



AMERICAN ACADEMY *of* ACTUARIES

December 15, 2008

The Honorable Max Baucus
Chairman, Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Charles Grassley
Ranking Member, Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Senators Baucus and Grassley:

On behalf of the American Academy of Actuaries'¹ Medicare Steering Committee and Health Care Quality Work Group, we are writing to you regarding your request for comments on the draft legislation, *Medicare Hospital Quality Improvement Act of 2008*. The legislation would link Medicare hospital payments to performance on certain quality measures.

As you know, Medicare faces serious financial challenges. The most significant are the impending insolvency of the Hospital Insurance trust fund and threats to Medicare's long-term sustainability due to expenditures that are growing steadily as a share of gross domestic product (GDP) and total federal revenues. The Academy urges Congress to quickly take the steps necessary to restore Medicare's financial soundness and to improve its sustainability for current and future generations of Americans.

One of the factors contributing to Medicare spending growth, and spending growth in the health care system as a whole, is that current provider-payment systems do not align financial incentives with the goal of maximizing the quality and value of health care provided. Moving to a value-based purchasing program for inpatient hospital care in Medicare would be a step toward better aligning financial reimbursement with improved health outcomes.

The long-term viability of a value-based purchasing program would rely on its ability to influence provider behavior, primarily through financial incentives. There is reason to believe that such programs improve quality and reduce health care costs through the provision of best-practice medicine on a cost-effective basis. Accumulating credible data on comparative effectiveness and the development of reliable relative performance measures is important to ensuring that the full benefits of value-based purchasing are realized.

¹ The American Academy of Actuaries is a professional association with over 16,000 members, whose mission is to assist public policymakers by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Health care actuaries have a unique perspective on issues related to the quality of health care. Actuaries have experience measuring quality and evaluating the statistical variation in care patterns and evidence-based practice. We also understand the relationship between the effect of case mix on the evaluation of relative performance, as well as the development of provider reimbursement approaches and benefit designs that effectively reward value and support a quality-oriented health care system.

The American Academy of Actuaries' Health Practice Council has developed several documents that examine quality initiatives, health care spending growth, and Medicare from an actuarial perspective. The following are available on the Academy's website at <http://www.actuary.org/health.asp>:

- *Medicare Reform Options* (June 2007) (http://www.actuary.org/pdf/medicare/options_june07.pdf)
- *Pay For Performance: Rewarding Improvements in the Quality of Health Care* (October 2005) (http://www.actuary.org/pdf/health/pay_oct05.pdf)
- *Taking Control: An Actuarial Perspective on Health Spending Growth* (September 2008) (http://www.actuary.org/pdf/health/spending_ib_08.pdf)
- *Health Insurance Coverage and Reimbursement Decisions: Implications for Increased Comparative Effectiveness Research* (September 2008) (<http://www.actuary.org/pdf/health/comparative.pdf>)
- *Medicare's Financial Condition: Beyond Actuarial Balance* (March 2008) (http://www.actuary.org/pdf/medicare/trustees_08.pdf)

We appreciate your efforts to deal with these complex and important issues and hope you find the materials listed above helpful. We would welcome the opportunity to discuss any of these issues or documents with you further. If you have any questions, please feel free to contact Heather Jerbi, the Academy's senior health policy analyst (federal) at (202) 785-7869 or jerbi@actuary.org.

Sincerely,

Thomas F. Wildsmith, MAAA, FSA
Chairperson, Medicare Steering Committee
American Academy of Actuaries

Michael J. Thompson, MAAA, FSA
Chairperson, Health Care Quality Work Group
American Academy of Actuaries