June 15, 2012

The Honorable Max Baucus
Committee on Finance
United States Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Baucus,

At the conclusion of the Committee's Roundtable on Medicare physician payment on May 10, The Chairman asked us to provide our views about short- and long-term solutions to the problems of the "Sustainable Growth Rate" and physician payment in Medicare. Each of us will send you a letter in response to that request. But while we each have our own views on the best long-term directions for Medicare policy, we have similar views on some of the steps needed to make physician payment in the traditional Medicare program more sustainable and effective. Precisely because we disagree on so many other issues, we thought it might be helpful to you to describe our shared convictions about steps that should be taken in the short to medium term to improve Medicare physician payment in ways that would be consistent with any of a range of longer-term options, while creating worthwhile improvements in the meantime.

We all agree on the following principles:

1) Simply repeating the cycle of short-term SGR "fixes" must end.
2) There must be a period of transition for any major changes in Medicare physician payment.
3) Payment system changes need to better reflect the goals of reducing overall Medicare spending growth while better supporting physicians in patient-centered, coordinated care. Quality measures and continuous quality improvement programs should go hand-in-hand with these payment system changes.

Specifically, we would recommend the following:

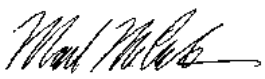
1) No later than five years from now, CMS should implement alternatives to fee-for-service payment for physicians, with the costs of these reforms offset by overall (not just Part B) Medicare cost savings. Physician participation in these alternative payment systems should be voluntary. Physicians who choose to remain in the traditional fee for service payment system will be subject to a reformed spending limit. CMS, with assistance from MedPAC, should articulate a strategy for achieving this reform in a timely manner.
2) In order to meet this five-year target, CMS should begin immediately to experiment with then implement the bundling of appropriate fee-for-service CPT codes into bundled payments to appropriate physicians or groups of physicians. Physician organizations should be encouraged to lead the development of these

reforms, which must also include robust quality measures. Unlike current CMS demonstrations and pilots, these payment bundles should include only physician and related services, but the accounting for savings should include reduction in Part A and Part D utilization.

3) In addition, CMS must foster experimentation with other innovative forms of physician payment, by encouraging a wide range of other physician-generated proposals. In order to make all of these projects possible, all physicians participating in Medicare must receive timely and usable data from CMS relevant to reducing costs and improving quality for their patients, and the Congress and Executive Branch must provide CMS with the resources necessary to improve its data systems and those of its contractors to support those efforts.
4) At the same time, steps are needed to improve the calculation of fee-for-service payments. The goals are to have relative FFS payments that better reflect evaluation, care coordination, and other cognitive services. One way to support this is through the creation of an independent entity with broad-based representation to advise CMS on further RVU and physician payment reforms.
5) The SGR must be replaced by other, more practical and administrable limits on total Medicare physician outlays. In the short term, such limits could be achieved by freezing most physician fees at current levels, while addressing the need for adjustments in payments to primary care and rural providers. In the longer term, alternative payment methods may provide an appropriate benchmark for the establishment of expenditure growth targets; alternatively, a formula more like that used for the Inpatient Prospective Payment System might be appropriate.

We hope these suggestions, and those in our individual letters, are helpful to you. Each of us would, of course, be more than happy to provide you and your colleagues with any further assistance you might wish.

Sincerely,



Mark McClellan

Tom Scully

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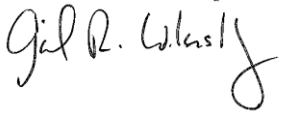

Gail Wilensky

cc.: Hon. Orrin G. Hatch, Ranking Member