RESEARCH BRIEF

MACRA's Effects on Medicare Payment Policy and Spending

The Medicare Access and CHIP Reauthorization Act (MACRA), enacted by Congress in 2015, was intended to eliminate a long-standing conundrum about how to determine Medicare reimbursement rates for physician services. MACRA also represents an aggressive expansion of the value-based payment model in Medicare, consistent with the ambitious goals set by former U.S. Department of Health and Human Services Secretary Sylvia Mathews Burwell.

Key findings:

- **MACRA's two-track payment system encourages physicians to migrate to alternative payment models.**
- **Medicare payments will be lower with MACRA than without it.**
- **Spending on physician services will drop by $35 billion to $106 billion.**
- **Payments to hospitals will change by +$32 billion to –$250 billion.**
- **Spending effects depend critically on the kind of incentives embedded in alternative payment models.**

Replacing the Sustainable Growth Rate Formula

The Sustainable Growth Rate (SGR) formula was designed to ensure that the yearly growth rate in costs per Medicare beneficiary did not outpace growth in the gross domestic product. According to the SGR schedule, if physician spending in a given year exceeded a target based on overall economic growth, Medicare fees were to be decreased accordingly. But Congress regularly overrode cuts in reimbursement rates—17 times between 2003 and 2015.

MACRA may offer physicians more certain payment rates. Under MACRA, starting in 2019, physicians can choose one of two payment tracks: the Merit-Based Incentive Payment System (MIPS) track and the Alternative Payment Models (APM) track (see text box). Payment rate increases are higher for physicians in the APM track, but physicians on this track must bear greater financial risk.

Effects of Alternative Payment Models

A vital piece of information in defining and assessing any APM is how physicians change their behavior in response to the APM's features. To explore that issue, a RAND team used the RAND Health Care Payment and Delivery Simulation Model (PADSIM; see www.rand.org/t/RR1428) to estimate how sensitive physician behavior is to APM design. The overall purpose of PADSIM is to determine how providers respond to changes in payment policy and to understand the relationship between the payments providers receive and the services they provide.

PADSIM's analysis shows that Medicare payments will be lower under MACRA than without it. Medicare will

Two Payment Tracks Under MACRA	
The Merit-Based Incentive Payment System	**Alternative Payment Models**
In this track, Medicare would reimburse physicians on a quasi-fee-for-service basis, with adjustments for performance. MIPS includes bonuses or penalties depending on the quality of care physicians deliver, their meaningful use of electronic health records, and their improvement in clinical practice.	This track includes physicians who opt to participate in an alternative payment model (APM). What is considered an "alternative" model will likely change over time. APMs defined for 2017 include a medical home–type model and a next-generation accountable care organization model, but definitions will likely change in annual rulemaking.

decrease its spending on physician services by $35 billion to $106 billion.

However, MACRA's largest effect might be on hospital revenue: Payments to hospitals will change by +$32 to –$250 billion. The strong effect on hospitals may spring from how physicians respond to payment incentives—for example, working to avoid hospital readmissions or reducing use of hospital care. The wide range of estimated effects under MACRA underscores how strongly provider participation in APMs depends on APM design and the kind of incentives offered.

A Work in Progress

MACRA offers substantial system savings and eliminates the disruptive uncertainty surrounding the SGR payment schedule. But its success is by no means guaranteed. For example, MACRA may not be implemented as designed. The definition of APMs may change. Physicians who want to choose the APM payment track may not find well-designed APMs to join, leaving them without options. An additional unknown is how APMs affect patient care.

MACRA is designed to encourage physician migration from a fee-for-service payment system to one in which physicians are paid based on value. But MACRA is very much a work in progress, with all the attendant uncertainties. The RAND team suggests that the new Medicare physician payment system will work if providers accept their responsibilities as "stewards of society's resources and redesign their business model around value."

This brief describes work done in RAND Health and documented in Peter Hussey, Jodi Liu, and Chapin White, "The Medicare Access And CHIP Reauthorization Act: Effects On Medicare," *Health Affairs*, Vol. 36, No. 4, April 2017, pp. 697–705. To view this brief online, visit www.rand.org/t/RB9963. The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND**® is a registered trademark.

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