AMCNO Applauds Institute of Medicine (IOM) Report Targeting the Accuracy of Medicare Regional Payments

The AMCNO was pleased to learn that a June report from the Institute of Medicine (IOM) has recommended utilizing geographic health sector data from the Bureau of Labor Statistics, expanding wage data to account for all types of health workers in private practice, and using the same number of geographic market areas for physician and hospital payments. These recommendations were welcomed by the AMCNO since we have strongly advocated for changes to the geographic payment methodology used by the Centers for Medicare and Medicaid Services (CMS).

A committee studying Medicare payments has concluded that the program should be using more accurate data when adjusting pay rates based on where physicians and hospitals are located. Geographic adjustments to Medicare payments are intended to accurately and equitably cover regional variations in wages, rents, and other costs incurred by hospitals and individual health care practitioners. The rationale for fine-tuning Medicare payments based on geographic variations in expenses beyond providers’ control is sound and should be continued, the committee concluded.

This report is one of three that are to be produced by an IOM committee charged with studying price variations related to Medicare geographic adjustments. Geographic adjustments designed to reflect the differing costs of providing care between different regions of the country are a factor in determining the final rate that a physician receives for a service. For example, there are 441 geographic payment areas nationwide for hospitals under Part A and 89 pay areas for physicians under Part B. The Part B adjustments consist of 55 metropolitan areas and 34 statewide areas (Ohio is a statewide area). Statewide areas pay the same rates to physicians practicing in urban and rural settings. Medicare also adjusts payments according to which labor market a hospital or practitioner operates in and competes for workers. Because hospitals and health professionals in a given area tend to function within the same local market, there is no reason for the program to use one set of 441 markets to determine hospital payments and a different set of 89 markets for practitioner adjustments, the report says. Instead, the program should employ the metropolitan statistical areas (MSAs) developed by the Office of Management and Budget for both. MSAs reflect information on where people live and work and decisions made by employers and employees that define labor markets’ boundaries, the report notes.

Salaries and benefits make up one of the largest costs of providing care. The Medicare program should use health sector data from the Bureau of Labor Statistics (BLS) to develop its indexes for calculating wage adjustments for hospitals and private practice health professionals, the report says. The IOM also included information noting that Medicare should take into account median wage data for all types of workers in private practice settings and hospitals to calculate payments. Currently, regional wage differences are based on data for registered nurses, licensed practical nurses, health technicians, and administrative staff only, which does not reflect the full work force in many practices or hospitals the report adds.

The report is the first of three to be issued by the committee. A supplemental report that discusses physician payment issues further will be issued this summer. A final report to be released in 2012 will present the committee’s evaluation of the effects of the adjustment factors on health care quality, population health, and the distribution of the health care work force.

The AMCNO has advocated for geographic adjustment reforms for many years. The recommendations in the IOM report validate the AMCNO concerns since the report recommends separating urban and rural areas. The AMCNO strongly believes that Medicare’s geographic payment adjustment formula does not accurately reflect practice costs in Northern Ohio. The AMCNO has advocated for a payment option that is based on geographic areas as defined by the Office of Management and Budget, and uses Metropolitan Statistical Areas (MSAs) and Metropolitan Divisions (MDs) to form localities in each state. In this option counties not included in MSAs are combined into non-MSA rest of the state areas. The AMCNO believes that this option is viable due to the fact that it is based upon the localities used to pay other Medicare providers, such as hospitals, skilled nursing facilities and ambulatory surgery centers, which allow for a more focused recognition of geographic cost differences. If implemented, this option would create additional localities in Ohio and would benefit the physicians in our area of the state as well as other metropolitan areas in Ohio. The IOM report is a step in the right direction and the AMCNO will continue to monitor this issue.