

Why GAO Did This Study

The Middle Class Tax Relief and Job Creation Act of 2012 required that GAO examine private-sector initiatives that base or adjust physician payment rates on quality and efficiency, and the initiatives' applicability to the Medicare program. This report provides information on (1) common themes among private entities with payment incentive initiatives, and physician perspectives on those themes; and (2) the extent to which CMS's financial incentive initiatives for Medicare physicians reflect such themes. GAO acquired information from nine private entities on 12 initiatives selected from expert referrals to include various sizes, types, and geographic locations. GAO also obtained information from physician groups, state medical societies, and national physician organizations. GAO additionally interviewed CMS officials and reviewed relevant CMS documents.

What GAO Recommends

CMS should consider whether certain private-sector practices could broaden and strengthen the Value Modifier program's incentives. Specifically, the agency should consider rewarding physicians for performance improvement as well as for meeting absolute benchmarks, and making more timely payment adjustments to better reflect recent physician performance. Furthermore, the agency should develop a strategy to reliably measure the performance of solo or small physician practices. HHS concurred with all of GAO's recommendations for CMS.

View [GAO-13-160](#). For more information, contact James Cosgrove at (202) 512-7114 or cosgrovej@gao.gov.

MEDICARE PHYSICIAN PAYMENT

Private-Sector Initiatives Can Help Inform CMS Quality and Efficiency Incentive Efforts

What GAO Found

GAO identified several common themes among private entities under review with initiatives that provide incentives for high-quality, efficient care, and selected physician organizations generally support these themes. Specifically:

- Private entities generally measure performance and make incentive payments at the physician-group level rather than at the individual-physician level. Physician organizations favor this approach.
- Private entities use nationally endorsed performance metrics and noted the need for a standardized set of metrics across all payers. Physician organizations concur that a standardized set of metrics would be less administratively complex.
- Most private entities in GAO's study provide financial incentives tied to meeting absolute benchmarks—fixed performance targets—or a combination of absolute benchmarks and performance improvement. Physician organizations prefer incentives tied to absolute benchmarks over those based on how physicians perform relative to their peers. Physician organizations also favored incentives that reward improvement because baseline levels of performance vary.
- While private entities' incentive payments vary in size and in method, private entities typically provide such payments within 7 months of the end of the performance measurement period. Physician organizations stated that financial incentives should be distributed soon after the measurement period to have the greatest effect on performance.

The efforts of the Centers for Medicare & Medicaid Services (CMS)—the agency within the Department of Health and Human Services (HHS) that administers the Medicare program—to transform the physician payment system in Medicare reflect, to varying degrees, the themes that GAO identified among selected private entities with physician payment incentives. Specifically, CMS is taking steps to do the following:

- Focus on group-level performance measurement and payment adjustments in the Value-based Payment Modifier (Value Modifier) program, designed to adjust Medicare payments to physicians using performance data on the quality and cost of care provided. However, CMS has yet to develop a method of reliably measuring the performance of physicians in small practices in the Value Modifier program.
- Apply Value Modifier payment adjustments to outlier physicians—rewarding high performers and penalizing poor performers—using absolute performance targets but not performance improvement. Under this benchmarking strategy, it is likely that only high performers will elect to participate in the program's payment adjustment.
- Annually adjust payments through the Value Modifier 1 year after the performance measurement period ends, rather than applying the Value Modifier closer to the time of service delivery. This time lag between performance and payment adjustment may diminish the significance of the incentive to physicians.