MEDPAC Medicare Payment Advisory Commission

MEETING BRIEF

April 24-25, 2003

Geographic variation in per beneficiary Medicare expenditures

ISSUE: Large variation in per beneficiary local fee-for-service expenditures raises concerns about whether beneficiaries in low-expenditure areas are getting the care they need and whether care is being efficiently provided in high-expenditure areas. Understanding the sources of the variation may shed light on whether the concerns are justified. What are the sources of geographic differences in per beneficiary Medicare expenditures? Should Medicare attempt to reduce the variation? Which of these sources could Medicare address to reduce the variation in program expenditures?

KEY POINTS: Variation in per beneficiary local Medicare expenditures has two basic sources: differences in the cost of providing care and differences in the quantity of care provided. Medicare addresses differences in the costs of care through two payment policies: price adjustments for differences in the cost of inputs and special payments to teaching hospitals, to hospitals that provide care to indigent patients, and to certain groups of rural hospitals. In addition, Medicare payments for the same procedure are often different across sites of care. For example, Medicare has different facility payment rates for the same procedure in hospital outpatient departments (HOPDs) and ambulatory surgical centers (ASCs). Therefore, variation can be affected if beneficiaries in one area uses ASCs in place of HOPDs more frequently than those in another area.

Variation from differences in quantity may arise from differences in beneficiaries' health status or their propensity to use care, and in physicians' practice patterns.

Input price adjustments, special payments to hospitals, and health status are known sources of variation. We found that about 40 percent of the variation is attributable to these sources. The remainder reflects primarily differences in service use due to practice patterns, propensity to use care, and other factors. We have investigated this remaining variation using regression analysis and found several factors (for example, the proportion of the under-65 population without insurance, the racial and ethnic mix of the 65 and over population, and, depending on the model specifications, several variables representing supply and technology) that explain about 40 percent of the remaining variation.

ACTION: Understanding variation in per beneficiary fee-for-service spending will be chapter one in the June 2003 report. At this meeting, staff seek feedback on whether we have reflected Commissioners' comments from the March meeting, effectively identified the sources of variation and used appropriate quantitative methods for analyzing variation.

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