RAND HEALTH

Payment Reform: The Cure for Health Spending Growth?

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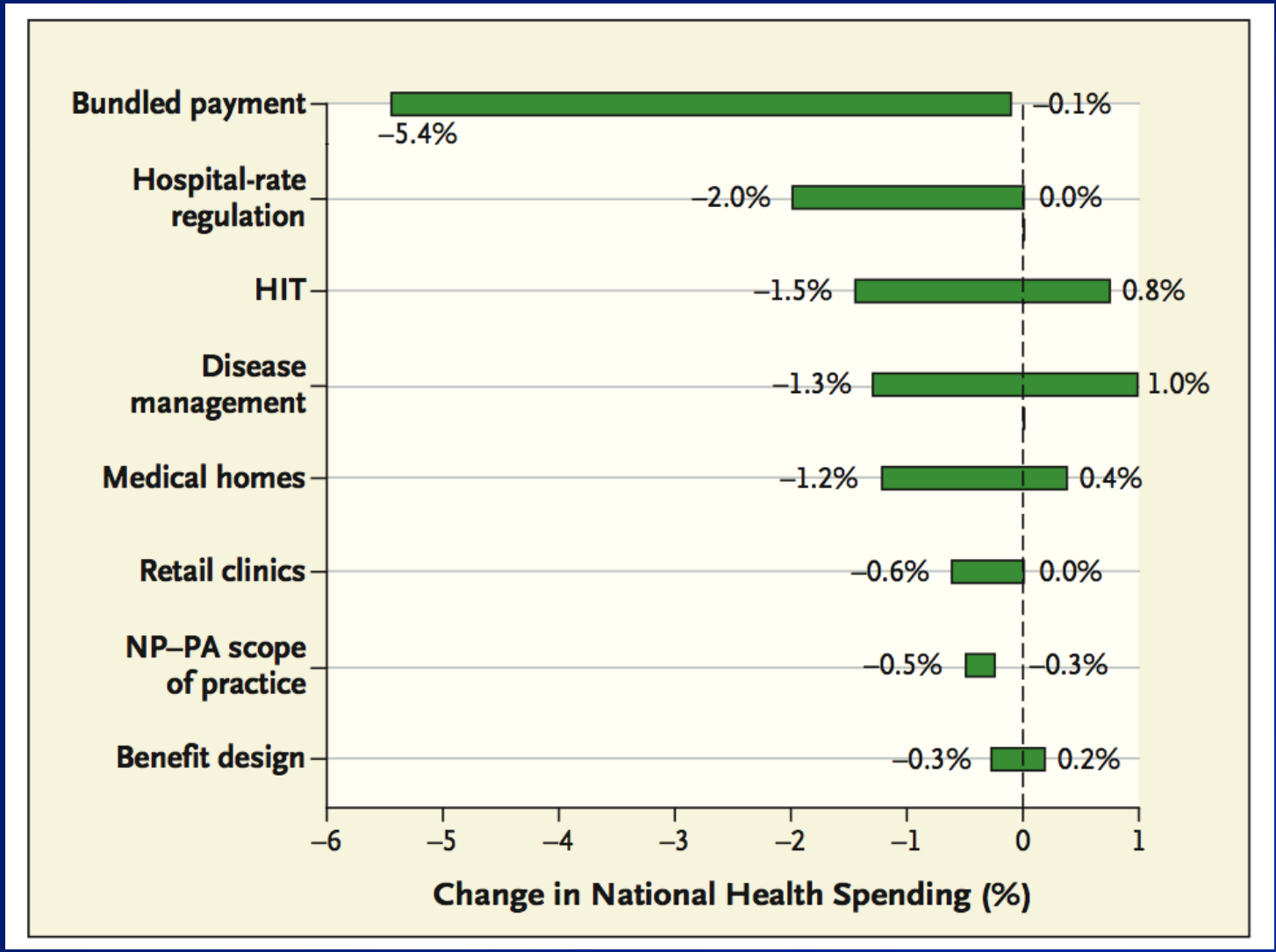
Payment Reform Logic: Very Promising

- Fee-for-service payment sends the wrong signals
- Status quo means unsustainable cost growth
- Modifying payment incentives can temper cost trends while maintaining or improving quality

Options for Controlling Spending



Hussey et al., NEJM, 2009

Payment Reform Policy: More Difficult…

- Desperation among purchasers and consumers
- Resistance from most providers
- Uncertainties about reform
  - Implementation
    - Legal, regulatory, and contractual barriers
  - Effectiveness
    - Quality, cost trends
  - Potential adverse effects
    - Access, especially for sick

Leading Payment Reform Models

- Bundled payment
- Medical home
- Global payment
- Accountable Care Organization shared savings
- Hospital pay-for-performance
- Physician pay-for-performance
- Hospital payment adjustments
  - Readmissions
  - Adverse events
- Direct payment for coordination activities

Payment Reform Models in PPACA

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Common Themes in Current Payment Reform Models

- Increasingly prospective payment
- Blends of payment approaches
- Quality – minimum standards, incentives
- Targeted risk sharing (not full delegation): implicit or explicit parsing of controllable vs. uncontrollable variation
- Structural guidelines/prerequisites

Payment Reform: Three Leaps

1. If payers change payment strategy, this will drive reorganization of care delivery

2. If providers in demonstration projects can transform care delivery, then others can too

3. The performance measures and measurement strategies needed to support payment can be developed quickly

After the New Models: Heavy Lifting

- Practice management redesign
- Staff retraining
- Clinician retraining
- Patient behavior modification program
- New communication protocols
- Health information technology projects

Encouraging Signs for Future Payment Reform

- Public and private sector initiatives beginning to align, accelerated by health reform
- Payment reform models recognize need to guide specific changes to care delivery organizations
  - Medical Home, Accountable Care Organizations
- Familiarity with performance measurement has increased markedly
- Health information technology investment can improve data


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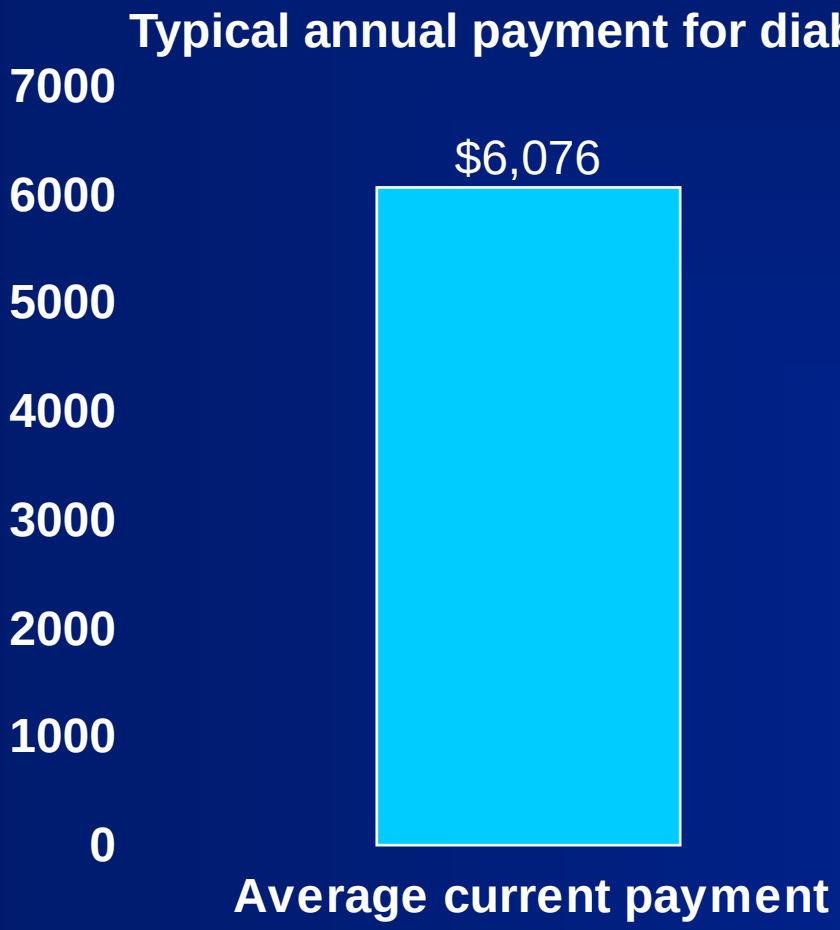
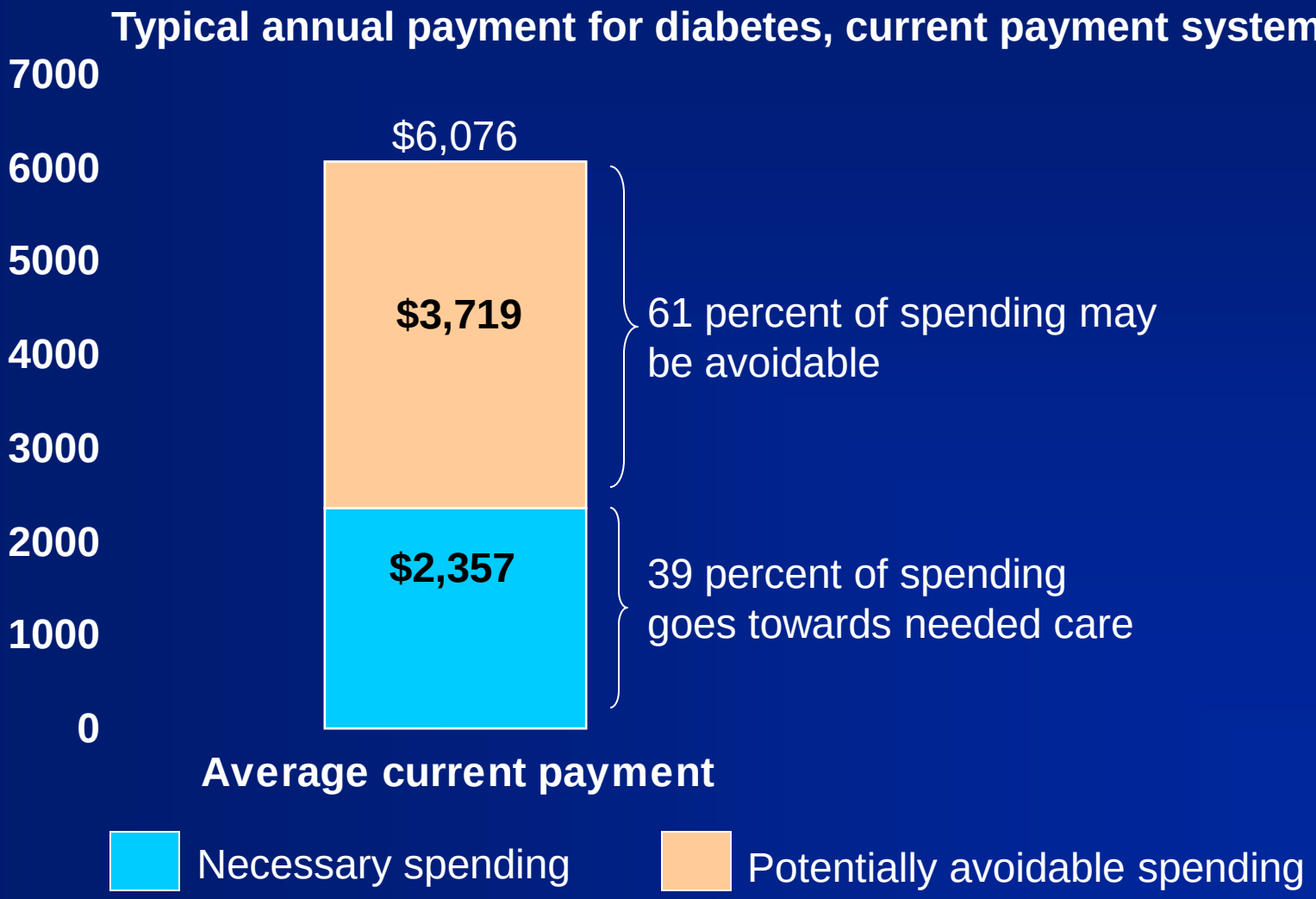
1. Bundled Payment: How it Works

- The total cost of services for a condition or episode is calculated
- Bundled payment amount is set at less than the average current payment to discourage overuse
- Bundle and payment applied across multiple providers and care settings

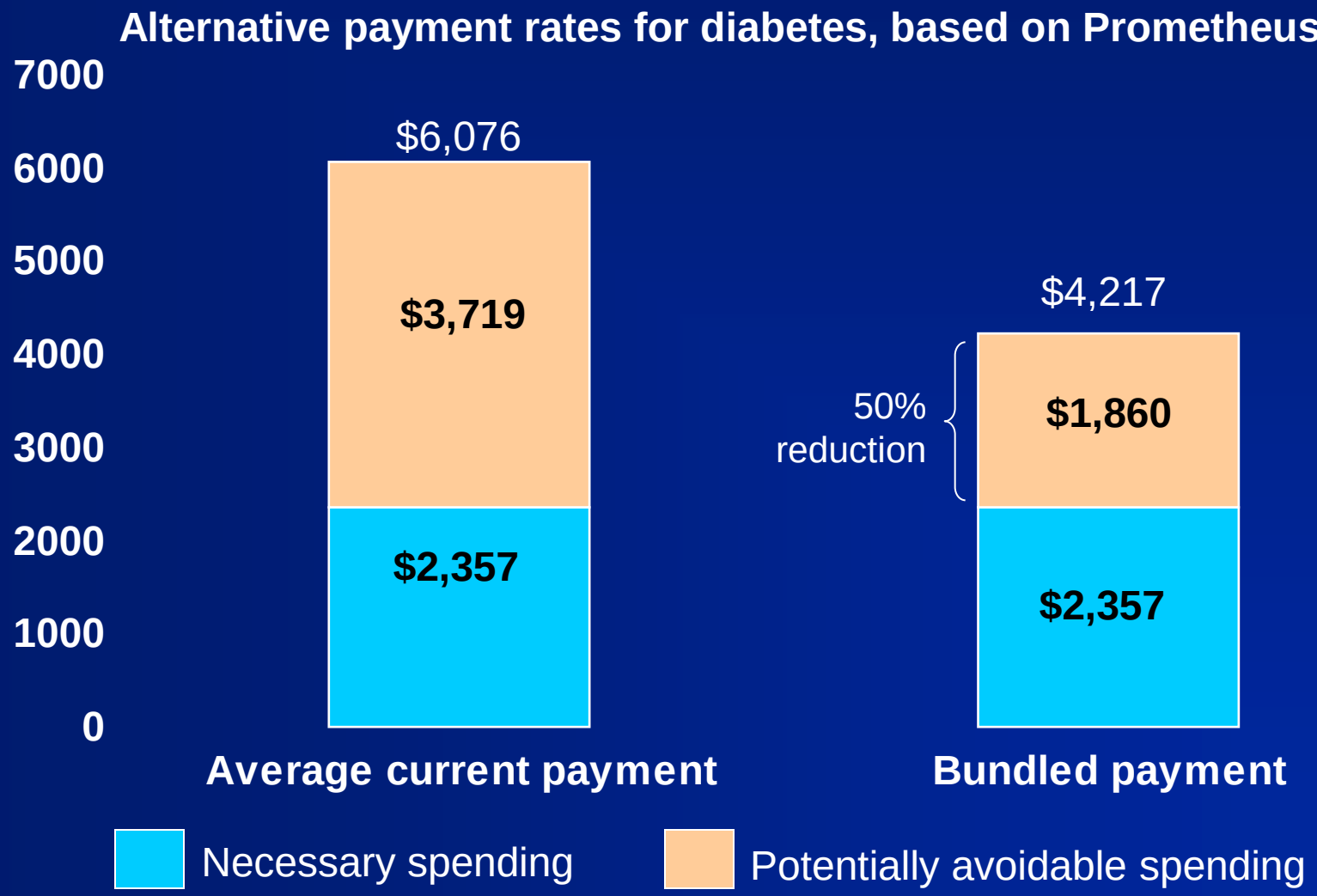
An Example of the Prometheus Bundled Payment Methodology for Diabetes Care



A Large Share of Health Spending May Be Avoidable



Caps Would Reduce Spending by Limiting Payment for Potentially Avoidable Utilization



Bundled Payment in Practice?

- Bundled payment may only work in organized delivery systems
  - Who "holds" the bundle and allocates payments?
- Bundles are difficult to develop and price
- Unknown effects on quality of care
- Evidence is from hospital-based conditions

2. Global Payment: How it Works

- Payment per member per month, with adjustment for age, sex, health status, etc.
- The payment is applied across multiple providers and care settings
- An additional monthly payment is earned based on traditional performance measures

Global Payment in Practice?

- Evidence supports cost saving
- Evidence on quality
  - Anecdotal enhancement of coordination
  - Continued worry about access to care, especially for poorer, sicker, risky patients
- Challenges
  - Global payment requires an organized delivery system
  - Need a "holder" of the global payment, who can allocate among physicians/hospitals
  - Need a convener to conduct improvement

3. Medical Home: How it Works

- Qualifying medical homes are paid additional based on achievement of medical home capabilities
- Medical home manages the care of patients efficiently reducing their demand for specialty, ED, and hospital care, avoiding medication errors, etc.

Medical Home in Practice?

- Can the medical home…
  - Change health care delivery?
    - Probably true for selected settings and populations
  - Reduce the growth of health care costs?
    - Possibly
  - Improve the health of the population?
    - Unknown
- How readily can the medical home be implemented?