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IOM Committee Studying Regional Variations in Health Care Quality, Use, and Spending Releases Preliminary Observations on Modifications to Medicare Payments

WASHINGTON -- Providing higher Medicare payment rates to hospitals and clinicians in regions of the country characterized by good health outcomes and relatively lower spending and decreasing payment rates in regions with overall lesser quality and higher spending would not give providers the incentive to deliver care more efficiently, according to an Institute of Medicine committee studying the issue. Decisions about care are made at the provider level rather than regional level, and providers within regions do not spend consistently on care or routinely deliver the same quality of care, the committee observed. Using a geographically based value index to set Medicare reimbursements would reward underperforming providers in some regions and penalize those achieving good outcomes at lower cost in other areas.

The committee, which is engaged in an ongoing congressionally mandated study of regional variations in health care spending, use, and quality and the merits of adopting a geographic value index, issued an [interim report](http://www.nap.edu/catalog.php?record_id=18308) (http://www.nap.edu/catalog.php?record_id=18308) containing its preliminary observations at the request of congressional members who wished to gain early insights from the committee's work. A final report, due this summer, will contain the committee's conclusions and recommendations based on the work completed so far as well as additional analyses of other data, including information on private insurance payments.

The amount that Medicare spends per person varies greatly across the country. The program pays out as much as 44 percent more in some regions than it does in others, even after adjusting for regional price differences in wages, rents, and other factors. Moreover, studies indicate that regions where Medicare spends more do not consistently achieve better health outcomes or greater patient satisfaction. A geographic value index has been proposed as a way to encourage greater efficiency in health care by raising payment rates in low-cost regions where the quality of care and health benefits are high and decreasing payments in high-cost areas where the quality and benefits are low relative to their spending.

The feasibility of a geographic value index depends on whether individual practitioners or health care organizations behave similarly within defined regions so that all would be equally deserving of any geographically based increase or decrease in their payment levels, and whether altering payment rates based on regional measures of cost and quality is likely to spur more efficient care, the report notes. Through its review of the evidence so far, the committee observed that differences in use of services and spending occur at every geographic level as well as between hospitals within regions and between providers within a single hospital or group practice. In addition, health care decisions are made by providers rather than at a regional level.

Even after adjusting for variables such as wages, rents, and attributes of Medicare patient populations, including age and health status, a significant amount of regional variation in Medicare payments remains unexplained, the committee observed. Differences in Medicare patients' age, sex, and health contribute, but they do not fully explain all the variation.

Looking at how much Medicare pays out for different categories of health care services, the committee observed that post-acute care, including the use of home health services, skilled nursing facilities, rehabilitation facilities, long-term care hospitals, and hospices, accounts for a substantial amount of variation. Much of the remaining differences in spending on services is attributable to inpatient care, with little stemming from other products or services such as prescription drugs, diagnostics, procedures, and emergency department visits. The magnitude of spending on post-acute care in some areas, particularly in Miami and Dade County, Fla., raises concern about potential fraud taking place there. Any amount of fraud would weaken the effectiveness of a geographic value index by reducing reimbursement to providers practicing legitimately. Altering the factors that spur overuse of post-acute care services could lead to greater health care efficiency, the report says.

To be effective, payment reforms need to encourage behavioral changes at the point of health care decision making, which occurs at the level of individual providers and health care organizations, the committee noted. Initiatives such as value-based purchasing, accountable care organizations, and bundled payments target decision makers rather than regions, although these reforms are relatively new and there is little evidence yet about their effects.

The committee's observations arise from an extensive review of published research and testimony at two public workshops as well as new statistical analyses conducted by six subcontractors and four papers commissioned from experts in these subjects. The completed subcontractors' reports and the commissioned papers are available at <http://www.iom.edu/geovariationinterim>. These documents focus on Medicare spending. As the committee continues its work, it will explore private insurance spending and levels of health care use and quality experienced by those covered by commercial health plans. It will also assess any biases that might be inherent in measurements of patients' health based on Medicare or commercial insurance claims.

The report was sponsored by the U.S. Department of Health and Human Services. Established in 1970 under the charter of the National Academy of Sciences, the Institute of Medicine provides independent, objective, evidence-based advice to policymakers, health professionals, the private sector, and the public. The National Academy of Sciences, National Academy of Engineering, Institute of Medicine, and National Research Council make up the National Academies. A committee roster follows.

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Additional resources:

Project Website

Pre-publication copies of *Interim Report of the Committee on Geographic Variation in Health Care Spending and Promotion of High-Value Care: Preliminary Committee Observations* are available from the National Academies Press on the Internet at <http://www.nap.edu> or by calling tel. 202-334-3313 or 1-800-624-6242. Reporters may obtain a copy from the Office of News and Public Information (contacts listed above).

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