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Highlights

Highlights of GAO-07-466, a report to the Chairman, Subcommittee on Health, Committee on Ways and Means, House of Representatives

MEDICARE

Geographic Areas Used to Adjust Physician Payments for Variation in Practice Costs Should Be Revised

Why GAO Did This Study

The Centers for Medicare & Medicaid Services (CMS) adjusts Medicare physician fees for geographic differences in the costs of operating a medical practice. CMS uses 89 physician payment localities among which fees are adjusted. Concerns have been raised that the boundaries of some payment localities do not accurately address variations in physicians' costs. GAO was asked to examine how CMS has revised the localities; the extent to which they accurately reflect variations in physicians' costs; and alternative approaches to constructing the localities. To do so, GAO reviewed selected Federal Register documents; compared data on the costs physicians incur in different areas with the Medicare geographic adjustment; and used the physician cost data to construct and evaluate alternative approaches.

What GAO Recommends

GAO recommends that CMS (1) examine and revise the payment localities using an approach that is uniformly applied to all states and based on the most current data and (2) update the payment localities on a periodic basis. CMS stated it will consider GAO's first recommendation, but continue its approach of updating the localities when interested parties raise concerns and on its own initiative. GAO notes that updating the localities in this manner may result in updating only select localities, rather than all localities using a uniform approach.

www.gao.gov/cgi-bin/getrpt?GAO-07-466.

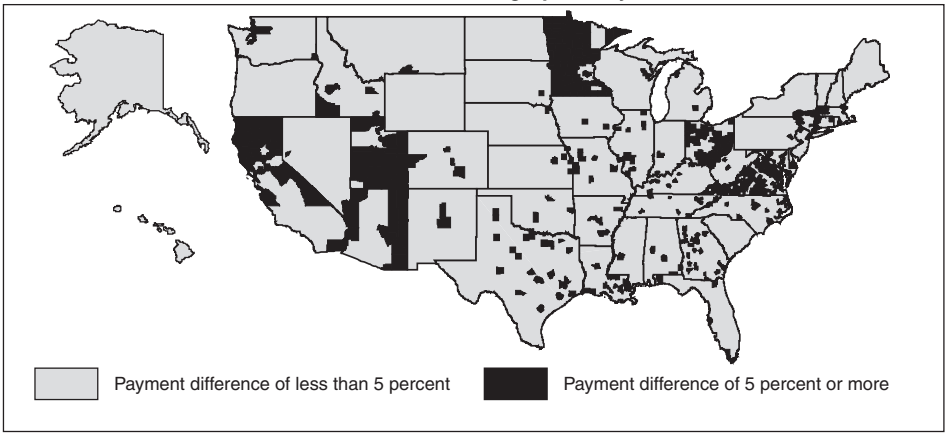
To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7114 or steinwalda@gao.gov.

What GAO Found

The current 89 physician payment localities are primarily consolidations of the 240 localities that Medicare carriers—CMS contractors responsible for processing physician claims—established in 1966. Since then, CMS has revised the payment localities using three different approaches that were not uniformly applied. From 1992 through 1995, CMS permitted state medical associations to petition to consolidate into a statewide locality if the state's physicians demonstrated "overwhelming support" for the change. In 1997, CMS revised the 28 states with multiple payment localities using two approaches: CMS consolidated carrier-defined localities in 25 states and created entirely new localities in 3 states.

More than half of the current physician payment localities had counties within them with a large payment difference—that is, a payment difference of 5 percent or more between GAO's measure of physicians' costs and Medicare's geographic adjustment for an area. These 447 counties—representing 14 percent of all counties—were located across the United States, but a disproportionate number were located in California, Georgia, Minnesota, Ohio, and Virginia. Large payment differences occur because certain localities combine counties with different costs, which may be due to several factors. For example, although substantial population growth has occurred in certain areas, potentially leading to increased costs, CMS has not revised the payment localities in accordance with these changes.

Counties in Which Physicians Had a Payment Difference of Less than 5 Percent, or 5 Percent or More, between Their Costs and Medicare's Geographic Adjustment



Source: GAO analysis of 2005 CMS, 2000 Census Bureau, and fiscal year 2006 Department of Housing and Urban Development data.

Many alternative approaches could be used to revise the geographic boundaries of the current payment localities. GAO identified three possible approaches that would improve payment accuracy while generally imposing a minimal amount of additional administrative burden on CMS, Medicare carriers, and physicians. One approach, for example, would improve payment accuracy, the extent to which each approach accurately measures variations in physicians' costs, by 52 percent over the current localities.