

# Revised geographic adjustments could improve accuracy of Medicare payments

July 17 2012

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Changing the way that Medicare payments are adjusted to account for regional variations in the cost of providing care as recommended by a previous report from the Institute of Medicine would result in payment increases for some hospitals and practitioners and decreases for others, concludes the Phase II report from the IOM study. Geographic adjustments should be used to ensure the accuracy of payments, said the committee that wrote the report, but they are not optimal tools to tackle larger national policy goals such as improving access to care in medically underserved areas.

Adjustments to Medicare payments based on geography are intended to account for regional variations in wages, rents, and other costs incurred by hospitals and individual health care practitioners. Federal law requires geographic adjustments to be budget neutral, meaning any increase in the amount paid to one hospital or practitioner must be offset by a decrease to others. In its previous report, the committee recommended changes to the data sources and methods used to calculate payment adjustments to achieve greater accuracy.

Using a series of statistical simulations and analyses in the second phase of the study, the committee concluded that its recommendations, if adopted by the [Medicare program](#), would improve the technical accuracy of payments, and these payments would increase or decrease by less than 5 percent on average for the majority of hospitals and most physicians. The committee acknowledged that seemingly small percentages could make significant differences to providers and organizations striving to

provide high-value health care. The simulations showed that the committee's proposed new approach using data from the [Bureau of Labor Statistics](#) would yield generally higher relative hospital wages in rural areas than the current approach using [Medicare data](#). The changes in how practitioner payments are calculated would result in an overall payment reduction of just under 3 percent to health professionals in nonmetropolitan counties and an aggregate increase of less than half of 1 percent to those practicing in metropolitan counties.

There is a general perception that variations in payment rates could affect where health professionals decide to practice and contribute to regional differences in the availability and quality of care. Given the relatively modest payment changes that would occur in many regions and given that geographic adjustments are only one factor in Medicare payments, revising these calculations may not have a significant overall impact on the distribution of providers and on improving care access and quality, the report says.

Although most Medicare beneficiaries have good access to health care, the ease of finding providers who accept Medicare patients is more limited in medically underserved rural and metropolitan regions and areas that include disproportionately high numbers of racial and ethnic minorities. There are several strategies that would be more effective at boosting access to care than geographic payment adjustments, the committee concluded. For example, Medicare should support policies that enable all qualified [health professionals](#) to practice to the full extent of their education and training. The supply of primary care services in underserved areas could be increased if state licensing and credentialing laws consistently allowed broader scope of practice for the complete range of professionals, such as nurse practitioners and physician assistants. The report also recommends that Medicare pay for telemedicine and other services that enable clinicians to reach more patients in underserved areas.

"The exercise of applying the recommendations from our Phase I report confirmed that using the data sources and methods we proposed would improve the accuracy of [Medicare payments](#)," said committee chair Frank Sloan, J. Alexander McMahon Professor of Health Policy and Management and professor of economics, Duke University, Durham, N.C. "Payment accuracy is important, but geographic adjustments are not the optimal way to achieve larger goals, such as ensuring access to clinicians or reducing disparities in care. Such objectives should be addressed through other means."

**More information:** Pre-publication copies of Geographic Adjustment in Medicare Payment, Phase II: Implications for Access, Quality, and Efficiency are available from the National Academies Press; tel. 202-334-3313 or 1-800-624-6242 or on the Internet at [www.nap.edu](http://www.nap.edu) or [www.iom.edu/adjustmentimpact](http://www.iom.edu/adjustmentimpact)

Provided by National Academy of Sciences

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