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Internists and  
All Subspecialists  
of Internal Medicine



July 8, 1996

Donna Shalala, Ph.D.  
Secretary  
Department of Health and Human Services  
200 Independence Avenue, S.W.  
Washington, D.C. 20201

Dear Dr. Shalala:

On behalf of the nation's largest medical specialty, I am writing to express the strong objections of the American Society of Internal Medicine (ASIM) to the administration's decision to delay the interim final rule governing physician incentive arrangements. We are especially concerned if this action is a precursor to a decision to withdraw--or substantially weaken--the rule.

The regulations are not overly burdensome on the managed care industry. To the extent that they do impose additional--but in our view, reasonable-- requirements on managed care organizations (MCOs), such requirements are justified by the absolute importance of assuring beneficiaries that MCOs will not impose financial incentive arrangements that could compromise care, especially for sicker patients.

As ASIM noted in its comments on the proposed rule, the proposed regulations should actually be *strengthened* by requiring MCOs to provide more appropriate levels of stop-loss coverage, by making sure that beneficiaries are given more complete information about the potential impact of financial incentive arrangements on quality and access to care, and by requiring that MCOs take into account differences in severity of illness when they establish financial arrangements that place physicians at financial risk for providing more services to patients.

HHS has imposed countless rules to protect beneficiaries from potential *overutilization* that may exist under fee-for-service arrangements, including coding edits, postpayment utilization review, fraud and abuse investigations, prepayment screens, documentation requirements, and restrictions on physician "self-referral" to facilities in which they have a financial arrangement. We cannot understand why the administration is unwilling to require that Medicare managed care arrangements meet the very modest standards that were proposed to protect beneficiaries from potential *underprovision* of services.

We urge you not to accept the industry-espoused argument that the physician incentive regulations are anti-managed care. Medicare managed care will enjoy the support of physicians and beneficiaries only if it is held accountable to reasonable standards to protect quality and access. Failure to implement such standards will ultimately undermine public confidence in Medicare managed care and in the willingness of HHS to hold MCOs accountable for their actions. ASIM *supports* expanding the range of health insurance choices available to beneficiaries, including giving them the option of enrolling in MCOs that place physicians at financial risk, but only if such MCOs are held to reasonable standards of accountability.

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Re: Medicare Physician Incentive Regulations  
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In several weeks, ASIM will be providing you with a comprehensive set of recommendations for improving the Medicare managed care program. Our proposals will call for holding Medicare managed care organizations to a much higher degree of accountability to the public than what is now required by Medicare's certification standards. Restoring the proposed physician incentive regulations--without further delay--is a necessary first step if the administration is going to meet its obligations to the public, as Congress intended when it enacted the physician incentive legislative mandate in 1990 and again in 1993.

Sincerely,



Alan Nelson, MD  
Executive Vice President

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