

# IOM to Medicare: Phase Into Pay-for-Performance

BY JANE ANDERSON  
Contributing Writer

The U.S. Department of Health and Human Services should gradually replace Medicare's current payment system with a pay-for-performance system that would reward physicians and other providers for efficiency along with patient-centered, quality care, according to a report from the Institute of Medicine.

Pay-for-performance plans do not yet have an established track record of improving care, so IOM's report, "Rewarding Provider Performance: Aligning Incentives in Medicare," urges a phased-in program that will evaluate pay-for-performance initiatives as they are implemented.

Pay-for-performance will help transform the Medicare payment system into one that rewards both higher value and better outcomes, Robert Reischauer, Ph.D., president of the Washington-based Urban Institute, said at a press briefing sponsored by IOM. Dr. Reischauer served on the committee that wrote the report.

"The committee does not feel that pay for performance is the magic bullet," he said. "Pay for performance should be considered one of several key elements need-

ed to restructure the current payment system." Any changes in Medicare's payment system would need to be approved by Congress.

The panel's report urged lawmakers to adopt an initial system that would reduce base Medicare payments across the board and use the money to fund rewards for strong performance. At the same time, Medicare officials would evaluate the program to make certain it is having the desired effects.

The proportion of Medicare payment withheld would be small at first, and providers would be compensated both for excellent work and for improving their performance in areas that encompass care quality, efficiency, and "patient centeredness."

"We are recommending a performance-based system in which excellence and significant improvement [are both] rewarded," Dr. Reischauer said. "Everyone can play and everyone can get back the money that was withheld initially from them."

Many large health care providers and organizations already have the capacity to begin participating in a Medicare pay-for-performance system and should be required to do so as soon as it is launched, the IOM report said. However, participa-

tion by small physician practices should be voluntary for the first 3 years.

Gail Wilensky, Ph.D., a senior fellow at Project HOPE and a member of the IOM panel, said she would expect most physicians to welcome a new, pay-for-performance-based system.

"Many physicians have complained that, when participating in Medicare, they are penalized if they provide care that's more prevention oriented," said Dr. Wilensky, who noted that a pay-for-performance-based system would reward those physicians. "This is in many ways a response to some of that criticism by physicians."

Panel member Dr. Robert Galvin, director of global health care for General Electric Co., agreed. "There is a substantial percentage of physicians who like these programs [and] who like the idea of working in teams and having their performance rewarded," Dr. Galvin said.

"There is already a culture shift going on among a good group of physicians."

Public reporting of quality results also would serve as a strong motivator for physicians and other providers to improve their results, Dr. Wilensky said.

The IOM panel did not specify how much Medicare base payments should be decreased to create a pool of funds for bonus payments, but recommended that the percentage be sufficient to create rewards large enough to motivate health care providers' participation and real improvements.

Committee members acknowledged that Medicare physician fees already are scheduled to decline over the next few years, and said that Congress may need to add some new money to physician payments to ensure that the reward pool is sufficient. ■

The full report is available at [www.iom.edu](http://www.iom.edu).

## Medicare Is Losing Doctors, Says CMS Advisory Council

BY JOEL B. FINKELSTEIN  
Contributing Writer

WASHINGTON — The failure to address low physician pay and looming reimbursement cuts in the Medicare program is starting to affect beneficiaries, members of Medicare's Practicing Physicians Advisory Council said at a recent meeting of the council.

PPAC member Dr. Vincent J. Bufalino, a cardiologist from Naperville, Ill., offered an example to the attendees. "We have in our community the beginnings of physicians walking away from Medicare. Four of the busiest internists in town have said 'No' and ripped up their [Medicare] agreement," Dr. Bufalino said.

Although the Centers for Medicare and Medicaid Services tracks physician participation, such trends might not reveal the whole picture, he added.

Half of the physicians in Dr. Bufalino's community are no longer accepting new Medicare patients, he said. Although the CMS still counts them as participating in the program, the trend is having a profound effect on beneficiaries' access to physician services.

"We don't think that participation rates, assignment rates, really reflect what is going on," Dr. Bufalino told CMS Deputy Administrator Leslie Norwalk.

The CMS has to rely on the numbers gathered by physician groups, Ms. Norwalk responded.

"I suspect that the best way to go about this is probably at the state level where you would ask your state medical society to survey members and let us know what it is that you see. ... It may help inform the debate," Ms. Norwalk suggested, noting that administration officials are legally barred from telling people to lobby Congress.

Lawmakers will have to be the ones to make changes to the current mechanism

for updating physician payments. Based on the sustained growth rate (SGR) formula, mandated by the Balanced Budget Act of 1997, physicians are currently slated for a 5.1% cut in reimbursement starting Jan. 1. In past years, Congress has averted cuts or given doctors a small raise.

PPAC members urged CMS officials to use what influence they have to encourage lawmakers to do so again based on the recommendation from the Medicare Payment Advisory Commission that physician pay be increased by 2.8% in 2007.

"If you look at the data from 2001 to 2007, physicians' costs are up 18%, yet Medicare payments are down 5%. ... Only physicians are subject to arbitrary spending cuts. Hospitals have had a 3.7% update; nursing homes, a 3.1%; [and] Medicare Advantage now gets 111% of the fee-for-service rate and is slated for another 4.8% increase," said PPAC member M. LeRoy Sprang, an ob.gyn. from Evanston, Ill.

Quality is an important part of the equation, said Dr. Tom Valuck, a medical officer at the CMS Center for Medicare Management.

"We're not talking about arbitrary cost cutting for necessary services. We're talking about taking waste out of the system," said Dr. Valuck, who described to PPAC the agency's efforts to develop cost-of-care and quality-of-care reports to measure physician performance.

"If you have two physicians achieving the same level of quality, but one can do it at half the cost, that physician is twice as efficient," he explained.

PPAC members encouraged CMS officials to keep in mind that as physicians strive to improve quality and lower costs, they should also be recognized for savings that may show up in other parts of the program, such as reduced hospital spending due to more preventive screening or disease management services provided in doctors' offices. ■



## Connection

Join the 1,200-member strong WDS and become part of a vibrant group of dermatologists who foster, support, and promote women's issues in dermatology.

## Participation

Visit [www.womensderm.org](http://www.womensderm.org) to find out more about WDS, to join, or to sign up for an upcoming activity.

### HERE'S WHAT'S NEW AT WDS:

WDS provides grants of up to \$10,000 each to practicing dermatologists interested in taking their career to the next level by participating in a variety of educational experiences. Download a copy of the **Career Development Award** application form from the WDS website.

Or call us to find out more: 1-877-WDS-ROSE  
Email: [wds@womensderm.org](mailto:wds@womensderm.org)

## Celebration