Overview of Payment Models

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Introduction

- Basic payment models
  - Fee for service
  - Episode based payment
  - Global payment

- Asking more of basic payment models
  - Pay for performance
  - Medical homes
Thinking About Provider Payments

Service-level: Fee for service

Episode-level: Episode-based payment (bundled payments or case rates)

Patient-level: Global payment (condition-specific or full)

Pay for performance:
- Evidence-based care
- Efficiency or cost
- Patient satisfaction

Medical homes
Provider Incentives

- **Constrain cost**
  - Risk of financial loss
  - Providers assume greater risk as payment is bundled to the episode- or patient-level

- **Improve quality and value**
  - Potential for financial gain
  - Feasible capital and operating cost
Fee for Service

- Pays providers for individual services performed
- Charge based, cost based, or prospective
- Provider incentives
  - If prospective, no incentive to increase unit cost
  But, incentives to:
  - Increase volume of services
  - Provide more costly mix of services
Pay for Performance

- Usually built on fee for service or partial capitation

- Increases payment for, variously:
  - Delivering recommended processes of care
  - Improvement in health outcomes

- Intended to improve quality/effectiveness and therefore value, but incentives are limited
  - Payments are typically low
  - Different payers use different measures and benchmarks

- Unit cost, volume, and service mix incentives are built into the underlying payment system
Episode-Based Payment

- Prospective payment for a clinical episode of care
- Payment may be adjusted for severity or performance
- Early stages of development
  - Geisinger’s ProvenCare system: CABG surgery
  - Medicare demonstrations: cardiac and orthopedic
  - PROMETHEUS planned pilot tests: diabetes, heart attack, orthopedic, other
- Limited provider risk: cost of care, not occurrence
- Incentive to constrain unit costs, volume, and service mix
Global Payments

- Fixed payment per patient per month, for some or all services
  - Partial: Primary care and/or specialty services
  - Full: Primary, specialty, hospital, and other covered services

- High provider risk, for cost and occurrence

- Strong incentives to constrain unit cost, volume, and service mix

- May be adjusted for severity or performance
  - BCBS of MA: Alternative Quality Contract
Medical Homes

- Focus on primary care, disease management, and care coordination

- Basic and advanced medical home models
  - Care coordination plan developed with patient
  - EMRs, E-Rx, performance reporting, care coordination system

- Can be built on fee for service, episode, or global payment

- Intended to improve value, not necessarily reduce cost

- Unit cost, volume, and service mix incentives are built into the underlying payment system
Check List: Major Payment System Issues

- Access to care and patient selection
- Improvement in quality and effectiveness of care
- Cost and cost trends: unit cost, volume, service mix
- Providers as risk-bearing entities: insurance regulation of downstream risk