

FACT SHEET • SEPTEMBER 2006

## REWARDING PROVIDER PERFORMANCE: ALIGNING INCENTIVES IN MEDICARE

### WHAT IS "PAY FOR PERFORMANCE"?

Pay for performance is a strategy to offer incentives to providers for delivering higher quality care as measured by selected evidence-based standards and procedures. Its goal is not simply to reward those who perform well or to reduce costs. Rather, it is a mechanism to align incentives to encourage ongoing improvement in a way that will ensure high-quality care for all.

### KEY FINDINGS:

1. The current Medicare payment system is broken. It provides few disincentives for overuse, under use or misuse of care, and does not reward efficiency. Fundamental change requires a commitment by all Medicare providers to deliver high quality care efficiently.
2. Pay for performance constitutes *one* key component needed for the transformation of the health care payment system, but cannot achieve this transformation alone.
3. While over 100 performance incentive and physician reward programs have been introduced over the past decade, a robust evidence-base on the effectiveness of these programs is not yet available. Pay for performance does, however, offer significant promise and can begin now by building off other strategies for improvement.
4. Payment incentives should be structured to encourage all providers to deliver high-quality care efficiently. In particular, providers should assume shared accountability for transitions between settings of care and coordinate care in treating patients with chronic diseases.
5. Pay for performance in Medicare should be introduced within a learning system that has the capacity to assess early experiences, adjust for unintended consequences, and evaluate impact.



INSTITUTE OF MEDICINE  
OF THE NATIONAL ACADEMIES

*Advising the Nation. Improving Health.*