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In The Literature

Highlights from Commonwealth Fund-Supported Studies in Professional Journals

Using Behavioral Economics to Design Physician Incentives That Deliver High-Value Care

Synopsis

A number of health systems and provider organizations are turning to behavioral economics to encourage doctors to follow evidence-based guidelines and deliver better-coordinated care to their patients. Many are seeing promising results, although more evaluation is needed to identify the most effective physician incentive designs.

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Authors Ezekiel J. Emanuel, Peter A. Ubel, Judd B. Kessler, Gregg Meyer, Ralph W. Muller, Amol S. Navathe, Pankaj Patel, Robert Pearl, Meredith B. Rosenthal, Lee Sacks, Aditi P. Sen, Paul Sherman, and Kevin G. Volpp
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Contact Ezekiel J. Emanuel, M.D., Department of Medical Ethics and Health Policy, Perelman School of Medicine, University of Pennsylvania, vp-global@upenn.edu
Access to full article.

The Issue

The field of behavioral economics is built on the premise that human behavior is not always rational. Our decisions are often shaped by recognizable foibles, including a tendency to give greater weight to potential losses than to gains, and a desire to maintain the status quo even when it does not serve our interests. Such principles have been harnessed to alter retirement planning and savings decisions but are infrequently applied to health care, despite their potential to redirect physicians' and patients' behavior.

Applying Behavioral Economics to Health Care

The authors of this Commonwealth Fund–supported study focus on nine behavioral economics principles that are most relevant to influencing physicians' practice patterns and performance—among them, loss aversion, choice overload, and relative social ranking.

- Loss aversion describes the tendency of human beings to be more sensitive to the prospect of loss than to the possibility of gain. Health systems and provider organizations can take advantage of this by making the threat of losses more salient, for example, by providing incentive payments upfront and requiring physicians to return the money if they do not meet performance targets.
- Choice overload occurs when people are presented with too many choices or options that are too complex. In health care, overly complicated incentive programs can overwhelm providers, causing inertia to set in. Fewer, simpler choices are more likely to induce behavior changes.
- People tend to overestimate the immediate costs and benefits of their actions while discounting delayed benefits. Frequent interim feedback on performance therefore may be more effective in changing physicians' behavior than annual reviews.
- Providing information—such as calorie counts on menus—is necessary but rarely sufficient to induce behavior change. Similarly, information about clinical options may need to be reinforced with more specific guidance.
- According to the principle of relative social ranking, people care a great deal about how they compare with others, especially when their peers are known and in close proximity. Ranking providers' performance within an organization may thus encourage outliers to adjust their practice patterns.

- Individuals tend to favor current practices rather than initiating change. Overcoming such inertia by changing habits and settled practices may require explicit efforts and policies. For instance, a physician order entry system can be programmed to default to generic medications rather than brand-name ones.
- Behavioral economists have found that people try harder when they are close to achieving a goal and less so when it is distant. This suggests a need to provide greater encouragement to physicians who are farther away from reaching desired targets.

The Big Picture

Health care organizations are increasingly entering into contracts that reward them for improving outcomes and reducing spending. But they often struggle to translate these goals into effective incentive programs for physicians making the decisions that are key to achieving cost savings and quality improvements. Monetary incentive programs fail to account for the way emotions and social status, among other variables, factor into providers' decisions.

The Bottom Line

Insights from behavioral economics can help health care organizations engage providers by working with human limitations rather than fighting against them.

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This summary was prepared by Sarah Klein.