MEDPAC Medicare Payment Advisory Commission

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MEDICARE PAYMENT ADVISORY COMMISSION RELEASES REPORT ON MEDICARE PAYMENT POLICY

Recommendations put fiscal pressure on providers to constrain costs while improving quality

Washington, DC, February 27, 2009—Today, the Medicare Payment Advisory Commission (MedPAC) releases its March 2009 *Report to the Congress: Medicare Payment Policy.*

MedPAC's report offers a set of recommendations for Medicare payments designed to assure beneficiaries' access to care and preserve Medicare's long-term sustainability. Over the past several years the Commission has made recommendations on directions the program might take to encourage delivery system reform. This report focuses on furthering sustainability by modifying the current payment systems and controlling their updates for 2010.

Limiting Medicare updates is an important means to sustainability. According to Commission Chair Glenn Hackbarth, "We need to stop thinking about providers' costs as immutable and instead recognize that they are influenced by how providers are paid." In the report, MedPAC shows that hospitals under greater fiscal pressure can constrain their costs. However, other hospitals that are not under fiscal pressure—those with high private payments that exceed their costs—allow their costs to increase. This results in lower Medicare margins—not because of low Medicare payments, but instead because of unconstrained costs.

The report recommends updates for Medicare's fee-for-service (FFS) payment systems that take into account beneficiaries' access to care, the quality of care, the relation of payments to costs, and other factors, while maintaining fiscal pressure to increase Medicare's sustainability. For example, in the home health sector Medicare margins have been over 16 percent since 2002 during which time use of home health care, total payments, and payments per episode have continued to rise but visits per episode have fallen. The Commission recommends that payments be reduced for this sector in 2010 and that the Secretary rebase rates in 2011 to recognize that the content of a home health episode has changed. Updates for other Medicare providers are specified in the accompanying fact sheet, as are related recommendations for nine FFS payment systems.

The Commission also makes recommendations in some FFS sectors to redistribute payments. For example, in addition to recommending an update of 1.1 percent for physician services, MedPAC also reiterated its recommendation to increase payments for primary care services delivered by practitioners who focus on primary care. This recommendation recognizes that a well functioning primary care network is essential to help improve quality and control Medicare spending.

The report also reviews recent findings and reiterates recommendations on Medicare Advantage (MA) plans. MedPAC again documents that Medicare's payment system for private plans is seriously flawed. In the most extreme case, Medicare pays private FFS plans (which mirror Medicare's FFS benefit) 18 percent more than it would pay for the same beneficiaries under the traditional program, and pays more than three dollars for each dollar of enhanced benefits these plans provide. This is inequitable to the beneficiaries not enrolled in these plans who pay higher Part B premiums without getting any additional benefits. It is also a burden to taxpayers and weakens Medicare' fiscal sustainability.

The report also reviews enrollment and plan characteristics of the more than 1,700 Part D drug plans. Most beneficiaries continue to participate in Part D. However, MedPAC found that premiums increased by about $6 per month (24%), and about 1.6 million beneficiaries in the low income subsidy program had to switch to a different plan to avoid paying a premium.

The report makes a series of recommendations to increase transparency of physician financial relationships. For example, manufacturers of drugs and medical devices have extensive financial associations with physicians that may create conflicts with the physicians' obligation to do what is best for their patients. Increasing transparency would discourage physicians from accepting gifts or payments that violate professional guidelines and help Medicare and others determine whether physician practice patterns are influenced by those relationships. The Commission recommends that manufacturers of drugs and medical devices be required to publicly report their financial relationships with physicians to the Secretary of Health and Human Services.

Finally, the report recommends reforming Medicare's payment system for hospice care. MedPAC's recommendations will strengthen the hospice payment system while recognizing the importance of the hospice benefit and its substantial contribution to end-of-life care for beneficiaries. The hospice program has grown rapidly in ways not contemplated at its inception, with a rapid increase from 2000 to 2007 in the number of providers, almost all for profit, and the average length of stay. Medicare's current hospice payment system contains incentives that make very long stays profitable for the provider, which may have led to inappropriate utilization of the benefit among some hospices. The recommendations are intended to encourage hospices to admit patients at a point in their terminal disease that provides the most benefit to the patient. The Commission also recommends closely monitoring hospices with exceptionally long lengths of stay.

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The Medicare Payment Advisory Commission is an independent Congressional advisory body charged with providing policy analysis and advice concerning the Medicare program and other aspects of the health care system. Its 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.