Lower Medicare fees do not increase volume of patient care, study finds

February 11 2010

Do physicians provide more services to Medicare patients to make up for lower Medicare fees? With almost 42 million people enrolled in Medicare in the United States in 2008, it's a question that could have a very costly answer.

Jack Hadley, professor and senior health services researcher in George Mason University's College of Health and Human Services, along with co-authors James Reschovsky of the Center for Studying Health System Change (HSC), Catherine Corey of the New York City Department of Health and Mental Hygiene, and Stephen Zuckerman of The Urban Institute, analyzed thousands of physicians and their Medicare insurance claims to investigate volume-offset behavior, the belief that physicians respond to lower Medicare fees by increasing service volume to make up for potential lost revenue.

The results of the study, "Medicare Fees and the Volume of Physicians' Services," were published online February 10 in the health-policy journal *Inquiry*.

"In recent years, Medicare fees have fallen after accounting for inflation, while overall physician costs and volume of physician services have grown. Although suggestive of volume-offset behavior, national trend data do not necessarily reflect how physicians respond to variations in specific Medicare fees. Our analysis isolated this relationship by controlling for other factors that also influence service volume," Hadley said.

By analyzing data for eight specific Medicare services (office visits, hospital visits, consultations and cardiac tests) that physicians delivered to their Medicare patients, the researchers found no evidence of volume-offset behavior by physicians, but did find that the relative profit a physician receives for providing a service is positively related to the quantity provided. In other words, if the cost of providing a service falls more than the reduction in the Medicare fee, the service actually increases in profitability and physicians will have an incentive to increase its volume. Moreover, the strength of this incentive varied by type of service. Thus, the study's results suggest that in the face of falling overall fees, physicians are likely to provide the most profitable services more often and least profitable services less often. This helps explain why overall costs are rising in the face of declining fees.

The researchers also note that these findings have implications for influencing the mix of services. According to Hadley, the study suggests that the uniform annual changes in Medicare physician fees under current Medicare policy tend to distort physician practice patterns, not necessarily to the benefit of patients. Policymakers instead might consider modifying Medicare fees to encourage services believed to be effective but underused and discourage services believed less effective and overused.

"Medicare's current fee change policy has probably contributed to distorting physicians' financial incentives to provide some services more frequently than others. For example, we found that echocardiograms were much more sensitive to fee variations than office visits. This means that more generous payments for these services, relative to their true underlying costs, have probably created a strong incentive for physicians to provide more of those services. These types of distortions can lead to the overprovision of profitable diagnostic services at the expense of basic primary care," Hadley said.

Although many blame Medicare's fee-for-service system for rewarding quantity rather than quality, the researchers believe that until workable alternatives can be developed, strategic use of the fee-for-service system can remain a potentially powerful policy tool for influencing physicians' practice patterns to improve quality as well as to control costs.

"Changing Medicare fees to incorporate the clinical value of services, or their contribution to improving health, as well as the cost of providing different services, will make fee-for-service payment an important complement to other payment reforms being considered, such as bundled payment and pay for performance. Since alternative policies will require considerable time to develop and properly calibrate, focusing on fixing current distortions in Medicare fees should be a high-priority objective for the short term," Reschovsky said.

More information: www.inquiryjournalonline.org/i …6&issue=04&page=0372

Provided by George Mason University