



# Health Policy Snapshot

Health Care Costs

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## ISSUE BRIEF

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# What models of payment reform hold the most promise?

## Takeaways:

- For the most part, the U.S. health care system rewards providers for quantity of procedures rather than value of care.
- Policy-makers are considering a number of models to reform the payment system, including accountable care organizations, patient-centered medical homes, comprehensive care payment and episode-based payment.

## Overview

Most public and private insurance plans pay for health care on a fee-for-service basis—individual doctors, hospitals and other providers are paid for each service they provide. Many policy experts believe this approach is flawed and increasingly unaffordable, because it incentivizes providers to deliver more care—more procedures, more diagnostic tests—and more expensive care rather than better care.

But what form should a new payment system take? This brief provides an overview of four prominent models under discussion.

## ACCOUNTABLE CARE ORGANIZATIONS

Accountable care organizations (ACOs) are networks of physicians, hospitals and other providers who work collaboratively to improve the quality of health

care services and reduce costs for a defined patient population.<sup>1</sup> ACOs provide financial incentives for coordinating care, containing costs and improving quality across multiple sites of patient care.

The Medicare Physician Group Practice demonstration that began in 2005 tested some elements of ACOs. Over the five-year project, Medicare paid \$110 million in incentives to seven of the 10 participants. These incentive payments rewarded physician groups for both the savings they achieved for the Medicare program and quality improvements that resulted in better care for patients.<sup>2</sup>

The 2010 Affordable Care Act establishes the Medicare shared savings program to advance development of ACOs. The law introduces ACOs on a voluntary basis with the purpose of encouraging investment in infrastructure and redesigned processes to promote efficient, high-quality care. The Centers for Medicare and Medicaid Services (CMS) estimates that ACOs will achieve savings of \$470 million between 2012 and 2015.

## PATIENT-CENTERED MEDICAL HOMES

Patient-centered medical homes (PCMHs) emphasize close contact with a primary care physician, the active involvement of the patient and his or her family in the care plan, adoption of health information technology and better care coordination. The issue of hospital readmissions shows how this model might improve coordination of care. Under current payment systems, Medicare and private

insurers don't pay primary care physicians for many of the services that help keep patients out of the hospital. But PCMHs can combine the primary care component (the medical home) with an outcome goal (reducing readmissions) by allowing primary care practices to receive bonus payments to reward them for providing enhanced planning for care transitions, which has been shown to reduce hospital readmissions. One PCMH demonstration, conducted by the Group Health Cooperative, saw an 11 percent reduction in hospitalization and 29 percent reduction in emergency department visits over two years.<sup>3</sup>

Several ACA provisions emphasize the medical home model. The law gives the Department of Health and Human Services (HHS) authority to test medical homes with a goal of transitioning primary care practices away from fee-for-service reimbursement and toward comprehensive care payment or salary-based payment. CMS will test the model in the Comprehensive Primary Care Initiative and Federally Qualified Health Center Advanced Primary Care Practice demonstration.<sup>4</sup>

### COMPREHENSIVE CARE PAYMENT

Comprehensive care payment, also known as condition-adjusted capitation or risk-adjusted global fee, is based on paying a single price for all health care services needed by a specific group of people for a fixed period of time. The goal of comprehensive care payment is to encourage health care providers to reduce the number of episodes of care their patients need and avoid providing unnecessary services within any particular episode. Comprehensive care payment represents a dramatic change from the traditional fee-for-service payments that most health care providers receive, and although it is unclear how many providers could adapt to such a system, there have been successes. In a five-year demonstration started in 1991, Medicare paid global inpatient rates for coronary artery bypass graft surgery and related hospital readmissions. The

change in reimbursement methodology led to savings of \$17.2 million.<sup>5</sup>

### EPISODE-BASED PAYMENT

Episode-based payment involves a single price for all health care services needed by a patient for an entire episode of care, such as a surgery and related follow-up care. The value of this model comes in reducing cost and variation *within* episodes. In the 1990s, four hospitals in Michigan were selected to receive a single payment covering services for coronary artery bypass graft surgery. Costs decreased by 2 percent to 23 percent in three of the four hospitals, post-discharge outpatient expenses decreased and patients preferred the single co-pay.<sup>6</sup>

The challenge is bundling different providers into a single episode payment. A provider usually has no financial incentive to coordinate his or her activities with other providers. Transitional steps to address this issue include paying each provider a single amount for each phase of care, bundling payments for all providers in each phase and combining payments for different providers in different phases. CMS' Bundled Payments Care Improvement initiative will test four different models of bundling payments.

#### WANT TO KNOW MORE?

- [ACOs \(Health Affairs/RWJF\)](#)
- [Patient-Centered Medical Homes \(Health Affairs/RWJF\)](#)
- [Transitioning to Comprehensive Care Payment \(CHQPR\)](#)
- [Transitioning to Episode-Based Payment \(CHQPR\)](#)

<sup>1</sup> <http://www.rwjf.org/files/research/66449.pdf>

<sup>2</sup> <http://www.cms.gov/apps/media/press/release.asp?Counter=4047>

<sup>3</sup> <http://www.rwjf.org/files/research/68929.pdf>

<sup>4</sup> [http://innovations.cms.gov/documents/pdf/FQHC\\_Demo\\_Fact\\_Sheet\\_Oct\\_24\\_2011.pdf](http://innovations.cms.gov/documents/pdf/FQHC_Demo_Fact_Sheet_Oct_24_2011.pdf)

<sup>5</sup> [http://findarticles.com/p/articles/mi\\_m0795/is\\_n1\\_v19/ai\\_20750869/?tag=mantle\\_skin;content](http://findarticles.com/p/articles/mi_m0795/is_n1_v19/ai_20750869/?tag=mantle_skin;content)

<sup>6</sup> <http://www.rwjf.org/files/research/nrhiseriestettewaystopay.pdf>