

Rewarding Provider Performance: Aligning Incentives in Medicare

September 2006



Key Messages: 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.



Key Messages: 2

Pay for performance constitutes *one* key component needed for the transformation of the health care payment system, but cannot achieve this transformation alone.



Key Messages: 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.



Key Messages: 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.



Key Messages: 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.



Redesigning Health Insurance Project

MMA (PL 108-173) mandated *two* studies

- Section 238 – study on performance measures and their use to align payment with performance
- Section 109 – study of Medicare’s Quality Improvement Organization program



Redesigning Health Insurance Project

The committee produced *three* reports:

- *Performance Measurement: Accelerating Improvement*
- *Medicare's Quality Improvement Organization Program: Maximizing Potential*
- *Rewarding Provider Performance: Aligning Incentives in Medicare*



MMA (PL 108-173) -section 238

IOM study on the use of performance measures to align payment with performance for all Medicare providers:

- Select and weight performance measures
- Catalogue and evaluate alternative programs in public and private sector settings
- Identify and prioritize options for implementing pay for performance, including data and information technology requirements



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Report Overview

- Builds on previous two reports
- Focuses on implementation of pay for performance in Medicare and incentives for providers
- Data sources



Initial Implementation: A Phased Approach Recommendation 1

The Secretary of the Department of Health and Human Services (DHHS) should implement pay for performance in Medicare using a phased approach as a stimulus to foster comprehensive and systemwide improvements in the quality of health care.



Funding of Pay for Performance: Recommendation 2

Congress should derive initial funding (over the next 3–5 years) for a pay-for-performance program in Medicare largely from existing funds.

continued



Recommendation 2, continued

- Congress should create provider-specific pools from a reduction in the base Medicare payments for each class of providers (hospitals, skilled nursing facilities, Medicare Advantage plans, dialysis facilities, home health agencies, and physicians).

continued



Recommendation 2, continued

- Congress should ensure that these pools are large enough to create adequate motivation for improved performance on selected measures. Because of unique challenges of physician payment relating to the SGR, investment dollars may be necessary to create adequate resources to effect change.

continued



Recommendation 2, continued

- Initial funding should be budget conscious in taking into account the resources needed for both funding the pools and implementing of the program.



Recommendation 3

Congress should give the Secretary of DHHS the authority to aggregate the pools for different care settings into one consolidated pool from which all providers would be rewarded when the development of new performance measures allows for shared accountability and more coordinated care across provider settings.



Structure of Rewards: Recommendation 4

In designing a pay-for-performance program, the Secretary of DHHS should initially reward health care that is of high clinical quality, patient-centered, and efficient.



Recommendation 5

The Secretary of DHHS should design a pay-for-performance program that initially rewards both providers who improve performance significantly and those who achieve high performance.



Implementation: Recommendation 6

Because public reporting of performance measures should be an integral component of a pay-for-performance program for Medicare, the Secretary of DHHS should offer incentives to providers for the submission of performance data, and ensure that information pertaining to provider performance is transparent and made public in ways that are both meaningful and understandable to consumers.



Recommendation 7

The Secretary of DHHS should develop and implement a strategy for ensuring that virtually all Medicare providers submit performance measures for public reporting and participate in pay for performance as soon as possible.

continued



Recommendation 7, continued

Initially, measure sets may need to be narrow, but they should evolve over time to provide more comprehensive and longitudinal assessments of provider and system performance.

continued



Recommendation 7, continued

For many institutional providers, participation in public reporting and pay for performance can and should begin immediately.

continued



Recommendation 7, continued

For physicians, a voluntary approach should be pursued initially, relying on financial incentives sufficient to ensure broad participation and recognizing that the initial set of measures and the pace of expansion of measure sets will need to be sensitive to the operational challenges faced by providers in small practice settings.



Recommendation 7, continued

Three years after the release of this report, the Secretary of DHHS should determine whether progress toward universal participation is sufficient and whether stronger actions—such as mandating provider participation—are required.



Recommendation 8

CMS should design the Medicare pay-for-performance program to include components that promote, recognize, and reward improved coordination of care across providers and through entire episodes of illness.

continued



Recommendation 8, continued

Thus, CMS should (1) encourage beneficiaries and providers to identify providers who would be considered their principal responsible source of care, and (2) pay for and reward successful care coordination that meets specified standards for providers who take on that role.



Recommendation 9

Because electronic health information technology will increase the probability of a successful pay-for-performance program, the Secretary of DHHS should explore a variety of approaches for assisting providers in the implementation of electronic data collection and reporting systems to strengthen the use of consistent performance measures.



Monitoring, Evaluation, and Research: Recommendation 10

The Secretary of DHHS should implement a monitoring and evaluation system for the Medicare pay-for-performance program in order to:

continued



Recommendation 10, continued

- Assess early experiences with implementation so timely corrective action can be taken.
- Evaluate the overall impact of pay for performance on clinical quality, patient-centeredness and efficiency.
- Identify the best practices of high-performing delivery settings that should be shared with others to improve care throughout the nation.



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Will be available at the
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