

More Efficient Physicians: A Path to Significant Savings in Health Care July 2003

The Consumer-Purchaser Disclosure Project is a unique partnership of many of the nation's leading consumer, labor, and purchaser organizations. The Disclosure Project believes that the primary drivers of improvements to the health care system will be (1) consumers using valid performance information to choose providers and treatments, (2) purchasers building performance expectations into their contracts and benefit designs, and (3) providers acting on their desire to improve, supported with better information. The organizations involved in the Disclosure Project actively collaborate to achieve the following goal:

By January 1, 2007, Americans will be able to select hospitals, physicians, physician groups/delivery systems and treatments based on public reporting of nationally standardized measures for safety, timeliness, effectiveness, efficiency, equity, and patient-centeredness.

The Disclosure Project advocates making information across all of the Institute of Medicine six performance domains available and actionable by providers, purchasers, consumers, and policymakers. One of those domains that has received strikingly little attention, given the cost pressures being felt by purchasers and consumers, is the relative efficiency with which care is delivered. In this context, efficiency refers to average per patient total health care spending, per episode of care or per year, associated with a provider's care, adjusted for differences in patient demographics and illness. To help inform the discussions both about Medicare reform and private sector efforts to reward more efficient physicians, the Disclosure Project sought out the opinions of leading actuaries and health researchers to estimate the potential savings to Medicare if either a small portion of beneficiaries began using more efficient physicians or a similarly small proportion of physicians improved the efficiency of their practice patterns. While using different bases for their analysis, the results were remarkably consistent: **Medicare and other purchasers could save from 2% to 4% of total costs if only one out of ten beneficiaries were to move from less efficient to more efficient physicians.** These results are also informed by separate research that has found that quality did not decline when providers practiced more efficiently. In fact, more efficient regions of the United States enjoyed better quality on some indicators than less efficient regions. The findings on potential savings were confirmed by three independent analyses (contact the Disclosure Project for full copies of any of these papers):

- **Potential Reductions in Medicare Costs via Increased Efficiency in the Delivery of Health Care** (actuarial review by Milliman, USA, Mercer Human Resource Consulting and PricewaterhouseCoopers, LLP). This actuarial opinion assesses the implications of two scenarios applying the findings of the research by Dr. Elliot Fisher, et al., as described in articles entitled "*The Implications of Regional Variations in Medicare Spending.*" In the first scenario, savings of 3.1% of total Medicare costs could be realized if half of the care provided in the nation's highest-cost quintile is delivered with the combined efficiency of the other four quintiles. In the second scenario, a 5.7% reduction in total Medicare costs could be realized if half of the care provided in the two highest cost quintiles is delivered with the efficiency of the other three quintiles.
- **Estimates of Potential Savings To Be Gained by the Medicare Program if Risk-Adjusted Practice Profiles Were Applied to Facilitate Beneficiaries' Preferential Use of Efficient Physicians** (Jonathan Weiner, DrPH, Johns Hopkins University). This paper uses evidence derived from assessing physician practice patterns in commercial, Medicaid and Medicare settings, and assesses potential savings to Medicare both with and without a prescription drug benefit. The paper finds that if one out of ten beneficiaries switched from less to more efficient physicians, it would result in savings of 2% to 4% of total Medicare spending.
- **Estimate of Savings from Linking Health Insurance Plan Beneficiaries to More Efficient Physicians** (Arlene Ash, PhD, Boston University School of Medicine and DxCG, Inc.) This paper assesses practice patterns within a selected regional pool of physicians serving over 100,000 members based on inpatient and outpatient claims from 2001-2002. Optimistic assumptions about the potential savings suggest that moving about one out of ten beneficiaries (half of those being served by the least efficient thirty percent of physicians) could save approximately 2.5% of spending.