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Statement of Peter V. Lee, Pacific Business Group on Health

House of Representatives
Committee on Energy & Commerce, Subcommittee on Health

Medicare Physician Payment: How to Build a More Efficient Payment System
November 16, 2005

The Pacific Business Group on Health is a nonprofit association of many of the nation's largest purchasers of health care, based in California. PBGH represents both public and private purchasers who cover over 3 million Americans, seeking to improve the quality of health care while moderating costs. The members of PBGH range from large public and private purchasers to thousands of small businesses in California that we serve through our small employer purchasing pool – PacAdvantage. For fifteen years, PBGH has been a catalyst promoting performance measurement and public reporting at every level of the health care system to improve performance and to help consumers to make better choices.

Rising costs and uneven quality are the most pressing health care issues facing employers, employees, as well as federal and state governments. Companies, such a those who are members of PBGH, are constantly looking for ways to curb unsustainable cost increases, improve clinical outcomes, and reduce inefficiency in their efforts to maintain health care benefits for their employees and dependents. As the single, largest purchaser of health care services, Medicare is uniquely positioned to transform the health care marketplace into one in which higher quality, efficient, and patient-centered care are recognized and rewarded. Moreover, value-based purchasing in the Medicare program can be an important catalyst for other public purchasers, along with the private sector, to work together, and drive our health care system to achieve higher levels of performance and greater efficiency.

One of the central elements of the needed changes to Medicare is to overhaul payment to physicians. The current payment system is toxic. Today we have a payment system that rewards higher volume and all too often the delivery of unnecessary care – this is not the kind of "pay for performance" that we need.

The Pacific Business Group on Health is proud to have worked closely with the California Medical Association (representing over thirty-thousand physicians), along with health plan, consumer and medical group leaders in California to reach a consensus on how Medicare can measure, report on and pay for physicians' services (attached). Medicare Value –based purchasing has three core components, which, when applied systematically and in concert, will ensure that Medicare beneficiaries are receiving effective, appropriate, and efficiently-delivered care. These three core concepts are:

- **Measurement of Performance** of those providing services to Medicare beneficiaries. Performance measurement is key to understanding when quality care is being provided and is the cornerstone to performance

incentives that over time will improve the quality of care. Measurement of performance should start with measures that can be quickly implemented with measures currently in use, it should fairly adjust for physicians' patient populations where appropriate, be centered on patients' needs and experiences, and be usable by physicians to improve the care they deliver.

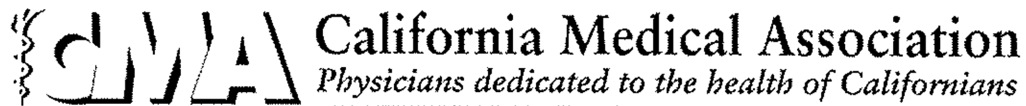
- **Performance-Based Payments** so that that those who provided the highest qualify care are rewarded differentially, and others are incented to improve their performance. Performance-Based Payments is a key element of an overhaul of the annual physician fee schedule updates to base increases on the Medicare Economic Index (MEI). Performance-based payments should grow over time, **becoming a substantial portion of physician payments.** It should also initially provide rewards for agreeing to participate, and then for both performance and improvement. These payments must include significant weight to the relative effectiveness and efficiency with which care is delivered.

- **Performance Reporting,** so that physicians receive feedback on their own performance with the opportunity and incentive to improve, and eventual public reporting so that Medicare beneficiaries and the public at large will be better equipped to choose doctors by having as full and fair a picture as possible of physicians' performance and improvement.

The Senate budget reconciliation bill appropriately begins the process of altering the Medicare payment process to include the elements of performance measurement, payment, and reporting. We sincerely hope the House of Representatives joins in this needed effort to provide higher quality and more efficient care.

In conclusion, the current payment system for Medicare is not working. Congress has the chance to make Medicare a leader in advancing a health care system which increasingly rewards physicians for providing the right care at the right time; supports prevention and ongoing care for the chronically ill; rewards both better performance and physicians who improve; and in which both physicians and patients have the tools and information necessary to ensure high-quality, appropriate care.

Attached: Medicare Value Purchasing Consensus Statement, September 29, 2005



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September 29, 2005

The Honorable Chuck Grassley
The Honorable Max Baucus

The Honorable Bill Thomas
The Honorable Nancy Johnson

Re: Medicare Value Purchasing Consensus Statement

Dear Senators Grassley and Baucus and Representatives Thomas and Johnson:

This letter represents the work of leaders from California's physician, consumer, purchaser, payer and academic communities that are coming together to affirm the need to reform how Medicare measures, reports on and pays for physician services. The current payment system for health care is not working. A Medicare Value Purchasing program must be enacted and implemented now! We urge that Medicare lead reforms to advance a system which increasingly rewards physicians for providing the right care at the right time; supports prevention and ongoing care for the chronically ill; rewards both better performance and physicians who improve; and in which both physicians and patients have the tools and information necessary to ensure high-quality, appropriate care.

Our consensus on many of the core elements of a Medicare Value Purchasing program is unique in that it is anchored in our work in California where diverse stakeholders working together have improved care for patients and engaged physicians in qualityim provement. One example of California's pioneering efforts can be found in the Integrated Healthcare Association's pay for performance program. Through this program multiple health plans and hundreds of physician groups representing over 35,000 physicians and serving over 6 million consumers have collaborated to develop a uniform measurement set and a single public report card. Millions of dollars have been paid in performance incentives and motivated significant quality improvements. As a result, patients are getting better, more effective care, and medical groups and physicians are being rewarded for performance improvement.

This letter addresses Congress' consideration of a variety of proposed Medicare payment reforms, such as proposed by Senators Grassley and Baucus, and Congresswoman Johnson. At the same time, there is appropriately significant attention being given to the need to provide support for the adoption of health care technology infrastructure that is directly linked to physicians' ability to optimize the quality of care delivered, improve patient experience and save costs by delivering care more effectively.

There are specific elements of each of the Medicare Value Purchasing proposals that we respectively support, oppose or believe do not go far enough. We agree, however, that moving to robust measurement, substantial performance-based payments and full public reporting should be done as rapidly as possible, while ensuring that they are done correctly and incrementally. Whether full implementation is completed in three or five years is far less important than that the process start immediately and move ahead in a way that effectively engages physicians and consumers. What follows is a description of our common vision and of the core elements regarding the measures, payments and public reporting that we believe should be part of any ultimate reform package.

Vision for Medicare Purchasing Reform

Medicare Value Purchasing is a necessary first step to creating a physician measurement, payment and reporting system designed to improve the quality, safety, effectiveness and efficiency of health care. In summary, as described in more detail below, the launch of this reform should include:

- **Measurement of Performance** that can be quickly implemented, by starting with measures currently in use, fairly adjusts for physicians' patient populations where appropriate, is centered on patients' needs and experiences, and is usable by physicians to improve the care they deliver;

- **Performance-Based Payments** as part of an overhaul of the annual physician fee schedule updates to base increases on the Medicare Economic Index (MEI). Performance-based payments should grow over time, becoming an increasingly substantial portion of physician payments, initially rewarding for agreement to participate, and then for both performance and improvement; and

- **Performance Reporting** that provides feedback to physicians on their own performance, with a progression to public reporting that provides as full and fair a picture as possible of physicians' performance and improvement.

Implementation must start now. These elements, while unto themselves major reforms for the current health care system, are but first steps. Next steps should include implementing parallel efforts for other health care providers and shifting the focus to measure and reward care for the whole person. For example, measurement, reporting and payment systems should increasingly consider all of patients' episodes of care, enhanced measures of care processes, actual health outcomes, end-of-life and palliative care, delivery of preventive services and coordination of care for the chronically ill.

Measurement of Performance

Due to the groundwork laid by medical professional societies, California's multi-stakeholder initiatives and other efforts over the past several years, there exist many quality of care measures that are objective, quantifiable and transparent. Medicare can build on these existing measures and foster the rapid development of new metrics for the full spectrum of patients' care needs and physicians' practices. Measurement principles for Medicare Value Purchasing include:

- Measures should build on existing measurement initiatives and measures currently widely used. The relatively limited number of measures available for immediate adoption need not delay implementation; rather, it can be part of the impetus for expanding available measures;

- Measures using administrative data and electronic medical records are preferred to minimize costs of collection;

- Measures should start with those easier to collect, building in a timeline for later adoption of outcome measures where possible. Examples of readily collected measures include process measures (e.g., the percentage of diabetes patients tested for blood sugar levels); structural capacity of physicians to provide high quality care (e.g., ability of physicians to identify and follow categories of patients or to adopt health information technology); and

patient experience of care, using standardized and validated instruments and survey processes;

- Measures of efficiency that go beyond conventional utilization review and provide appropriate attribution to each member of the health care team to create a total ownership of health care concept which evaluates the relative use of resources, services and expenditures;

- New measures and increasingly comprehensive measure sets that assess prevalent and important (based on health status implications) conditions across all specialties need to be developed and submitted to consensus bodies for endorsement. Over time, increased attention should be given to measures of care coordination across providers and settings. Both physicians and consumers must be actively engaged in measure development and review processes; and

- Measures should reflect attributes that assure their acceptance by physicians and their reliability for patients. Attributes include their being evidence-based, subject to appropriate attestation, audit and confirmation, consistent, valid, not overly burdensome to collect, relevant to physicians and patients, fairly reflect physicians' patient population and are adjusted to assure there are little or no inappropriate patient selection or de-selection effects.

Performance-Based Payment

Payment based on performance is critical to Medicare physician payment reform. This would include replacing the current Sustainable Growth Rate (SGR) with the Medicare Economic Index (MEI), a portion of which would be set aside to reward each physician's participation, performance and improvement as appropriate. Specific elements of the payment system for Medicare Value Purchasing include:

- The portion of the funds allocated to performance-based payment should grow over time, and must eventually reach a substantial portion of a participating physician's pay, while keeping the overall program cost within the MEI. Performance-based payment to participating physicians should vary based upon their performance;

- Initially reward for agreeing to participate and share performance information; and then shift to rewarding performance (first compared to local peers and then national) and improvement;

- Payment designs that provide incentives for each medical specialty to ensure that robust sets of performance measures are rapidly adopted. Payments should be linked to the appropriateness and comprehensiveness of measure sets within specialties;

- Payment and/or measures are adjusted to ensure appropriate incentives for those who care for the sickest, or those with complex, chronic conditions;

- Payment and/or measures that encourage the adoption of care management processes or techniques;

- Payments for care based on new technologies reflect the extent to which they improve the quality of care and its cost-effectiveness; and

- Payments specifically integrate rewards for both total cost of health care impacted by physicians' actions and health care quality. As the payment system evolves, this consideration should specifically take into account savings generated – or additional costs incurred – related to prescription drugs and hospital services.

We believe that concerns of potential unintended consequences of moving too rapidly to increase the portion of physician payment that is performance-based are reasonable. However, we agree on the need to quickly increase performance-based payment because we recognize that payment today has its own unintended negative consequences. All too often payments today reward volume over quality, or care that is wasteful and inappropriate instead of patient-centered and efficient.

Performance Reporting

Providing performance information is critical to the goal of improving care delivery, both to the physicians themselves and to patients to enable them to be better engaged in their own health care. Specific elements of the performance reporting for Medicare Value Purchasing include:

- Before any information is made public, the physician (or whatever unit of delivery is measured) should receive their specific performance. Physicians should be given actionable information from which they can improve and the opportunity to comment on concerns they have about the performance results;

- Public reporting should include all Medicare contracting physicians, with performance information occurring in a phased manner: initial reporting should positively identify participating physicians; then those who performed well or with marked improvement; and then full public reporting of both composite and all valid specific measures of all participating physicians; and

- Full background for any measures, their methodologies of measurement and adjustments for patient population should be publicly available to both physicians and the public.

Conclusion

We believe that the sooner a Medicare Value Purchasing program is implemented, the sooner we will be rewarding better care delivery and promoting the quality and value improvements we must expect. We appreciate your consideration of our thoughts.

Sincerely,[1]

Jack Lewin, MD
Executive Vice President and CEO
California Medical Association

Peter V. Lee, JD
President and CEO
Pacific Business Group on Health

[1] With the exception of signators from the California Medical Association, the California Association of Physician Organizations and the Pacific Business Group on Health, which have endorsed this consensus statement as organizations, the group affiliations of signators are listed for identification purposes.

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