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MEDICARE PHYSICIAN PAYMENT ISSUES Beyond the 18-month patch

RECOMMENDATION

Regarding physician payment in Medicare, after the federal government provides for an 18-month period of payment stability, the AAFP urges Congress to:

- Replace the formula known as the **Sustainable Growth Rate (SGR)** that determines the annual updates in Medicare's payments to physicians.
- Incorporate into Medicare the **patient-centered medical home** so that the physician practice that serves as the patient's medical home would receive a monthly stipend in addition to fee-for-service payments.
- Ensure that **pay-for-performance programs** occur in the context of positive annual updates; that they reward physicians for reporting the "starter set" of performance measures developed by a consortium of payers and physicians; and that such programs do not force physicians to compete for limited funds withheld from regular payments.
- Provide financial incentives and technical assistance to small to medium-sized physician practices to incorporate **electronic health record (EHR)** systems.

Sustainable Growth Rate (SGR)

Unless Congress acts once again to override it, the SGR formula used to calculate annual updates will be reinstated on July 1, 2008 and that will mean a 10.6-percent cut in payment rates for physicians and other Medicare providers for the rest of the year. Moreover, because of the cumulative nature of the arcane formula, decreases in the 5 percent range are projected annually for many years into the future. Such unrelenting decreases in payment, coupled with the escalating costs associated with operating a medical practice, will make it impossible for a growing number of family physicians to accept new Medicare patients. The AAFP supports the recommendation of the Medicare Payment Advisory Commission (MedPAC) to repeal the SGR formula and base the conversion factor on the Medicare Economic Index (MEI), which measures inflation in the cost of medical practice.

Care Management in a Patient-Centered Medical Home

Medicare does not compensate physicians for the considerable time and effort of organizing and coordinating the patient's care in a way that makes sense to patients,

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while remaining cost-effective to the Medicare program. The AAFP, the American College of Physicians, the American Osteopathic Association and the American Academy of Pediatrics have agreed that a patient-centered medical home is the most effective way of managing health care for patients. Such coordination and management would ensure that patients stay healthy or are stabilized when ill and avoid expensive progression of their illness or costly hospitalizations.

A key to the success of this model is reforming how Medicare (and other health plans) pays for these services. A promising option is to use a blended model of payment that combines a fee-for-service payment system with a monthly per-beneficiary stipend for care management. This care coordination fee would be paid directly to each patient's designated medical home that has achieved recognition by an independent third party (e.g., NCQA, which is the National Committee for Quality Assurance). The purpose is to enable family physicians to redesign their offices to deliver high quality preventive and chronic care with better outcomes for beneficiaries.

Pay-for-Performance

MedPAC recommended in its March 2005 report that Congress should create Medicare pay-for-performance programs for physician services. The Academy would support a Medicare pay-for-performance program for physicians that occurred within the context of a positive annual update in Medicare; rewarded physicians for reporting performance measures that have been developed with broad physician input, validated by the National Quality Forum and implemented by the Ambulatory Healthcare Quality Alliance; and did not force physicians to compete for limited withheld funds.

Health Information Technology

Health information technology (HIT) is a public good that ultimately will benefit all Americans. While private entities are experimenting with providing HIT to patients and physicians, the federal government must do its part to ensure the health information system is readily available to all.

The AAFP supports Congressional actions that ensure privacy protections for patients and provide financial incentives to small to medium-sized primary care physician practices that have limited dollars with which to purchase electronic health record (EHR) systems. The Academy also urges Congress to promote standards for portability and interoperability to ensure all health information technology systems can transfer health data and to foster technical assistance programs to help small practices through the process of selecting, implementing and redesigning their clinical workflow.