



*Advising the Congress on Medicare issues*

# Medicare Physician Payment

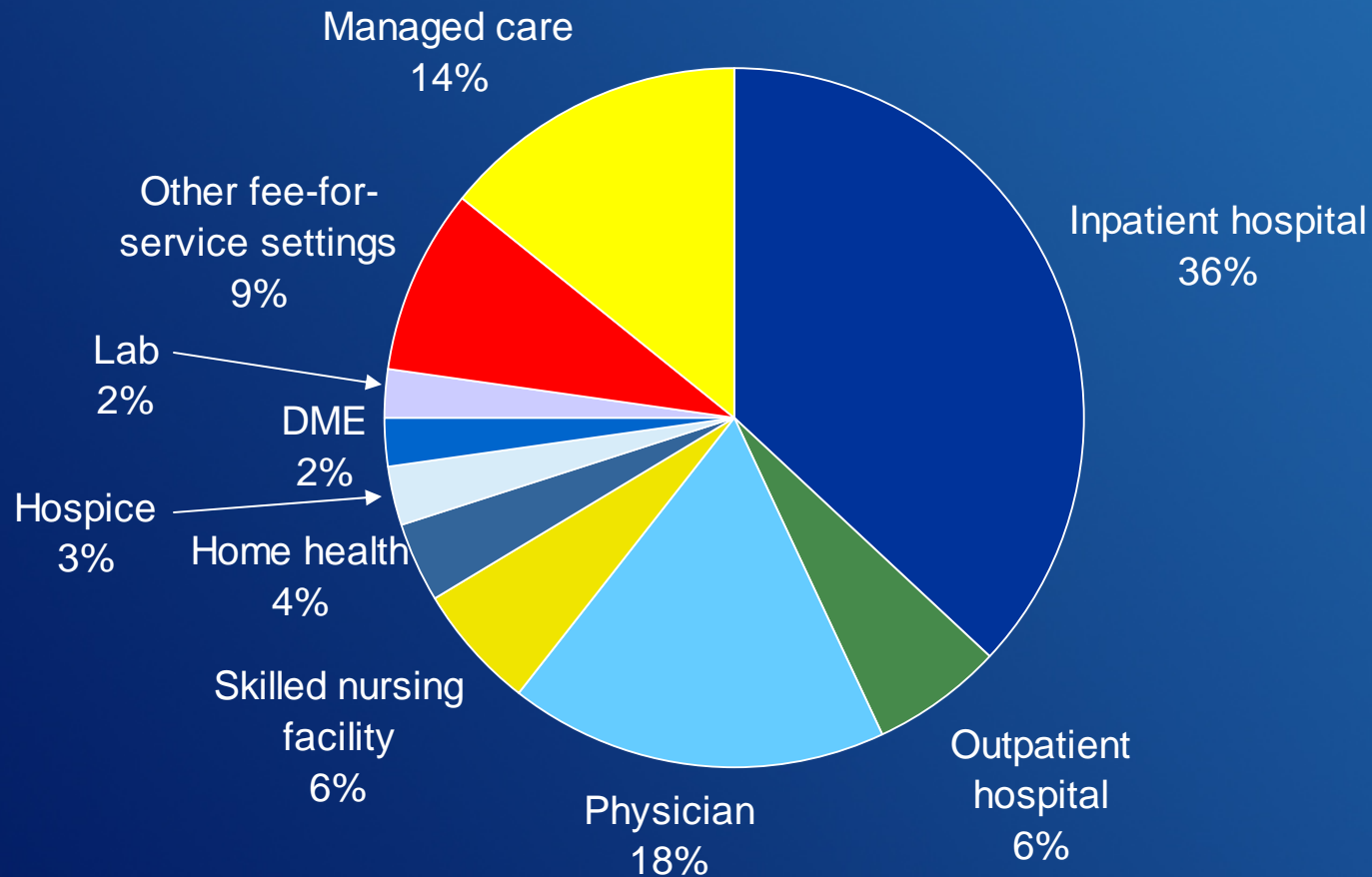
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# Overview of Medicare payment for physician services

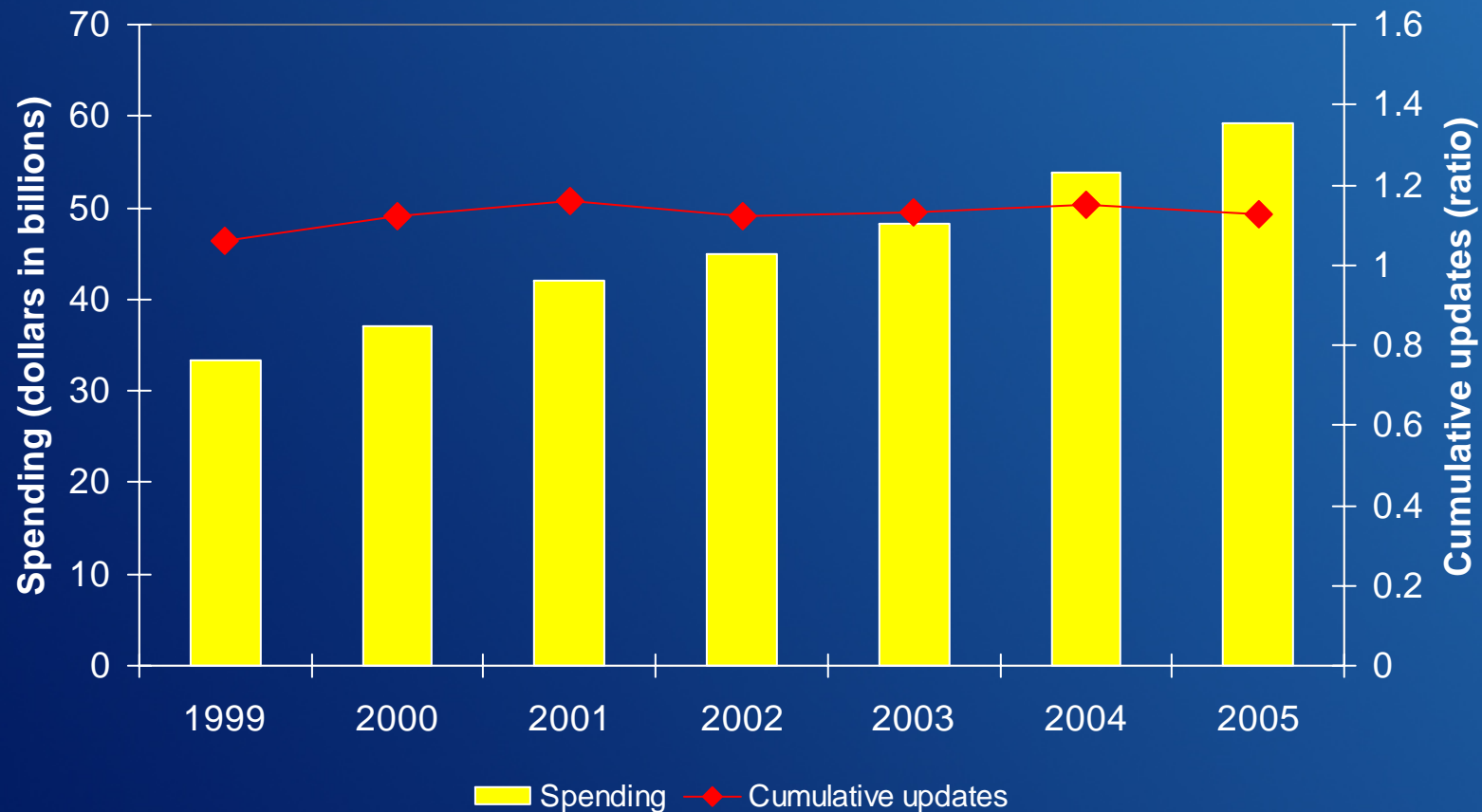
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- Each year, 95 percent of beneficiaries receive at least one physician service
- 566,629 physicians billed Medicare (2005)
- Payment system: fee schedule
- Payment rates for over 7,000 different services

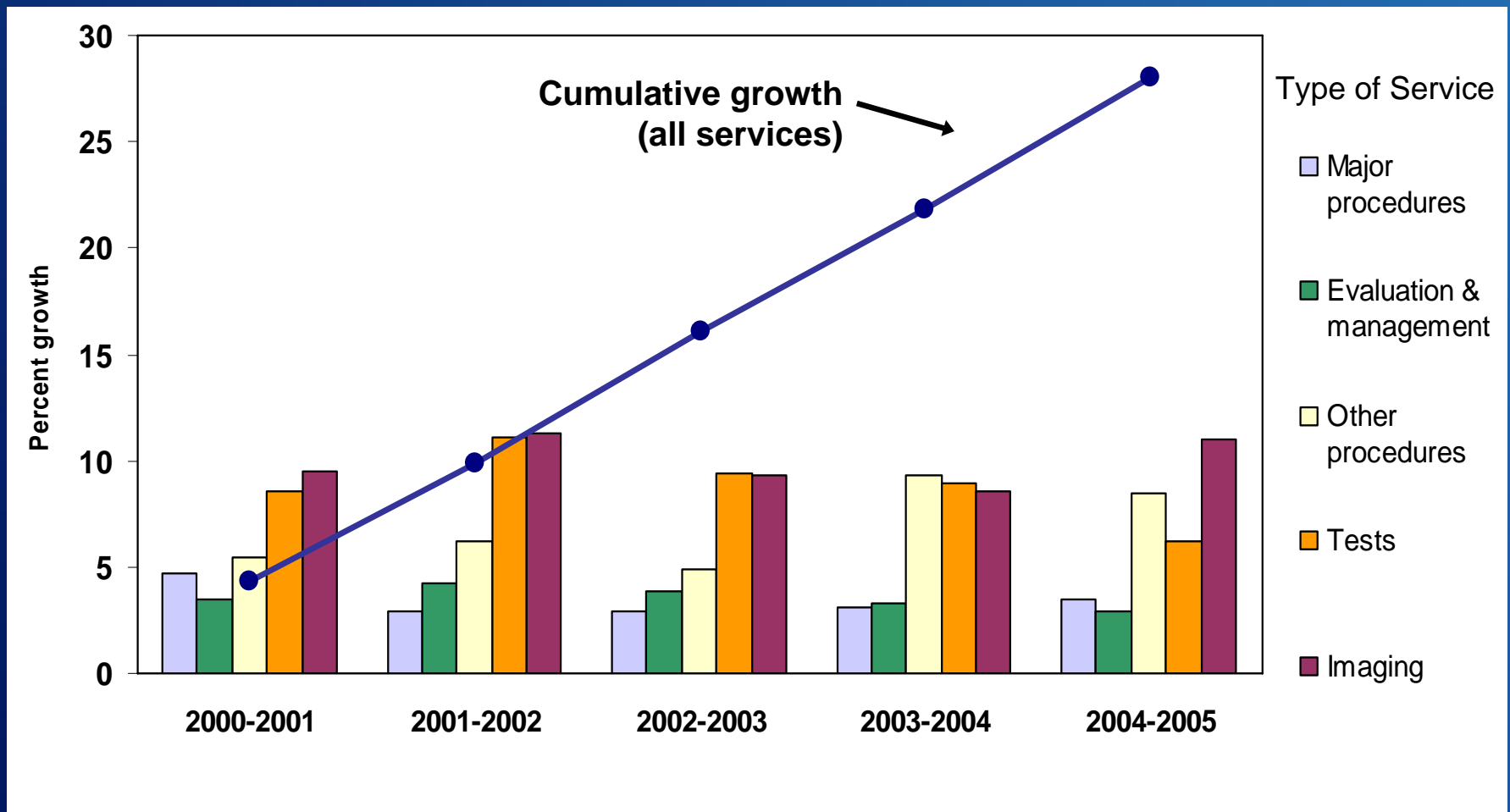
# Total benefit spending in 2005= \$330.3 billion



# Physician spending and annual payment updates



# Continued growth in the use of physician services per beneficiary, 2000-2005



# Current policy on volume control

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- 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

# Issues

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- Explaining volume growth
  - Technology/site of service/malpractice
  - Geographic variation/supply sensitive
  - Studies cannot fully explain volume growth
- Implications
  - Short-run
    - Impact on general revenues (trigger for legislative action)
    - Beneficiary spending, including the Part B premium
  - Long-run sustainability

# Principles of Medicare Payment

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- Ensure beneficiary access to high quality care in an appropriate setting
- Control program spending
- Give providers an incentive to supply care efficiently

# MedPAC report outline

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1. Introduction
2. Description of SGR
3. Improving the value of Medicare physician payment system
4. Analysis of mandated and other expenditure control options
5. Cross-cutting issues
6. Alternative paths to expenditure control

# Two pathways

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- Fundamental question: Retain an expenditure target for physicians?
- Pathway #1
  - Repeal SGR
  - Develop and adopt new approaches for improving value
- Pathway #2
  - New system of expenditure targets for all Medicare
  - Geographic structure
  - Options for sharing gains from improved efficiency
  - Information to providers regarding practice styles
  - Develop and adopt new approaches for improving value