



# *In the Literature*

Highlights from Commonwealth Fund-Supported Studies in Professional Journals

---

## The “Alternative Quality Contract,” Based on a Global Budget, Lowered Medical Spending and Improved Quality

---

July 11, 2012

**Authors:** Zirui Song, Ph.D., Dana Gelb Safran, Sc.D., Bruce E. Landon, M.D., M.B.A., M.Sc., Mary Beth Landrum, Ph.D., Yulei He, Ph.D., Robert E. Mechanic, M.B.A., Matthew P. Day, F.S.A., M.A.A.A., and Michael E. Chernew, Ph.D.

**Journal:** *Health Affairs* Web First, published online July 11, 2012

**Contact:** Zirui Song, Ph.D., Harvard Medical School, [zirui\\_song@hms.harvard.edu](mailto:zirui_song@hms.harvard.edu), or Mary Mahon, Assistant Vice President, Public Information, The Commonwealth Fund, [mm@cmwf.org](mailto:mm@cmwf.org)

**Access to full article:**

<http://content.healthaffairs.org/cgi/content/full/hlthaff.2012.0327?ijkey=jmrh6NDSKOQw2&keytype=ref&siteid=healthaff>

---

### Synopsis

Massachusetts physician groups participating in a global budget reimbursement model were able to reduce the rate of increase in health care spending in year 2 by 3.3 percent, up from 1.9 percent in year 1. The Alternative Quality Contract, launched by Blue Cross Blue Shield of Massachusetts in 2009, has achieved average two-year savings of 2.8 percent.

---

### Background

The five-year Alternative Quality Contract (AQC) provides rewards to 11 participating physician groups for controlling spending and improving the quality of care delivered to a designated panel of patients. A total of 1,600 primary care physicians and 3,200 specialists have signed the contract, which pays providers a global budget that covers the entire continuum of patient care. The contract also includes bonuses for meeting benchmarks for cancer screenings, well-child care, blood sugar control for diabetics, and other quality measures. In this Commonwealth Fund-supported study, researchers compared changes in spending and quality for AQC providers and for medical practices not participating in the contract.

**“Global budgets and pay-for-performance may provide a palatable set of incentives for provider groups to participate in delivery system reforms that encourage accountability and reduce waste.”**

---

### Key Findings

- After the AQC was launched, average health care spending increased for both the intervention and control groups, but the increase was smaller for the AQC group. Savings in the second year of the contract were 3.3 percent, or \$26.72 per member per quarter. Savings over the two-year period came to 2.8 percent, or \$22.58 per member per quarter.

- Some of the groups that participated in the AQC had prior experience with risk-based contracts, while others had previously been paid on a fee-for-service basis. Savings were substantially larger among groups that had no prior experience with risk-sharing: over the first two years of the contract, those with no risk-sharing experience lowered the rate of increase in spending by 8.2 percent, or \$60.75 per enrollee per quarter. In contrast, those with prior risk-sharing experience had a 1.1 percent reduction in year 1 and a 1.8 percent reduction in year 2.
- Savings accrued largely from reduced spending for procedures, imaging, and lab tests. The greatest savings were from reduced costs for enrolled patients with the highest health risks.
- Ambulatory care quality measures, including those assessing chronic care management, adult preventive care, and pediatric care, improved more in year 2 than in year 1.
- Ten of the 11 participating physician groups spent below their 2010 targets, earning a budget surplus payment. All groups earned a 2010 quality bonus.

---

### **Addressing the Problem**

Global payment programs that combine risk-sharing with pay-for-performance bonuses may be effective at controlling health care spending and improving quality in the initial years—particularly in physician groups with no prior risk-sharing experience. The implementation of such programs, however, requires significant financial investment and technical assistance to help practices become more sophisticated at managing population health. Long-term success will depend on how well budgets and bonuses are set and how well groups are able to allocate resources and improve quality within budgets that grow more slowly each year.

---

### **About the Study**

The authors compared spending patterns and performance on quality measures of physician groups that participated in Blue Cross Blue Shield of Massachusetts' Alternative Quality Contract with groups not participating. The authors also examined changes in spending and quality associated with the contract in groups with risk-sharing experience and in those with no prior risk-sharing experience.

---

### **The Bottom Line**

A global reimbursement pilot project in Massachusetts achieved average two-year savings of 2.8 percent. Results indicate such programs may be effective at controlling health care spending and improving quality.

---

### **Citation**

Z. Song, D. G. Safran, B. E. Landon et al., "The 'Alternative Quality Contract,' Based on a Global Budget, Lowered Medical Spending and Improved Quality," *Health Affairs* Web First, published online July 11, 2012.