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Congress of the United States

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1102 LONGWORTH HOUSE OFFICE BUILDING
(202) 225-3625

Washington, DC 20515-6348

<http://waysandmeans.house.gov>

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MINORITY CHIEF COUNSEL

June 16, 2005

The Honorable Mark McClellan
Administrator
Centers for Medicare & Medicaid Services
Hubert Humphrey Building, Room 314-G
200 Independence Ave., SW
Washington, D.C. 20201

Dear Dr. McClellan:

We write to ask your assistance in moving Medicare toward quality reporting and value-based purchasing for physician and other provider services. Today, Medicare pays providers the same whether they deliver excellent care or care that is ineffective, poor quality or out-of-date. Unfortunately, since Medicare pays for resource use, we pay for more and more services when providers deliver ineffective and inefficient care.

It is time to change this irrational system. Congress took a step in this direction in Section 501(b) of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which rewards hospitals with a higher update when they report data on 10 quality indicators. We are pleased that more than 95 percent of hospitals are reporting this quality data, and that the Centers for Medicare & Medicaid Services (CMS) makes this information available to Medicare beneficiaries on the CMS website.

As we move forward in improving quality and developing a value-based purchasing system, it would be helpful to document CMS' experience and work in the following areas:

- *Development of quality indicators.* Does CMS use quality indicators for other providers besides hospitals, such as physicians? Has CMS worked with the physician community to develop measures? Are physician measures applicable to all the various physician specialties and sub-specialties? Can claims data be used to measure quality?

- *Systems for reporting and analyzing quality indicators.* Please explain how CMS implemented the hospital reporting of quality indicators. How do hospitals report? Where does the data go? Who processes the data? How often are the data reported and processed? Do hospitals review the results before they are posted on the website? How long does that review take? Are there lessons that CMS has learned from hospital reporting which are relevant to quality reporting by other providers such as physicians?
- *Size of incentives needed to encourage reporting.* Almost all hospitals report quality indicators to receive a 0.4 percentage point increase in their annual update. Based on demonstrations and other activities, does CMS have other information about the size of incentives needed to produce results?
- *Resource use.* The Medicare Payment Advisory Commission (MedPAC) recommended that CMS develop measures of resource use by physicians and provide information about peer comparisons confidentially to physicians. Does CMS agree with this recommendation, and if so, what steps has CMS taken to implement this recommendation?
- *CMS demonstrations.* CMS operates a number of demonstrations to test ways to improve the quality and efficiency of care for Medicare beneficiaries. What are these on-going demonstrations and what has CMS learned about developing and implementing value-based purchasing systems?

We look forward to working with you to change Medicare's payment systems to reward providers who deliver higher quality care. Your prompt response to this request for information is appreciated.

Best regards,



Bill Thomas
Chairman



Nancy L. Johnson
Chairman
Subcommittee on Health