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Using Medicare Payment Policy to Transform the Health System: A Framework for Improving Performance

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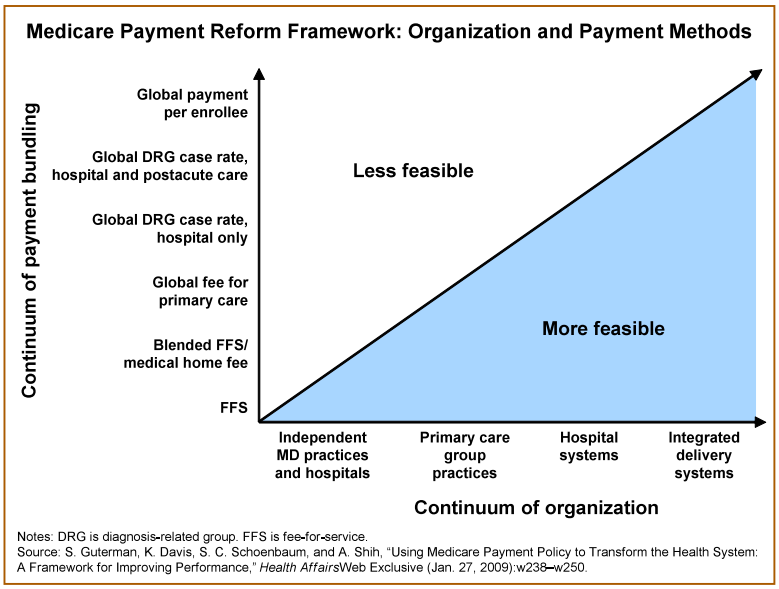
http://content.healthaffairs.org/cgi/content/abstract/hlthaff.28.2.w238?ijkey=BZ6SirL4Qsbbc&keytype=ref&siteid=healthaff

Synopsis

As the largest payer for health services in the United States, Medicare has the leverage and capacity to slow the growth of program costs, enhance the value of care it purchases, and serve as a model for broader health system change by offering an array of payment approaches to encourage more coordinated care.



Notes: DRG is diagnosis-related group. FFS is fee-for-service.
Source: S. Guterman, K. Davis, S. C. Schoenbaum, and A. Shih, "Using Medicare Payment Policy to Transform the Health System: A Framework for Improving Performance," *Health Affairs* Web Exclusive (Jan. 27, 2009):w238–w250.

The Issue

Medicare "can and must" take the lead in addressing the excess costs, inefficient and poorly coordinated care, and variable quality that beset the U.S. health care system, the authors say. Offering an array of more bundled payment approaches as an alternative to Medicare's fee-for-service system would present providers with incentives to be more broadly accountable for their patients' care and outcomes and make health care delivery less fragmented, as well as slowing Medicare spending growth and increasing its value.

Reforming Medicare Payment Policy and Care Delivery

Alternative Payment Approaches. Under these reforms, providers organized as primary group practices, hospital systems, or integrated delivery systems would be eligible for alternative Medicare payment approaches, suited to an array of organizational structures, that align financial incentives with delivery of care focused on patients' overall needs, rather than the provision of individual services. Each provider would have to meet certain requirements—accreditation, evidence-based care, electronic information

capacity, and public reporting—to be eligible for alternative payment and the corresponding financial rewards. For example, qualified physician practices could receive a monthly risk-adjusted, per-patient global fee to cover all primary care services, with part of the amount covering the services provided as a patient-centered medical home. An integrated system, meanwhile, could be paid a global payment per enrollee to cover all Medicare services, including inpatient and post-acute care, ambulatory care, and prescription drugs. Organizations could earn rewards for high performance and share savings with Medicare.

Beneficiary Rewards and Responsibilities. Medicare beneficiaries could designate a qualified physician practice to serve as their primary source of care, or they could be auto-enrolled into a practice if no choice were made. A relationship with an enduring, long-term source of care is key to avoiding fragmentation and waste. Financial incentives such as lower premiums and reduced deductibles or coinsurance would be used to encourage beneficiaries to use services or referrals within the designated practice or delivery system.

Medicare's Role. In addition to designing and implementing an array of payment methods, Medicare would provide timely reports to provider organizations on their performance relative to comparative benchmarks. Medicare would also encourage provider participation by offering enhanced payment updates and rewards for quality and prudent use of resources.

"To change the way health care is organized and delivered, we need to change the way it is paid for—to move from fee-for-service payments to bundled payments."

Addressing the Problem

The next phase of efforts to increase value in health care spending should focus on aligning the financial incentives not only at the margin, but in underlying payment structures, to encourage and reward accountability, higher performance, and more effective and coordinated care.

The Bottom Line

By using payment incentives, Medicare, the nation's largest health care payer, could lead the United States to higher health system performance and yield great benefits for individuals, providers, and society as a whole.

Citation

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