THE BUILDING BLOCKS OF SUCCESSFUL PAYMENT REFORM
Designing Payment Systems That Support Higher-Value Health Care

Harold D. Miller
President and CEO
Center for Healthcare Quality and Payment Reform

www.CHQPR.org
How Do You Control Growing Healthcare Spending?

$ \uparrow$

TOTAL HEALTH CARE SPENDING

TOTAL HEALTH CARE SPENDING

TOTAL HEALTH CARE SPENDING

TOTAL HEALTH CARE SPENDING

TIME
The Opportunity: Spending That is Unnecessary or Avoidable

- Necessary Spending
- Avoidable Spending

$TIME$
Avoidable Spending Occurs In All Aspects of Healthcare

**NECESSARY SPENDING**

- Unnecessary surgery
- Use of unnecessarily-expensive implants
- Infections and complications of surgery
- Overuse of inpatient rehabilitation

**CANCER TREATMENT**

- Use of unnecessarily-expensive drugs
- ER visits/hospital stays for dehydration and avoidable complications
- Fruitless treatment at end of life
- Late-stage cancers due to poor screening

**CHEST PAIN DIAGNOSIS/TREATMENT**

- Overuse of high-tech stress tests/imaging
- Overuse of cardiac catheterization
- Overuse of PCIs, high-priced stents

**CHRONIC DISEASE**

- ER visits for exacerbations
- Hospital admissions and readmissions
- Amputations, blindness

**AVOIDABLE SPENDING**

- Use of unnecessarily-expensive drugs
- ER visits/hospital stays for dehydration and avoidable complications
- Fruitless treatment at end of life
- Late-stage cancers due to poor screening

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
The Goal: Less Avoidable $, More Necessary $, Less Total $
Payment Reform Needed When Payment System Creates Barriers

$\begin{align*}
\text{NECESSARY SPENDING} & & \text{AVOIDABLE SPENDING} \\
\text{NECESSARY SPENDING} & & \text{BARRIERS IN THE CURRENT PAYMENT SYSTEM} \\
\text{NECESSARY SPENDING} & & \text{AVOIDABLE SPENDING} \\
\text{SAVINGS} & & \text{NECESSARY SPENDING}
\end{align*}$
Barrier #1: No $ or Inadequate $ for High-Value Services

No Payment or Inadequate Payment for:

- Services delivered outside of face-to-face visits with clinicians, e.g., phone calls, e-mails, etc.
- Services delivered by non-clinicians, e.g., nurses, community health workers, etc.
- Non-medical services, e.g., transportation
- Additional time or cost for patients with higher intensity needs
- Services not covered by benefit restrictions
Barrier #2: Avoidable Spending May Be Revenue for Providers…
…And When Avoidable Services Aren’t Delivered…

[Diagram showing the relationship between NECESSARY SPENDING, AVOIDABLE SPENDING, PROVIDER REVENUE, COST OF SERVICE DELIVERY, and PROFIT.]
…Providers’ Revenue May Decrease…

Diagram showing the relationship between necessary and avoidable spending, provider revenue, cost of service delivery, and profit.
…But Providers’ Fixed Costs Don’t Disappear…

Many Fixed Costs of Services Remain When Volume Decreases
…Leaving Providers With Losses (or Bigger Losses Than Today)

Many Fixed Costs of Services Remain When Volume Decreases Potentially Causing Financial Losses
A Payment Change isn’t Reform Unless It Removes the Barriers

**BARRIER #1**

- **AVOIDABLE SPENDING**
- **NECESSARY SPENDING**

No Payment or Inadequate Payment for:
- Services delivered outside of face-to-face visits with clinicians, e.g., phone calls, e-mails, etc.
- Services delivered by non-clinicians, e.g., nurses, community health workers, etc.
- Non-medical services, e.g., transportation
- Services “covered” by a bundled or global payment for patients with higher intensity needs

**BARRIER #2**

Many Fixed Costs of Services Remain When Volume Decreases Potentially Causing Financial Losses
MEN Are From MARS, WOMEN Are From VENUS

The Classic Guide to Understanding the Opposite Sex
Payers Are From Mars, Providers Are From Venus
Provider Approach: Pay Us More…

PROVIDER SOLUTION:

- NECESSARY SPENDING
- AVOIDABLE SPENDING
- NECESSARY SPENDING
- NEWLY PAID SERVICES

$
Provider Approach: Pay Us More…
…and “Trust Us” on Savings
No matter how many studies have been done saying that a service saved money in demonstration projects, that’s no guarantee that savings will be achieved when the service is implemented by all providers for all patients.
Payer Concern: No Accountability to Reduce Avoidable Spending

- **NECESSARY SPENDING**
- **AVOIDABLE SPENDING**
- **NEWLY PAID SERVICES**
- **SAVINGS**

**PROVIDER SOLUTION:**

**PAYER FEAR:**

- **AVOIDABLE SPENDING**
- **NEWLY PAID SERVICES**

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Payer Concern #2: New Services Will Be Used More Than Necessary

- Provider Solution:
  - Avoidable Spending
  - NECESSARY SPENDING
  - NEWLY PAID SERVICES
  - SAVINGS

- Payer Fear:
  - Avoidable Spending
  - NEWLY PAID SERVICES
  - NECESSARY SPENDING

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Payers Are From Mars, Providers Are From Venus
Payer Response: Pay for Less Than What’s Needed

PAYER RESPONSE:

- Home Visits
- Office Visits
- Phone Calls

NEW SVCS

PROVIDER SOLUTION:

- Home Visits
- Office Visits
- Phone Calls

NECESSARY SPENDING

- Newly Paid Services
- SAVINGS

AVOIDABLE SPENDING

- Avoidable Spending
- Unpaid Services

NECESSARY SPENDING

- Necessary Spending

$
Result: Inadequate Services = Little or No Impact on Spending

PROVIDER SOLUTION:

NECESSARY SPENDING

AVOIDABLE SPENDING

NEWLY PAID SERVICES

SAVINGS

PAYER RESPONSE:

NECESSARY SPENDING

AVOIDABLE SPENDING

NEW SVCS

NECESSARY SPENDING

UNPAID SERVICES
Payer Approach: Save Us Money and…

PAYER SOLUTION:

YEAR 1

$ AVOIDABLE SPENDING NECESSARY SPENDING SAVINGS AVOIDABLE SPENDING NECESSARY SPENDING UNPAID SERVICES UNPAID SERVICES
Payer Approach: Save Us Money and We’ll You Pay More Next Year

PAYER SOLUTION:

YEAR 1

YEAR 2

AVOIDABLE SPENDING

NECESSARY SPENDING

NECESSARY SPENDING

NECESSARY SPENDING

SAVINGS

SAVINGS

P4P/ShrdSvgs

UNPAID SERVICES

UNPAID SERVICES

UNPAID SERVICES

$
Provider Concern: Shared Savings is Too Little, Too Late

PAYER SOLUTION:

YEAR 1

YEAR 2

AVOIDABLE SPENDING

NECESSARY SPENDING

UNPAID SERVICES

SAVINGS

How does provider cover upfront costs of additional services?

P4P or shared savings may be too little too late to cover costs

$
Payer Approach #2: Global Budget for Services

PAYER SOLUTION #2:

AVOIDABLE SPENDING

NECESSARY SPENDING

GLOBAL BUDGET FOR SERVICES
Provider Has Flexibility to Provide Different Services Within Budget

PAYER SOLUTION #2:
Payers Cut Global Payments to Achieve More Savings...

PAYER SOLUTION #2:

Adequate $

NECESSARY SPENDING

AVOIDABLE SPENDING

GLOBAL BUDGET FOR SERVICES

SAVINGS

NEWLY PAID SERVICES

UNPAID SERVICES

SAVINGS

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
…But Lower Payments May Be Inadequate for Necessary Services

PAYER SOLUTION #2:

Adequate $
Or Costs Increase for Services Provider Can’t Control

PAYER SOLUTION #2:

Adequate $

UNRELATED SPENDING
AVOIDABLE SPENDING
NECESSARY SPENDING
UNPAID SERVICES

Savings

UNRELATED SPENDING
AVOIDABLE SPENDING
NECESSARY SPENDING
NEWLY PAID SERVICES

Inadequate $

UNRELATED SPENDING
AVOIDABLE SPENDING
NECESSARY SPENDING
NEWLY PAID SERVICES
It is unrealistic to expect providers to improve quality or reduce spending if the payment system does not provide adequate financial support for their efforts.
It is unrealistic to expect providers to improve quality or reduce spending if the payment system does not provide adequate financial support for their efforts.

It’s unrealistic to expect patients & purchasers to pay more or differently without assurances that quality will be improved, spending will be lower, or both.
It is unrealistic to expect providers to improve quality or reduce spending if the payment system does not provide adequate financial support for their efforts.

It’s unrealistic to expect patients & purchasers to pay more or differently without assurances that quality will be improved, spending will be lower, or both.

Payment reforms must be designed to support delivery of higher-quality care for patients at lower costs for purchasers in ways that are financially feasible for providers.
A Successful Compromise: Spending Provider Can Control…
A Successful Compromise: ...Provide Flexibility...

- NECESSARY SPENDING PROVIDER CAN CONTROL
- AVOIDABLE SPENDING PROVIDER CAN CONTROL
- UNPAID SERVICES
- NECESSARY SPENDING
- NEWLY PAID SERVICES

Upfront payment to support improved delivery of care
A Successful Compromise: Provide Flexibility + Accountability

- **NECESSARY SPENDING PROVIDER CAN CONTROL**
- **AVOIDABLE SPENDING PROVIDER CAN CONTROL**
- **UNPAID SERVICES**
- **NEWLY PAID SERVICES**
- **AVOIDABLE SPENDING**
- **SAVINGS**

- Commitment to reduce avoidable spending sufficiently to achieve savings
- Upfront payment to support improved delivery of care
Accountability is Assured
As Part of the Payment Contract

NECESSARY SPENDING

PROVIDER CAN CONTROL

AVOIDABLE SPENDING

NEWLY PAID SERVICES

SAVINGS

IF SAVINGS IS NOT ACHIEVED...

AVOIDABLE SPENDING

UNEPAID SERVICES

PROVIDER-PAYER AGREEMENT
Accountability is Assured
As Part of the Payment Contract

$\text{NECESSARY SPENDING PROVIDER CAN CONTROL}$

$\text{AVOIDABLE SPENDING PROVIDER CAN CONTROL}$

$\text{AVOIDABLE SPENDING}$

$\text{NECESSARY SPENDING}$

$\text{NEWLY PAID SERVICES}$

$\text{SAVEINGS}$

$\text{PROVIDER-PAINTER AGREEMENT}$

$\text{IF SAVINGS IS NOT ACHIEVED...}$

$\text{...PROVIDER PAYMENT REDUCED}$

$\text{PROVIDER - PAYER AGREEMENT}$

$\text{AVOIDABLE SPENDING}$

$\text{NECESSARY SPENDING}$

$\text{NEWLY PAID SERVICES}$

$\text{SAVEINGS}$

$\text{PROVIDER PAYMENT REDUCED}$

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Flexibility/Adequacy/Accountability via Bundles & Warranties

Bundled payment provides flexibility to support improved delivery of care.
Bundled payment is adequate to cover costs of necessary services.

Provider warrants that avoidable spending will be lower.
Bundled payment is lower than current spending.

Provider - Payer Agreement

Avoidable spending 
Provider can control

Necessary spending 
Provider can control

Saved services

Bundled payment

Unpaid services

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Protections Against Underuse Needed

- Necessary spending that provider can control
- Avoidable spending provider can control
- Unpaid services
- Bundled payment necessary spending
- Provider-payer agreement savings

If quality is reduced...
- Provider profits
- Avoidable spending newly paid services
- Cuts in necessary services that harm quality

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Protections Against Underuse Needed

- Provider-Payer Agreement
  - Avoidable Spending
    - Provider can control
  - Bundled Payment
    - Necessary spending
      - Provider can control
  - Unpaid Services

- If Quality is Reduced...
  - Savings
    - Avoidable Spending
      - New paid services
    - Cuts in necessary services that harm quality
      - Provider profits

- Payments are Reduced
  - Savings
    - Avoidable Spending
      - New paid services
    - Cuts in necessary services that harm quality
      - Provider profits

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Successful Payment Reforms Have Four Characteristics
The Four Characteristics of Successful Payment Reforms

1. Flexibility in Care Delivery. The payment system should give providers freedom to deliver care in ways that will achieve high quality in the most efficient way and to adjust care delivery to the unique needs of individual patients.
The Four Characteristics of Successful Payment Reforms

1. **Flexibility in Care Delivery.** The payment system should give providers freedom to deliver care in ways that will achieve high quality in the most efficient way and to adjust care delivery to the unique needs of individual patients.

2. **Appropriate Accountability for Spending.** The payment system should assure purchasers and payers that spending will decrease (or grow more slowly).
The Four Characteristics of Successful Payment Reforms

1. **Flexibility in Care Delivery.** The payment system should give providers freedom to deliver care in ways that will achieve high quality in the most efficient way and to adjust care delivery to the unique needs of individual patients.

2. **Appropriate Accountability for Spending.** The payment system should assure purchasers and payers that spending will decrease (or grow more slowly). The payment system should hold providers accountable for utilization and spending they can control, but not for services or costs they cannot control or influence.
The Four Characteristics of Successful Payment Reforms

1. **Flexibility in Care Delivery.** The payment system should give providers freedom to deliver care in ways that will achieve high quality in the most efficient way and to adjust care delivery to the unique needs of individual patients.

2. **Appropriate Accountability for Spending.** The payment system should assure purchasers and payers that spending will decrease (or grow more slowly). The payment system should hold providers accountable for utilization and spending they can control, but not for services or costs they cannot control or influence.

3. **Appropriate Accountability for Quality.** The payment system should assure patients and payers that the quality of care will remain the same or improve.
The Four Characteristics of Successful Payment Reforms

1. **Flexibility in Care Delivery.** The payment system should give providers freedom to deliver care in ways that will achieve high quality in the most efficient way and to adjust care delivery to the unique needs of individual patients.

2. **Appropriate Accountability for Spending.** The payment system should assure purchasers and payers that spending will decrease (or grow more slowly). The payment system should hold providers accountable for utilization and spending they can control, but not for services or costs they cannot control or influence.

3. **Appropriate Accountability for Quality.** The payment system should assure patients and payers that the quality of care will remain the same or improve. The payment system should hold providers accountable for quality they can control, but not for aspects of quality or outcomes they cannot control or influence.
The Four Characteristics of Successful Payment Reforms

1. **Flexibility in Care Delivery.** The payment system should give providers freedom to deliver care in ways that will achieve high quality in the most efficient way and to adjust care delivery to the unique needs of individual patients.

2. **Appropriate Accountability for Spending.** The payment system should assure purchasers and payers that spending will decrease (or grow more slowly). The payment system should hold providers accountable for utilization and spending they can control, but not for services or costs they cannot control or influence.

3. **Appropriate Accountability for Quality.** The payment system should assure patients and payers that the quality of care will remain the same or improve. The payment system should hold providers accountable for quality they can control, but not for aspects of quality or outcomes they cannot control or influence.

4. **Adequacy of Payment.** The size of the payments should be adequate to cover the providers’ costs of delivering high quality care for the types of patients they see and at the levels of cost or efficiency that are feasible for them to achieve.
Four Building Blocks to Address Four Characteristics for Success

1. Flexibility in Care Delivery.

2. Appropriate Accountability for Spending.

3. Appropriate Accountability for Quality

4. Adequacy of Payment.
# Four Building Blocks to Address Four Characteristics for Success

<table>
<thead>
<tr>
<th>Building Block 1: Services Covered by a Single Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Flexibility in Care Delivery.</td>
</tr>
<tr>
<td>2. Appropriate Accountability for Spending.</td>
</tr>
<tr>
<td>3. Appropriate Accountability for Quality</td>
</tr>
<tr>
<td>4. Adequacy of Payment.</td>
</tr>
</tbody>
</table>
### Four Building Blocks to Address Four Characteristics for Success

#### Building Block 1: Services Covered by a Single Payment

<table>
<thead>
<tr>
<th>Flexibility in Care Delivery.</th>
</tr>
</thead>
</table>

#### Building Block 2: Mechanism for Controlling Utilization and Spending

<table>
<thead>
<tr>
<th>Appropriate Accountability for Spending.</th>
</tr>
</thead>
</table>

#### 3. Appropriate Accountability for Quality

#### 4. Adequacy of Payment.
### Four Building Blocks to Address
### Four Characteristics for Success

<table>
<thead>
<tr>
<th>Building Block 1: Services Covered by a Single Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUILDING BLOCK 1: Services Covered by a Single Payment</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Building Block 2: Mechanism for Controlling Utilization and Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUILDING BLOCK 2: Mechanism for Controlling Utilization and Spending</td>
</tr>
</tbody>
</table>

| Building Block 3: Mechanism for Assuring Good Quality and Outcomes |
|----------------------------------------------------------------|---|
| BUILDING BLOCK 3: Mechanism for Assuring Good Quality and Outcomes |

<table>
<thead>
<tr>
<th>Building Block 4: Adequacy of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUILDING BLOCK 4: Adequacy of Payment</td>
</tr>
</tbody>
</table>

1. Flexibility in Care Delivery.

2. Appropriate Accountability for Spending.

3. Appropriate Accountability for Quality

4. Adequacy of Payment.
Four Building Blocks to Address Four Characteristics for Success

<table>
<thead>
<tr>
<th>Building Block 1: Services Covered by a Single Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Flexibility in Care Delivery.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Building Block 2: Mechanism for Controlling Utilization and Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Appropriate Accountability for Spending.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Building Block 3: Mechanism for Assuring Good Quality and Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Appropriate Accountability for Quality</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Building Block 4: Mechanism for Assuring Adequacy of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. Adequacy of Payment.</td>
</tr>
</tbody>
</table>
Multiple Options for Implementing Each of the Four Building Blocks

BUILDING BLOCK 1: Services Covered by a Single Payment
- New service-based fees
- Treatment-based bundles
- Condition-based bundles
- Population-based payment

BUILDING BLOCK 2: Mechanism for Controlling Utilization and Spending

BUILDING BLOCK 3: Mechanism for Assuring Good Quality and Outcomes

BUILDING BLOCK 4: Mechanism for Assuring Adequacy of Payment
## Multiple Options for Implementing Each of the Four Building Blocks

### BUILDING BLOCK 1: Services Covered by a Single Payment
- New service-based fees
- Treatment-based bundles
- Condition-based bundles
- Population-based payment

### BUILDING BLOCK 2: Mechanism for Controlling Utilization and Spending
- P4P based on utilization
- P4P based on spending/savings
- Bundled payment

### BUILDING BLOCK 3: Mechanism for Assuring Good Quality and Outcomes

### BUILDING BLOCK 4: Mechanism for Assuring Adequacy of Payment
Multiple Options for Implementing Each of the Four Building Blocks

| BUILDING BLOCK 1: Services Covered by a Single Payment | • New service-based fees  
| | • Treatment-based bundles  
| | • Condition-based bundles  
| | • Population-based payment  

| BUILDING BLOCK 2: Mechanism for Controlling Utilization and Spending | • P4P based on utilization  
| | • P4P based on spending/savings  
| | • Bundled payment  

| BUILDING BLOCK 3: Mechanism for Assuring Good Quality and Outcomes | • Minimum performance standards  
| | • P4P based on quality  
| | • Warrantied payment  

| BUILDING BLOCK 4: Mechanism for Assuring Adequacy of Payment |
## Multiple Options for Implementing Each of the Four Building Blocks

### BUILDING BLOCK 1:
**Services Covered by a Single Payment**
- New service-based fees
- Treatment-based bundles
- Condition-based bundles
- Population-based payment

### BUILDING BLOCK 2:
**Mechanism for Controlling Utilization and Spending**
- P4P based on utilization
- P4P based on spending/savings
- Bundled payment

### BUILDING BLOCK 3:
**Mechanism for Assuring Good Quality and Outcomes**
- Minimum performance standards
- P4P based on quality
- Warrantied payment

### BUILDING BLOCK 4:
**Mechanism for Assuring Adequacy of Payment**
- Risk adjustment/stratification
- Outlier payments
- Risk corridors
- Volume-based adjustments
- Periodic adjustments to match cost
Under FFS, Separate Payments for Individual Services...
…But Not Every Service is Paid For Under FFS

BUILDING BLOCK 1
Services Covered by a Single Payment

Fee for Service Payment

Separate Payments for Individual Svcs

No Payments for Valuable Services
There is No Control on Total Spending in FFS

BUILDING BLOCK 1
Services Covered by a Single Payment

BUILDING BLOCK 2
Controlling Utilization & Spending

No Control on Total Spending

No Payments for Valuable Services

Separate Payments for Individual Svcs

Fee for Service Payment
Services Are Paid For Regardless of Quality

- **BUILDING BLOCK 1**: Services Covered by a Single Payment
  - Fee for Service Payment
  - Separate Payments for Individual SvcS

- **BUILDING BLOCK 2**: Controlling Utilization & Spending
  - No Payments for Valuable Services

- **BUILDING BLOCK 3**: Ensuring Adequate Quality
  - Payment Same Regardless of Quality
  - No Control on Total Spending
In FFS, Efforts are Made to Ensure Payment Covers Costs

<table>
<thead>
<tr>
<th>BUILDING BLOCK 1</th>
<th>Services Covered by a Single Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUILDING BLOCK 2</td>
<td>Controlling Utilization &amp; Spending</td>
</tr>
<tr>
<td>BUILDING BLOCK 3</td>
<td>Ensuring Adequate Quality</td>
</tr>
<tr>
<td>BUILDING BLOCK 4</td>
<td>Ensuring Adequacy of Payment</td>
</tr>
</tbody>
</table>

- Fee for Service Payment
- Separate Payments for Individual Svcs
- No Payments for Valuable Services
- No Control on Total Spending
- Payment Same Regardless of Quality
- Pay > Cost of Services
One Approach: Pay for Services Not Currently Paid for in FFS

- **Building Block 4**: Ensuring Adequacy of Payment
  - Pay > Cost of Services

- **Building Block 3**: Ensuring Adequate Quality
  - Payment Same Regardless of Quality

- **Building Block 2**: Controlling Utilization & Spending
  - No Control on Total Spending

- **Building Block 1**: Services Covered by a Single Payment
  - No Payments for Valuable Services
    - Separate Payments for Individual Svcs
      - Fee for Service Payment
    - Payments for Additional Services
      - Enhanced Fee for Service
  - Separate Payments for Individual Svcs
But Also Adjust Payments to Protect Against Overutilization

BUILDING BLOCK 4
Ensuring Adequacy of Payment

- Pay > Cost of Services

BUILDING BLOCK 3
Ensuring Adequate Quality

- Payment Same Regardless of Quality

BUILDING BLOCK 2
Controlling Utilization & Spending

- No Control on Total Spending
- Payment Adjustments for Utilization of Services

BUILDING BLOCK 1
Services Covered by a Single Payment

- No Payments for Valuable Services
- Payments for Additional Services
- Separate Payments for Individual Svcs
- Separate Payments for Individual Svcs

Fee for Service Payment
Enhanced Fee for Service
And Adjust Payments Based on Quality of Services Delivered

BUILDING BLOCK 4
Ensuring Adequacy of Payment
- Pay > Cost of Services

BUILDING BLOCK 3
Ensuring Adequate Quality
- Payment Same Regardless of Quality
- Payment Adjustments for Quality of Services

BUILDING BLOCK 2
Controlling Utilization & Spending
- No Control on Total Spending
- Payment Adjustments for Utilization of Services

BUILDING BLOCK 1
Services Covered by a Single Payment
- No Payments for Valuable Services
- Payments for Additional Services
- Separate Payments for Individual Svcs

Fee for Service Payment
Enhanced Fee for Service

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Continue to Ensure that Payment Covers Costs of Needed Services

<table>
<thead>
<tr>
<th>BUILDING BLOCK 4</th>
<th>Ensuring Adequacy of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pay &gt; Cost of Services</strong></td>
<td><strong>Pay &gt; Cost of Services</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING BLOCK 3</th>
<th>Ensuring Adequate Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment Same Regardless of Quality</strong></td>
<td><strong>Payment Adjustments for Quality of Services</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING BLOCK 2</th>
<th>Controlling Utilization &amp; Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Control on Total Spending</strong></td>
<td><strong>Payment Adjustments for Utilization of Services</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING BLOCK 1</th>
<th>Services Covered by a Single Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Payments for Valuable Services</strong></td>
<td><strong>Payments for Additional Services</strong></td>
</tr>
</tbody>
</table>

- **Fee for Service Payment**
- **Enhanced Fee for Service**

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
A Second Approach: Create Treatment Bundles

BUILDING BLOCK 1
Services Covered by a Single Payment
- Fee for Service Payment
- Separate Payments for Individual Svcs

BUILDING BLOCK 2
Controlling Utilization & Spending
- No Control on Total Spending
- Payment Adjustments for Utilization of Services

BUILDING BLOCK 3
Ensuring Adequate Quality
- Payment Same Regardless of Quality
- Payment Adjustments for Quality of Services

BUILDING BLOCK 4
Ensuring Adequacy of Payment
- Pay > Cost of Services
- No Payments for Valuable Services

A single payment that covers all of the services needed to deliver a particular treatment or procedure
### Treatment Bundles Are Nothing New

<table>
<thead>
<tr>
<th>BUILDING BLOCK 1</th>
<th>Services Covered by a Single Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYMENT BLOCK 2</td>
<td>Controlling Utilization &amp; Spending</td>
</tr>
<tr>
<td>PAYMENT BLOCK 3</td>
<td>Ensuring Adequate Quality</td>
</tr>
<tr>
<td>PAYMENT BLOCK 4</td>
<td>Ensuring Adequacy of Payment</td>
</tr>
</tbody>
</table>

#### PHYSICIAN PAYMENT FOR PREGNANCY CARE

- Post-Partum Visit
- Delivery of Baby
- Prenatal Visit

#### Treatment-Based Bundle
- Pay > Cost of Services
- Payment Same Regardless of Quality
- No Control on Total Spending
- No Payments for Valuable Services
- Separate Payments for Individual Svcs

#### Enhanced Fee for Service
- Pay > Cost of Services
- Payment Adjustments for Utilization of Services

#### Fee for Service Payment
- Treatment-Based Bundle
- Treatment-Based Bundle
- Treatment-Based Bundle
- Treatment-Based Bundle

A single payment that covers all of the services needed to deliver a particular treatment or procedure.

---

#### Chart Notes:
- Prenatal Visit
- Delivery of Baby
- Post-Partum Visit

---

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Treatment Bundles Are Nothing New

**BUILDING BLOCK 1**
Services Covered by a Single Payment
- Fee for Service Payment
- Enhanced Fee for Service
- Treatment-Based Bundles

**BUILDING BLOCK 2**
Controlling Utilization & Spending
- No Payments for Valuable Services
  - Separate Payments for Individual Svcs
- Payments for Additional Services
  - Separate Payments for Individual Svcs

**BUILDING BLOCK 3**
Ensuring Adequate Quality
- Payment Same Regardless of Quality
- Payment Adjustments for Quality of Services

**BUILDING BLOCK 4**
Ensuring Adequacy of Payment
- Pay > Cost of Services
- Pay > Cost of Services

**PHYSICIAN PAYMENT FOR PREGNANCY CARE**
- Global Fee for Labor & Delivery
  - Post-Partum Visit
  - Delivery of Baby
  - Prenatal Visit

A single payment that covers all of the services needed to deliver a particular treatment or procedure.
Treatment Bundles Are Nothing New

### BUILDING BLOCK 1
Services Covered by a Single Payment

- **Fee for Service Payment**
- **Enhanced Fee for Service**
- **Treatment-Based Bundles**

### BUILDING BLOCK 2
Controlling Utilization & Spending

- **No Payments for Valuable Services**
  - Separate Payments for Individual Svcs
- **Payment Adjustments for Utilization of Services**

### BUILDING BLOCK 3
Ensuring Adequate Quality

- **Payment Same Regardless of Quality**
- **Payment Adjustments for Quality of Services**

### BUILDING BLOCK 4
Ensuring Adequacy of Payment

- **Pay > Cost of Services**
- **No Control on Total Spending**

---

**PHYSICIAN PAYMENT FOR PREGNANCY CARE**

- Global Fee for Labor & Delivery
- Post-Partum Visit
- Delivery of Baby
- Prenatal Visit

**HOSPITAL PAYMENT FOR SURGERY**

- DRG Payment for Procedure
  - Medications
  - Surgery Suite
  - Room & Board
  - Testing

A single payment that covers all of the services needed to deliver a particular treatment or procedure.
Bundles Only Control Service Utilization Per Treatment…

BUILDING BLOCK 4
Ensuring Adequacy of Payment

Pay > Cost of Services
Pay > Cost of Services

BUILDING BLOCK 3
Ensuring Adequate Quality

Payment Same Regardless of Quality
Payment Adjustments for Quality of Services

BUILDING BLOCK 2
Controlling Utilization & Spending

No Control on Total Spending
Payment Adjustments for Utilization of Services

BUILDING BLOCK 1
Services Covered by a Single Payment

No Payments for Valuable Services
Payments for Additional Services

Fee for Service Payment
Enhanced Fee for Service
Treatment-Based Bundles

Potential overuse of surgery to treat back problems
Single payment controls cost of services for performing back surgery

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
…But Controls Are Needed to Avoid Overtreatment

**Building Block 1**
Services Covered by a Single Payment

- **Fee for Service Payment**
  - Separate Payments for Individual Svcs
  - No Payments for Valuable Services

**Building Block 2**
Controlling Utilization & Spending

- **Payment Same Regardless of Quality**
  - No Control on Total Spending
  - Treatment-Based Bundle
    - Treatment-Based Bundle
    - Treatment-Based Bundle
    - Treatment-Based Bundle

**Building Block 3**
Ensuring Adequate Quality

- **Payment Adjustments for Quality of Services**
  - Payment Adjustments for Utilization of Services
  - Payment Adjustments for Quality of Services
  - Treatment-Based Bundle
    - Treatment-Based Bundle
    - Treatment-Based Bundle
    - Treatment-Based Bundle

**Building Block 4**
Ensuring Adequacy of Payment

- **Pay > Cost of Services**
  - Pay > Cost of Services
  - Pay > Cost of Services

Ensure back surgery is only used when appropriate

Potential overuse of surgery to treat back problems

Single payment controls cost of services for performing back surgery

Separate Payments for Individual Svcs
Enhanced Fee for Service
Treatment-Based Bundles
Quality Measures Must Now Protect Against Underuse

**BUILDING BLOCK 1**
Services Covered by a Single Payment
- Fee for Service Payment
- Enhanced Fee for Service
- Treatment-Based Bundles

**BUILDING BLOCK 2**
Controlling Utilization & Spending
- No Payments for Valuable Services
- Payments for Additional Services
- Separate Payments for Individual Svcs

**BUILDING BLOCK 3**
Ensuring Adequate Quality
- No Control on Total Spending
- Payment Adjustments for Utilization of Services
- Treatment-Based Bundle

**BUILDING BLOCK 4**
Ensuring Adequacy of Payment
- Pay > Cost of Services
- Payment Same Regardless of Quality
- Payment Adjustments for Quality of Services
- Payment Adjustments for Quality and Underuse of Services
- Payment Adj. for Utilization of Treatment
- Treatment-Based Bundle

Ensure good outcomes when back surgery is performed
Ensure back surgery is only used when appropriate
Potential overuse of surgery to treat back problems
Single payment controls cost of services for performing back surgery
# Assure Payment Covers Costs of Treatment

<table>
<thead>
<tr>
<th>BUILDING BLOCK 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring Adequacy of Payment</td>
</tr>
<tr>
<td><strong>Payment Adjustments for Quality and Underuse of Services</strong></td>
</tr>
<tr>
<td><strong>Payment Adjustments for Utilization of Services</strong></td>
</tr>
<tr>
<td><strong>Payment Adj. for Utilization of Treatment</strong></td>
</tr>
<tr>
<td><strong>Treatment-Based Bundle</strong></td>
</tr>
<tr>
<td><strong>Treatment-Based Bundle</strong></td>
</tr>
<tr>
<td><strong>Treatment-Based Bundle</strong></td>
</tr>
<tr>
<td><strong>Treatment-Based Bundle</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING BLOCK 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensuring Adequate Quality</td>
</tr>
<tr>
<td><strong>Payment Same Regardless of Quality</strong></td>
</tr>
<tr>
<td><strong>Payment Adjustments for Quality of Services</strong></td>
</tr>
<tr>
<td><strong>Payment Adjustments for Quality</strong></td>
</tr>
<tr>
<td><strong>Payment Adjustment for Utilization of Services</strong></td>
</tr>
<tr>
<td><strong>Treatment-Based Bundle</strong></td>
</tr>
<tr>
<td><strong>Treatment-Based Bundle</strong></td>
</tr>
<tr>
<td><strong>Treatment-Based Bundle</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING BLOCK 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Controlling Utilization &amp; Spending</td>
</tr>
<tr>
<td><strong>No Control on Total Spending</strong></td>
</tr>
<tr>
<td><strong>Payment Adjustments for Utilization of Services</strong></td>
</tr>
<tr>
<td><strong>Payment Adjustments for Utilization of Services</strong></td>
</tr>
<tr>
<td><strong>Payment Adjustment for Utilization of Treatment</strong></td>
</tr>
<tr>
<td><strong>Treatment-Based Bundle</strong></td>
</tr>
<tr>
<td><strong>Treatment-Based Bundle</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING BLOCK 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services Covered by a Single Payment</td>
</tr>
<tr>
<td><strong>No Payments for Valuable Services</strong></td>
</tr>
<tr>
<td><strong>Separate Payments for Individual Svcs</strong></td>
</tr>
<tr>
<td><strong>Separate Payments for Individual Svcs</strong></td>
</tr>
<tr>
<td><strong>Separate Payments for Individual Svcs</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Feature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fee for Service Payment</td>
</tr>
<tr>
<td>Enhanced Fee for Service</td>
</tr>
<tr>
<td>Treatment-Based Bundles</td>
</tr>
</tbody>
</table>

- **Payment sufficient to cover costs of spinal implants**
- **Ensure good outcomes when back surgery is performed**
- **Ensure back surgery is only used when appropriate**
- **Potential overuse of surgery to treat back problems**
- **Single payment controls cost of services for performing back surgery**
Provider Now Needs Protection for Expenses It Can’t Control

<table>
<thead>
<tr>
<th>BUILDING BLOCK 4</th>
<th>Ensuring Adequacy of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay &gt; Cost of Services</td>
<td>Pay &gt; Cost of Services</td>
</tr>
<tr>
<td>Payment Same Regardless of Quality</td>
<td>Payment Adjustments for Quality of Services</td>
</tr>
<tr>
<td>No Control on Total Spending</td>
<td>Payment Adjustments for Utilization of Services</td>
</tr>
<tr>
<td>No Payments for Valuable Services</td>
<td>Payments for Additional Services</td>
</tr>
<tr>
<td>Separate Payments for Individual Svcs</td>
<td>Separate Payments for Individual Svc</td>
</tr>
</tbody>
</table>

- **Protections against uncontrollable costs**
- **Payment sufficient to cover costs of spinal implants**
- **Ensure good outcomes when back surgery is performed**
- **Ensure back surgery is only used when appropriate**
- **Potential overuse of surgery to treat back problems**
- **Single payment controls cost of services for performing back surgery**
The Goal: Slower *Growth* in Spending Than Under FFS
To Attract Payers, New Payment Must Be < Projected FFS Spend
...If All Goes Well, Provider’s Costs Are Lower Than the Payment...
...And Both the Payer and Provider Will “Win”

COST

Bundled or Condition-Based Payment Level

FFS Pmts

Actual

Savings For Payer

WIN-WIN

Alt. Pmt Model $

Lower Pmt

Lower Costs

Profit for Provider

 Costs of Svcs

TIME

Actual

Actual

Proposed

Actual

FFS Pmts

FFS Pmts

Alt. Pmt Model $
The Risk Providers Fear: All Won’t Go Well (Costs Go Up)...

<table>
<thead>
<tr>
<th></th>
<th>Cost of Svcs</th>
</tr>
</thead>
<tbody>
<tr>
<td>FFS Pmts</td>
<td>Actual</td>
</tr>
<tr>
<td>FFS Pmts</td>
<td>Actual</td>
</tr>
<tr>
<td>Alt. Pmt Model</td>
<td>Proposed</td>
</tr>
<tr>
<td>Costs</td>
<td>Actual</td>
</tr>
</tbody>
</table>

**COST**

**TIME**

Bundled or Condition-Based Payment Level

Lower Pmt

Excess Cost
...Creating a Win-Lose Situation

- **COST**
  - Bundled or Condition-Based Payment Level
  - FFS Pmts
  - FFS Pmts
  - Alt. Pmt Model $
  - Costs of Svcs

- **TIME**
  - Actual
  - Actual
  - Proposed
  - Actual

- **WIN-LOSE**
  - Savings For Payer
  - Lower Pmt
  - Excess Cost
  - Loss for Provider
Many Different Reasons Costs May Increase Beyond Payment

- Failure to Follow Guidelines
- Overutilization of Services
- Large Random Variation
- New, High-Cost Treatment
- Unusually Costly Patient
- Higher-Severity Patients

Bundled or Condition-Based Payment Level

Costs of Svcs

FFS Pmts

FFS Pmts

Alt. Pmt Model $

Excess Cost

Savings

Actual

Actual

Proposed

Actual

TIME
Providers CAN Control Many of the Factors Causing Higher Costs

COST

Bundled or Condition-Based Payment Level

FFS Pmts

FFS Pmts

Alt. Pmt Model $

Savings

Excess Cost

FFS Pmts

FFS Pmts

Alt. Pmt Model $

Savings

Excess Cost

Many Avoidable Complications

Failure to Follow Guidelines

Overutilization of Services

Large Random Variation

New, High-Cost Treatment

Unusually Costly Patient

Higher-Severity Patients

What Providers CAN Control (Performance Risk)

TIME

Actual

Actual

Proposed

Actual

Actual

Proposed

Actual

Actual

Proposed

Actual

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
But Other Causes of Higher Costs CAN’T Be Controlled by Providers

<table>
<thead>
<tr>
<th>COST</th>
<th>Bundled or Condition-Based Payment Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>FFS Pmts</td>
<td>Actual</td>
</tr>
<tr>
<td>FFS Pmts</td>
<td>Actual</td>
</tr>
<tr>
<td>Alt. Pmt Model $</td>
<td>Proposed</td>
</tr>
<tr>
<td>Costs of Svcs</td>
<td>Actual</td>
</tr>
</tbody>
</table>

- Excess Cost
- Savings

<table>
<thead>
<tr>
<th>Many Avoidable Complications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure to Follow Guidelines</td>
</tr>
<tr>
<td>Overutilization of Services</td>
</tr>
<tr>
<td>Large Random Variation</td>
</tr>
<tr>
<td>New, High-Cost Treatment</td>
</tr>
<tr>
<td>Unusually Costly Patient</td>
</tr>
<tr>
<td>Higher-Severity Patients</td>
</tr>
</tbody>
</table>

What Providers CAN Control (Performance Risk)

What Providers CANNOT Control (Insurance Risk)
Providers Should NOT Be Expected To Take *Insurance* Risk

<table>
<thead>
<tr>
<th>COST</th>
<th>Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bundled or Condition-Based Payment Level</td>
<td></td>
</tr>
<tr>
<td>FFS Pmts</td>
<td>Actual</td>
</tr>
<tr>
<td>FFS Pmts</td>
<td>Actual</td>
</tr>
<tr>
<td>Alt. Pmt Model $</td>
<td>Proposed</td>
</tr>
<tr>
<td>Costs of Svcs</td>
<td>Actual</td>
</tr>
</tbody>
</table>

- **Savings**
- **Excess Cost**

### What Providers CAN Control (Performance Risk)
- Many Avoidable Complications
- Failure to Follow Guidelines
- Overutilization of Services
- Large Random Variation
- New, High-Cost Treatment
- Unusually Costly Patient
- Higher-Severity Patients

### What Providers CANNOT Control (Insurance Risk)

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Four Mechanisms for Separating Insurance and Performance Risk

<table>
<thead>
<tr>
<th>COST</th>
<th>TIME</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bundled or Condition-Based Payment Level</td>
<td>Actual</td>
</tr>
<tr>
<td>FFS Pmts</td>
<td>FFS Pmts</td>
</tr>
</tbody>
</table>

- Many Avoidable Complications
  - Failure to Follow Guidelines
  - Overutilization of Services
- Performance Risk (Provider’s Responsibility)
  - Large Random Variation
  - New, High-Cost Treatment
  - Unusually Costly Patient
  - Higher-Severity Patients
- Risk Corridors
- Risk Exclusions
- Outlier Pmt/Stop-Loss
- Risk Adjustment

Actual Savings

Proposed Costs of Svcs

Excess Cost

Actual
Payments Can be Bundled by Condition Instead of Treatment

**BUILDING BLOCK 4**
Ensuring Adequacy of Payment

- Pay > Cost of Services
- Risk Adjust., Outlier Pmts, Risk Corridor

**BUILDING BLOCK 3**
Ensuring Adequate Quality

- Payment Same Regardless of Quality
- Payment Adjustments for Quality of Services
- Payment Adjustments for Quality and Underuse of Services

**BUILDING BLOCK 2**
Controlling Utilization & Spending

- No Control on Total Spending
- Payment Adjustments for Utilization of Services
- Payment Adjustments for Utilization of Treatment

**BUILDING BLOCK 1**
Services Covered by a Single Payment

- No Payments for Valuable Services
- Separate Payments for Individual Svcs
- Separate Payments for Individual Svcs

- Fee for Service Payment
- Enhanced Fee for Service
- Treatment-Based Bundles

- Condition-Based Payment
- Condition-Based Payment
- Condition-Based Payment
Start From Treatment-Based Bundles..

PHYSICIAN PAYMENT FOR PREGNANCY CARE

- Post-Partum Visit
- Cesarean Section
  - Prenatal Visit
  - Prenatal Visit

- Post-Partum Visit
- Vaginal Delivery
  - Prenatal Visit
  - Prenatal Visit

Payment Based on Type of Procedure Used Rather Than Need of Patient
…to Create Condition-Based Bundles

PHYSICIAN PAYMENT FOR PREGNANCY CARE

Post-Partum Visit
Cesarean Section
Prenatal Visit
Prenatal Visit

Global Fee for C-Section

Global Fee for High-Risk Pregnancy

Global Fee for Low-Risk Pregnancy

Post-Partum Visit
Vaginal Delivery
Prenatal Visit
Prenatal Visit

Payment Based on Need of Patient Rather Than Type of Procedure Used
And From Single-Provider Bundles…

PHYSICIAN PAYMENT FOR PREGNANCY CARE

- Post-Partum Visit
- Cesarean Section
- Prenatal Visit
- Prenatal Visit

Global Fee for C-Section

Global Fee for High-Risk Pregnancy

Global Fee for Low-Risk Pregnancy

HOSPITAL PAYMENT FOR LABOR & DELIVERY

- Medications
- Delivery Suite
- Room & Board
- Testing

DRG Payment for Labor & Delivery
…To Multi-Provider Bundles

PHYSICIAN PAYMENT FOR PREGNANCY CARE

- Post-Partum Visit
- Cesarean Section
- Prenatal Visit
- Prenatal Visit

- Global Fee for C-Section
- Global Fee for Low-Risk Pregnancy

HOSPITAL PAYMENT FOR LABOR & DELIVERY

- Medications
- Delivery Suite
- Room & Board
- Testing

- DRG Payment for Labor & Delivery
- Full Bundled Payment for High-Risk Pregnancy
- Full Bundled Payment for Low-Risk Pregnancy
Controls Needed to Protect Against Overdiagnosis

BUILDING BLOCK 4
Ensuring Adequacy of Payment

- Pay > Cost of Services
- Payment Same Regardless of Quality
- No Control on Total Spending
- No Payments for Valuable Services

BUILDING BLOCK 3
Ensuring Adequate Quality

- Payment Adjustments for Quality of Services
- Payment Adjustments for Utilization of Services
- Payment Adj. for Utilization of Treatment
- Treatment-Based Bundle

BUILDING BLOCK 2
Controlling Utilization & Spending

- Payment Adjustments for Quality and Underuse of Services
- Payment Adj. for Over-Diag.
- Condition-Based Payment
- Condition-Based Payment

BUILDING BLOCK 1
Services Covered by a Single Payment

- Separate Payments for Individual Svcs
- Separate Payments for Individual Svcs
- Treatment-Based Bundle
- Treatment-Based Bundle

- Fee for Service Payment
- Enhanced Fee for Service
- Treatment-Based Bundles
- Condition-Based Payment

Evidence of spinal problem
Payment for addressing back pain (payment unrelated to whether surgery is performed)

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Ensure Quality of Services and Protect Against Underuse

BUILDING BLOCK 4
Ensuring Adequacy of Payment

- Pay > Cost of Services
- Payment Same Regardless of Quality
- No Control on Total Spending

BUILDING BLOCK 3
Ensuring Adequate Quality

- Payment Adjustments for Utilization of Services
- Payment Adjustments for Quality of Services
- No Payments for Valuable Services

BUILDING BLOCK 2
Controlling Utilization & Spending

- Payment Adjustments for Quality and Underuse of Services
- Payment Adjustments for Quality and Underuse of Treatment
- Treatment-Based Bundle

BUILDING BLOCK 1
Services Covered by a Single Payment

- Separate Payments for Individual Svcs
- Payments for Additional Services
- Treatment-Based Bundle

Fee for Service Payment
Enhanced Fee for Service
Treatment-Based Bundles
Condition-Based Payment

Risk Adjust., Outlier Pmts, Risk Corridor
Payment Adj. for Over-Diag.
Condition-Based Payment

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Ensure Payments Are Adequate to Cover Costs for All Patients

<table>
<thead>
<tr>
<th>BUILDING BLOCK 4</th>
<th>Ensuring Adequacy of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pay &gt; Cost of Services</strong></td>
<td><strong>Pay &gt; Cost of Services</strong></td>
</tr>
<tr>
<td><strong>Payment Same Regardless of Quality</strong></td>
<td><strong>Payment Adjustments for Quality of Services</strong></td>
</tr>
<tr>
<td><strong>No Control on Total Spending</strong></td>
<td><strong>Payment Adjustments for Utilization of Services</strong></td>
</tr>
<tr>
<td><strong>No Payments for Valuable Services</strong></td>
<td><strong>Payments for Additional Services</strong></td>
</tr>
<tr>
<td><strong>Separate Payments for Individual Svcs</strong></td>
<td><strong>Separate Payments for Individual Svcs</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING BLOCK 3</th>
<th>Ensuring Adequate Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fee for Service Payment</strong></td>
<td><strong>Enhanced Fee for Service</strong></td>
</tr>
</tbody>
</table>

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Pay a “Global Payment” for All Conditions and Treatment

**BUILDING BLOCK 4**
Ensuring Adequacy of Payment

- Pay > Cost of Services
- Payment Adjustments for Quality of Services
- Payment Adjustments for Utilization of Treatment
- Payment Adjustments for Quality and Underuse of Treatment

**BUILDING BLOCK 3**
Ensuring Adequate Quality

- Payment Same Regardless of Quality
- Payment Adjustments for Quality of Services
- Payment Adjustments for Quality and Underuse of Treatment
- Payment Adjustments for Quality and Overuse of Treatment

**BUILDING BLOCK 2**
Controlling Utilization & Spending

- No Control on Total Spending
- Payment Adjustments for Utilization of Treatment
- Payment Adjustments for Over-Diag.
- Payment Adjustments for Condition-Based Payment

**BUILDING BLOCK 1**
Services Covered by a Single Payment

- No Payments for Valuable Services
- Payments for Additional Services
- Separated Payments for Individual Services
- Treatment-Based Bundle

**POPULATION-BASED PAYMENT**
## Ensure Quality and Protect Against Underuse

### BUILDING BLOCK 1
Services Covered by a Single Payment

<table>
<thead>
<tr>
<th>Fee for Service Payment</th>
<th>Enhanced Fee for Service</th>
<th>Treatment-Based Bundles</th>
<th>Condition-Based Payment</th>
<th>Population-Based Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separation Payments for Individual Svc</td>
<td>Separation Payments for Individual Svc</td>
<td>Treatment-Based Bundles</td>
<td>Condition-Based Payment</td>
<td>Population-Based Payment</td>
</tr>
</tbody>
</table>

### BUILDING BLOCK 2
Controlling Utilization & Spending

<table>
<thead>
<tr>
<th>No Payments for Valuable Services</th>
<th>Payments for Additional Services</th>
<th>Treatment-Based Bundles</th>
<th>Condition-Based Payment</th>
<th>Population-Based Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treatment-Based Bundle</td>
<td>Treatment-Based Bundles</td>
<td>Condition-Based Payment</td>
<td>Population-Based Payment</td>
<td></td>
</tr>
</tbody>
</table>

### BUILDING BLOCK 3
Ensuring Adequate Quality

<table>
<thead>
<tr>
<th>Payment Same Regardless of Quality</th>
<th>Payment Adjustments for Utilization of Services</th>
<th>Payment Adj. for Utilization of Treatment</th>
<th>Payment Adj. for Over-Diag.</th>
<th>Payment Adjustments for Quality and Underuse of Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Control on Total Spending</td>
<td>Payment Adjustments for Quality of Services</td>
<td>Payment Adj. for Quality of Services</td>
<td>Payment Adj. for Quality of Services</td>
<td>Payment Adj. for Quality and Underuse of Treatment</td>
</tr>
</tbody>
</table>

### BUILDING BLOCK 4
Ensuring Adequacy of Payment

<table>
<thead>
<tr>
<th>Pay &gt; Cost of Services</th>
<th>Pay &gt; Cost of Treatment</th>
<th>Pay &gt; Cost of Condition</th>
<th>Pay &gt; Cost of Services</th>
<th>Pay &gt; Cost of Treatment</th>
<th>Pay &gt; Cost of Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Adjust., Outlier Pmts, Risk Corridor</td>
<td>Risk Adjust., Outlier Pmts, Risk Corridor</td>
<td>Risk Adjust., Outlier Pmts, Risk Corridor</td>
<td>Risk Adjust., Outlier Pmts, Risk Corridor</td>
<td>Risk Adjust., Outlier Pmts, Risk Corridor</td>
<td>Risk Adjust., Outlier Pmts, Risk Corridor</td>
</tr>
</tbody>
</table>

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Ensure Payments are Adequate to Cover Cost of Quality Care

BUILDING BLOCK 4
Ensuring Adequacy of Payment
- Pay > Cost of Services
- Payment Same Regardless of Quality
- No Control on Total Spending
- No Payments for Valuable Services

BUILDING BLOCK 3
Ensuring Adequate Quality
- Payment Adjustments for Quality of Services
- Payment Adjustments for Utilization of Services
- Treatment-Based Bundle
- Condition-Based Payment

BUILDING BLOCK 2
Controlling Utilization & Spending
- Payment Adjustments for Quality and Underuse of Services
- Payment Adjustments for Over-Diag.
- Treatment-Based Bundle
- Condition-Based Payment

BUILDING BLOCK 1
Services Covered by a Single Payment
- Separate Payments for Individual Svcs
- Payments for Additional Services
- Treatment-Based Bundle
- Population-Based Payment

Fee for Service Payment
Enhanced Fee for Service
Treatment-Based Bundles
Condition-Based Payment
Population-Based Payment

Risk Adjust., Outlier Pmts, Risk Corridor
Risk Adjust., Outlier Pmts, Risk Corridor
Risk Adjust., Outlier Pmts, Risk Corridor
Risk Adjust., Outlier Pmts, Risk Corridor

Pay > Cost of Services
Pay > Cost of Treatment
Pay > Cost of Condition
Pay > Cost of Population

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Options Can Also Be Viewed as a Transition Strategy

BUILDING BLOCK 1
Services Covered by a Single Payment
- Separate Payments for Individual Svcs
- Fee for Service Payment

BUILDING BLOCK 2
Controlling Utilization & Spending
- No Control on Total Spending
- No Payments for Valuable Services

BUILDING BLOCK 3
Ensuring Adequate Quality
- Payment Same Regardless of Quality

BUILDING BLOCK 4
Ensuring Adequacy of Payment
- Pay > Cost of Services

Risk Adjust., Outlier Pmts, Risk Corridor
- Pay > Cost of Population

Payment Adjustments for Quality and Underuse of Prevention
- Population-Based Payment

Population-Based Payment
- Risk Adjust., Outlier Pmts, Risk Corridor

Pay > Cost of Population
- Population-Based Payment

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Options Can Also Be Viewed as a Transition Strategy

BUILDING BLOCK 4
Ensuring Adequacy of Payment

- Pay > Cost of Services

BUILDING BLOCK 3
Ensuring Adequate Quality

- Payment Same Regardless of Quality

BUILDING BLOCK 2
Controlling Utilization & Spending

- No Control on Total Spending

BUILDING BLOCK 1
Services Covered by a Single Payment

- No Payments for Valuable Services

- Separate Payments for Individual Svcs

Fee for Service Payment

Enhanced Fee for Service

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Options Can Also Be Viewed as a Transition Strategy

BUILDING BLOCK 4
Ensuring Adequacy of Payment

- Pay > Cost of Services
  - Payment Same Regardless of Quality
  - No Control on Total Spending
  - No Payments for Valuable Services

BUILDING BLOCK 3
Ensuring Adequate Quality

- Payment Adjustments for Quality of Services
- Payment Adjustments for Utilization of Services
- Treatment-Based Bundle

BUILDING BLOCK 2
Controlling Utilization & Spending

- Payment Adjustments for Quality and Underuse of Services
- Payment Adjustments for Utilization of Treatment
- Risk Adjust., Outlier Pmts, Risk Corridor

BUILDING BLOCK 1
Services Covered by a Single Payment

- Separate Payments for Individual Svcs
- Separate Payments for Individual Svcs
- Treatment-Based Bundle

Fee for Service Payment → Enhanced Fee for Service → Treatment-Based Bundles

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Options Can Also Be Viewed as a Transition Strategy

<table>
<thead>
<tr>
<th>BUILDING BLOCK 4</th>
<th>Ensuring Adequacy of Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pay &gt; Cost of Services</strong></td>
<td><strong>Pay &gt; Cost of Services</strong></td>
</tr>
<tr>
<td><strong>Payment Same Regardless of Quality</strong></td>
<td><strong>Payment Adjustments for Quality of Services</strong></td>
</tr>
<tr>
<td><strong>No Control on Total Spending</strong></td>
<td><strong>Payment Adjustments for Utilization of Services</strong></td>
</tr>
<tr>
<td><strong>No Payments for Valuable Services</strong></td>
<td><strong>Payments for Additional Services</strong></td>
</tr>
<tr>
<td><strong>Separate Payments for Individual Svcs</strong></td>
<td><strong>Separate Payments for Individual Svcs</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING BLOCK 3</th>
<th>Ensuring Adequate Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fee for Service Payment</strong></td>
<td><strong>Enhanced Fee for Service</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING BLOCK 2</th>
<th>Controlling Utilization &amp; Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Adjust., Outlier Pmts, Risk Corridor</strong></td>
<td><strong>Risk Adjust., Outlier Pmts, Risk Corridor</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BUILDING BLOCK 1</th>
<th>Services Covered by a Single Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pay &gt; Cost of Services</strong></td>
<td><strong>Pay &gt; Cost of Services</strong></td>
</tr>
<tr>
<td><strong>Payment Same Regardless of Quality</strong></td>
<td><strong>Payment Adjustments for Quality of Services</strong></td>
</tr>
<tr>
<td><strong>No Control on Total Spending</strong></td>
<td><strong>Payment Adjustments for Utilization of Services</strong></td>
</tr>
<tr>
<td><strong>No Payments for Valuable Services</strong></td>
<td><strong>Payments for Additional Services</strong></td>
</tr>
<tr>
<td><strong>Separate Payments for Individual Svcs</strong></td>
<td><strong>Separate Payments for Individual Svcs</strong></td>
</tr>
</tbody>
</table>

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Allow Providers and Payers to Evolve Payment Over Time

**Building Block 1**
- Services Covered by a Single Payment
  - Fee for Service Payment
  - Enhanced Fee for Service
  - Treatment-Based Bundles

**Building Block 2**
- Controlling Utilization & Spending
  - Payment Adjustments for Utilization of Services
  - Payment Adjustments for Quality of Services
  - Payment Adjustments for Over-Diag.

**Building Block 3**
- Ensuring Adequate Quality
  - Payment Same Regardless of Quality
  - No Control on Total Spending
  - No Payments for Valuable Services
  - Payments for Additional Services
  - Separate Payments for Individual Svcs

**Building Block 4**
- Ensuring Adequacy of Payment
  - Pay > Cost of Services
  - Pay > Cost of Treatment
  - Payment Adjustments for Utilization of Treatment
  - Treatment-Based Bundle
  - Condition-Based Payment
  - Population-Based Payment

- Risk Adjust., Outlier Pmts, Risk Corridor

- Payment Adjustments for Quality and Underuse of Services
- Payment Adjustments for Quality and Underuse of Treatment
- Payment Adjustments for Quality and Underuse of Prevention
- Risk Adjust., Outlier Pmts, Risk Corridor

- Risk Adjust., Outlier Pmts, Risk Corridor
- Risk Adjust., Outlier Pmts, Risk Corridor

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
More Detail on Building Blocks Available in Full Report


www.paymentreform.org/downloads/BuildingBlocksofSuccessfulPaymentReform.pdf
Three Step Process Needed in Designing Payment Reforms
Changing Payment Isn’t Worth It Without Opportunities to Improve

What is the Opportunity to Improve Care and Reduce Cost?
If No Barriers in Payment, No Need for Payment Reform

What is the Opportunity to Improve Care and Reduce Cost?

What are the Barriers in the Current Payment System?
Payment Reforms Must Remove Barriers to Improving Care

- **What is the Opportunity to Improve Care and Reduce Cost?**
- **What are the Barriers in the Current Payment System?**
- **What Kind of Alternative Payment Model Removes the Barriers?**
Opportunities for Improvement Exist in Every Specialty

### Opportunities to Improve Care and Reduce Cost

<table>
<thead>
<tr>
<th>Specialty</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardiology</td>
<td>• Use less invasive and expensive procedures when appropriate</td>
</tr>
<tr>
<td>Orthopedic Surgery</td>
<td>• Reduce infections and complications</td>
</tr>
<tr>
<td></td>
<td>• Use less expensive post-acute care following surgery</td>
</tr>
<tr>
<td>Psychiatry</td>
<td>• Reduce ER visits and admissions for patients with depression and chronic disease</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>• Reduce use of elective C-sections</td>
</tr>
<tr>
<td></td>
<td>• Reduce early deliveries and use of NICU</td>
</tr>
</tbody>
</table>
## Most Specialties Face Barriers in FFS to Making Improvements

<table>
<thead>
<tr>
<th>Specialty</th>
<th>Opportunities to Improve Care and Reduce Cost</th>
<th>Barriers in Current Payment System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardiology</td>
<td>• Use less invasive and expensive procedures when appropriate</td>
<td>• Payment is based on which procedure is used, not the outcome for the patient</td>
</tr>
<tr>
<td>Orthopedic Surgery</td>
<td>• Reduce infections and complications • Use less expensive post-acute care following surgery</td>
<td>• No flexibility to increase inpatient services to reduce complications &amp; post-acute care</td>
</tr>
<tr>
<td>Psychiatry</td>
<td>• Reduce ER visits and admissions for patients with depression and chronic disease</td>
<td>• No payment for phone consults with PCPs • No payment for RN care managers</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>• Reduce use of elective C-sections • Reduce early deliveries and use of NICU</td>
<td>• Similar/lower payment for vaginal deliveries</td>
</tr>
</tbody>
</table>
There Are Win-Win-Win Solutions Through Better Payment Systems

<table>
<thead>
<tr>
<th>Opportunities to Improve Care and Reduce Cost</th>
<th>Barriers in Current Payment System</th>
<th>Solutions via Accountable Payment Models</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cardiology</strong></td>
<td>• Payment is based on which procedure is used, not the outcome for the patient</td>
<td>• Condition-based payment covering CABG, PCI, or medication management</td>
</tr>
<tr>
<td>• Use less invasive and expensive procedures when appropriate</td>
<td>• No flexibility to increase inpatient services to reduce complications &amp; post-acute care</td>
<td>• Episode payment for hospital and post-acute care costs with warranty</td>
</tr>
<tr>
<td><strong>Orthopedic Surgery</strong></td>
<td>• No payment for phone consults with PCPs</td>
<td>• Joint condition-based payment to PCP and psychiatrist</td>
</tr>
<tr>
<td>• Reduce infections and complications</td>
<td>• No payment for RN care managers</td>
<td>• Condition-based payment for total cost of delivery in low-risk pregnancy</td>
</tr>
<tr>
<td>• Use less expensive post-acute care following surgery</td>
<td>• Condition-based payment covering CABG, PCI, or medication management</td>
<td></td>
</tr>
<tr>
<td><strong>Psychiatry</strong></td>
<td>• Payment is based on which procedure is used, not the outcome for the patient</td>
<td>• Episode payment for hospital and post-acute care costs with warranty</td>
</tr>
<tr>
<td>• Reduce ER visits and admissions for patients with depression and chronic disease</td>
<td>• No payment for phone consults with PCPs</td>
<td>• Joint condition-based payment to PCP and psychiatrist</td>
</tr>
<tr>
<td><strong>OB/GYN</strong></td>
<td>• Similar/lower payment for vaginal deliveries</td>
<td>• Condition-based payment for total cost of delivery in low-risk pregnancy</td>
</tr>
<tr>
<td>• Reduce use of elective C-sections</td>
<td>• Similar/lower payment for vaginal deliveries</td>
<td>• Condition-based payment for total cost of delivery in low-risk pregnancy</td>
</tr>
<tr>
<td>• Reduce early deliveries and use of NICU</td>
<td>• Condition-based payment covering CABG, PCI, or medication management</td>
<td>• Episode payment for hospital and post-acute care costs with warranty</td>
</tr>
</tbody>
</table>

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
Examples from Other Specialties

<table>
<thead>
<tr>
<th>Specialty</th>
<th>Opportunities to Improve Care and Reduce Cost</th>
<th>Barriers in Current Payment System</th>
<th>Solutions via Accountable Payment Models</th>
</tr>
</thead>
</table>
| Neurology      | • Avoid unnecessary hospitalizations for epilepsy patients  
• Reduce strokes and heart attacks after TIA                                                               | • No flexibility to spend more on preventive care  
• No payment to coordinate w/ cardio                                                                   | • Condition-based payment for epilepsy  
• Episode or condition-based payment for TIA                                                            |
| Gastroenterology | • Reduce unnecessary colonoscopies and colon cancer  
• Reduce ER/admits for inflammatory bowel d.                                                             | • No flexibility to focus extra resources on highest-risk patients  
• No flexibility to spend more on care mgmt                                                          | • Population-based payment for colon cancer screening  
• Condition-based pmt for IBD                                                                          |
| Oncology       | • Reduce ER visits and admissions for dehydration  
• Reduce anti-emetic drug costs                                                                       | • No flexibility to spend more on preventive care  
• Payment based on office visits, not outcomes                                                        | • Condition-based payment including non-oncolytic Rx and ED/hospital utilization                     |
| Radiology      | • Reduce use of high-cost imaging  
• Improve diagnostic speed & accuracy                                                                     | • Low payment for reading images & penalty for 2x  
• Inability to change inapprrop. orders                                                                  | • Global payment for imaging costs  
• Partnership in condition-based payments                                                                 |

© 2009 – 2015 Center for Healthcare Quality and Payment Reform
A Critical Element is Shared, Trusted Data

- **Providers** need to know the current utilization and costs for their patients to know whether the condition-based or bundled/warrantied payment amount will cover the costs of delivering effective care to the patients.

- **Purchaser/Payer** needs to know the current utilization and costs to know whether the condition-based or bundled/warrantied payment amount is a better deal than they have today.

- **Both** sets of data have to match in order for providers and payers to agree on the new approach!
Using Data to Show the Business Case for Payment Reform

Making the Business Case for Payment and Delivery Reform

1. Define the Planned Change in Care and the Expected Results
2. Estimate How the Type and Volume of Services Will Change
3. Determine How Payments Will Change Under the Current Payment System
4. Determine How the Costs of Services Will Change
5. Calculate the Changes in Operating Margins for Providers
6. Identify the Changes in Payment Needed by Providers
7a. Determine Whether a Business Case Exists for Purchasers
7b. Determine Whether a Business Case Exists for Providers
8. Refine the Changes in Care to Improve the Business Case
9. Analyze the Impact of Deviations from Planned Care and Outcomes
10. Design a Payment Model That Pays Adequately for Desired Services, Assures Desired Outcomes, and Controls Variation and Risk

www.PaymentReform.org
Providers and Payers Have to Collaborate for Win-Win Solutions
RHICs Can Provide the Critical Bridge for Success

**REGIONAL HEALTH IMPROVEMENT COLLABORATIVE**

- Neutral Facilitation
- Shared, Trusted Data and Analysis

**PROVIDERS**

**PAYERS**
Harold D. Miller
President and CEO
Center for Healthcare Quality and Payment Reform

Miller.Harold@GMail.com
(412) 803-3650

www.CHQPR.org
www.PaymentReform.org