

FACT SHEET

PHYSICIAN GROUP PRACTICE DEMONSTRATION

The Physician Group Practice (PGP) Demonstration gives physician-driven organizations financial incentives to enhance the quality and efficiency of health care services via bonus payments derived from savings achieved through improvements in the management of patient care and services.

Mandated by Section 412 of the Benefits Improvement and Protection Act of 2000, the PGP Demonstration seeks to:

- *Encourage coordination of Part A and Part B services,*
- *Reward physicians for improving health outcomes,*
- *Promote efficiency through investment in administrative structure and process*

Background

Physicians influence, either directly or indirectly, almost all areas of Medicare spending. Physicians deliver services, admit beneficiaries to hospitals, and authorize home health visits, etc. The PGP Demonstration seeks to align incentives for physician groups to manage the overall care of their patients, especially beneficiaries with chronic illness who account for a significant portion of Medicare expenditures.

Through the PGP Demonstration we will encourage physician groups to attract, retain and coordinate care to chronically ill beneficiaries; give physicians incentives to efficiently provide services to their patients; and promote active use of utilization and clinical data for the purposes of improving efficiency and outcomes.

The PGP Demonstration will enable us to test physician groups' responses to financial incentives for improving care coordination, delivery processes and patient outcomes, and the effect on access, cost, and quality of care to Medicare beneficiaries.

Demonstration Overview

The PGP Demonstration provides a unique reimbursement mechanism through which providers are rewarded for coordinating and managing the overall health care needs of a non-enrolled, fee-for-service patient population. The PGP Demonstration combines new financial incentives with traditional fee-for-service reimbursement that are more in line with those used by managed care organizations and other commercial payers.

Under the 3-year demonstration, physician groups will be paid on a fee-for-service basis and may earn a bonus from savings derived from improvements in patient management. Annual performance targets will be established for each participating physician group equal to the average Part A and Part B expenditures of beneficiaries assigned to the group during a base period, adjusted for health status and expenditure growth.

Bonuses may be earned if the average Medicare expenditure of beneficiaries assigned to the group is below the group's annual performance target. Bonus payments will be allocated between efficiency improvements and measurable improvements in patient care processes and outcomes. Bonus payments will be made to the physician group who is responsible for allocating bonus payments among any affiliated organizations. Aggregate expenditures under the demonstration must be budget neutral.

We believe that the PGP's ability to manage patient care, especially chronically ill Medicare beneficiaries, is critical to the group's ability to generate savings under the demonstration. We also recognize the numerous process and outcome improvement activities initiated by PGPs and commercial payers to improve patient care. Given the variety of indicators, we will work PGPs to establish a core set of process and outcome indicators for use in measuring performance and allocating quality bonuses under the demonstration. As part of their proposals, PGP's may also identify process and outcome measures and bonus allocation methodologies for use under the demonstration.

Eligible Organizations

Health care groups with at least 200 physician full-time equivalents may apply. We are seeking several different types of physician group practices to test the new incentives in a range of organizational and clinical environments. Eligible organizations include freestanding multi-specialty physician group practices, faculty group practices, and physician groups that are part of health care systems/medical centers, or that have affiliations with hospitals and/or other providers.

Health care groups that can respond effectively to the demonstration's new incentives are encouraged to apply. In particular, multi-specialty physician groups with well-developed clinical and management information systems should consider applying. We do not plan to make awards to health care groups currently participating in Medicare fee-for-service demonstrations.

Selection Process

Our Administrator recommended for award physician groups in August 2003 from among the most highly qualified candidates. Sites were selected based on a variety of factors including technical review panel findings, organizational structure, operational feasibility, geographic location, and demonstration implementation strategy. Currently, we are working with the physician groups that were recommended for award on implementation issues and Medicare waiver approval. Implementation is pending waiver approval, which is anticipated in 2005.

For More Information

The solicitation notice and Medicare Waiver Demonstration Application were published in the Federal Register on September 27, 2002 and site selection was announced in the Summer of 2003. Visit the PGP webpage @ <http://www.cms.hhs.gov/healthplans/research/pgpdemo.asp> for additional information.