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GAO
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Highlights

Highlights of GAO-07-307, a report to congressional committees

# MEDICARE

# Focus on Physician Practice Patterns Can Lead to Greater Program Efficiency

## Why GAO Did This Study

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) directed GAO to study the compensation of physicians in traditional fee-for service (FFS) Medicare. GAO explored linking physician compensation to efficiency—defined as providing and ordering a level of services that is sufficient to meet a patient's health care needs but not excessive, given the patient's health status. In this report, GAO (1) estimates the prevalence in Medicare of physicians who are likely to practice inefficiently, (2) examines physician-focused strategies used by health care purchasers to encourage efficiency, and (3) examines the potential for CMS to profile physicians for efficiency and use the results. To do this, GAO developed a methodology using 2003 Medicare claims data to compare generalist physicians' Medicare practices with those of their peers in 12 metropolitan areas. GAO also examined 10 health care purchasers that profile physicians for efficiency.

## What GAO Recommends

Given the contribution of physicians to Medicare spending in total, GAO recommends that CMS develop a system that identifies individual physicians with inefficient practice patterns and, seeking legislative changes as necessary, uses the results to improve the efficiency of care financed by Medicare.

www.gao.gov/cgi-bin/getrpt?GAO-07-307.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7101 or steinwalda@gao.gov.

## What GAO Found

Based on 2003 Medicare claims data, GAO's analysis found outlier generalist physicians—physicians who treat a disproportionate share of overly expensive patients—in all 12 metropolitan areas studied. Outlier generalists and other generalists saw similar numbers of Medicare patients and their respective patients averaged the same number of office visits. However, after taking health status and location into account, GAO found that Medicare patients who saw an outlier generalist—compared with those who saw other generalists—were more likely to have been hospitalized, more likely to have been hospitalized multiple times, and more likely to have used home health services. By contrast, they were less likely to have been admitted to a skilled nursing facility.

Certain public and private health care purchasers routinely evaluate physicians in their networks using measures of efficiency and other factors. The 10 health care purchasers in our study profiled physicians—that is, compared physicians' performance to an efficiency standard to identify those who practiced inefficiently. To measure efficiency, the purchasers we spoke with generally compared actual spending for physicians' patients to the expected spending for those same patients, given their clinical and demographic characteristics. Most of the 10 purchasers also evaluated physicians on quality. To encourage efficiency, all 10 purchasers linked their physician evaluation results to a range of incentives—from steering patients toward the most efficient providers to excluding physicians from the purchaser's provider network because of inefficient practice patterns.

CMS has tools available to evaluate physicians' practices for efficiency but would likely need additional authorities to use results in ways similar to other purchasers. CMS has a comprehensive repository of Medicare claims data to compute reliable efficiency measures for most physicians serving Medicare patients and has substantial experience using methods that adjust for differences in patients' health status. However, CMS may not currently have the flexibility that other purchasers have to link physician profiling results to a range of incentives encouraging efficiency. Implementation of other strategies to encourage efficiency would likely require legislation.

CMS said that our recommendation was timely and that our focus on the need for risk adjustment in measuring physician resource use was particularly helpful. However, CMS only discussed using profiling results for educating physicians. GAO believes that the optimal profiling effort would include financial or other incentives to encourage efficiency and would measure the effort's impact on Medicare. GAO concurs with CMS that this effort would require adequate funding.