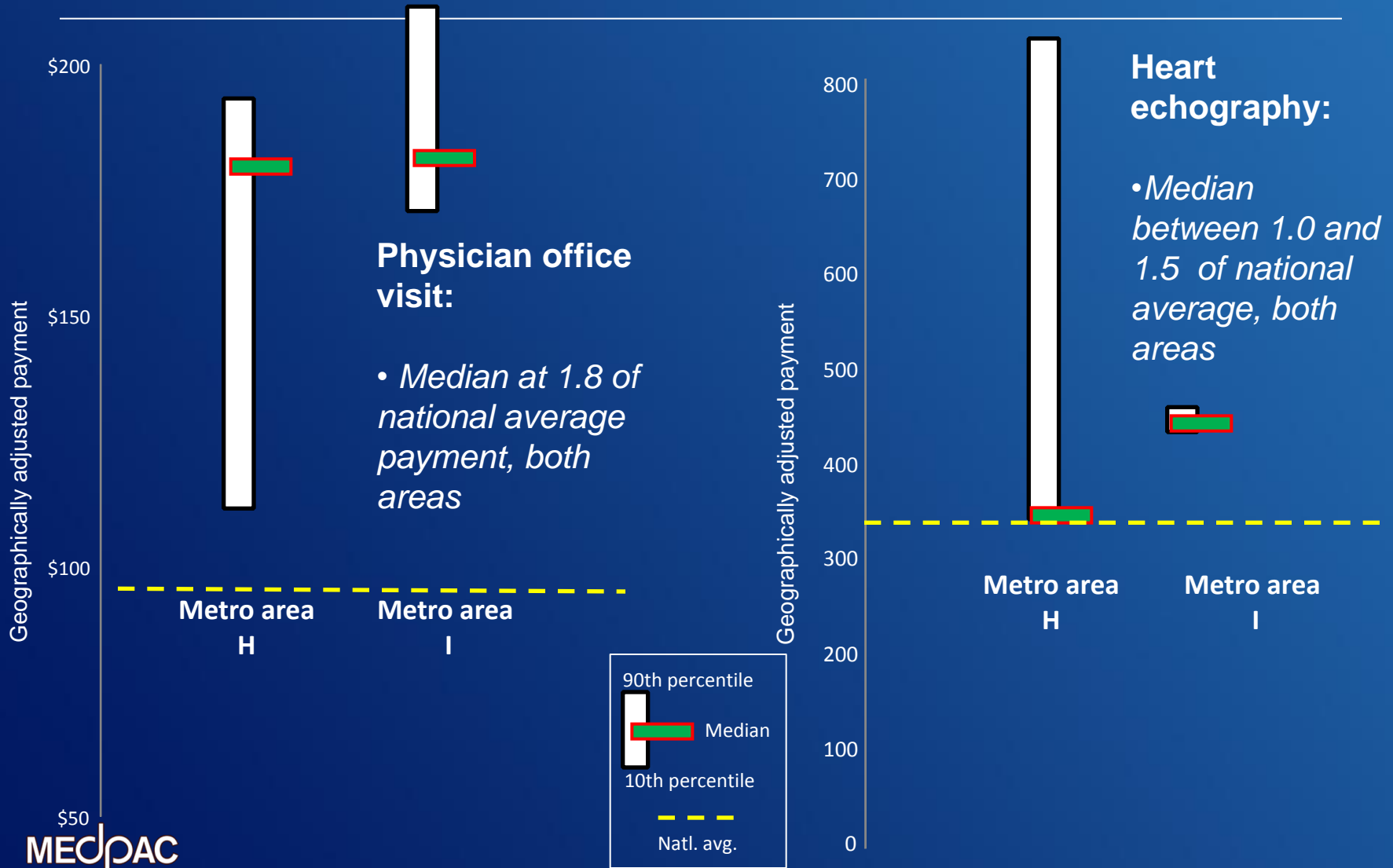
- It is useful to look at the intra-area variation underlying the average payment rates
- Areas with low (high) overall average payments can have instances of high (low) payments for certain providers or for certain services
- Intra-area variation may indicate provider consolidation or the presence of “must have” providers

Wide inter- and intra-area variation in payments for an office visit (PRELIMINARY RESULTS, subject to change)



Source: MedPAC analysis of 2008 Thomson Reuters MarketScan® Commercial Claims and Encounter Data, © Copyright 2009 Thomson Reuters.

Relative payment levels across areas vary from one service to another



Next steps

- Continue examination of physician payments (grouping by type of service; adding non-metropolitan area data)
- Report on variation in hospital payment rates
- Examine relationship between market concentration and payment variation
- Explore alternative ways of evaluating market concentration