

The Center for Healthcare Quality and Payment Reform

Rationale and Strategy

There is widespread agreement that the health care system today does not provide good value. There are serious problems with the quality of health care, ranging from failure of many patients to receive services of proven value, to unacceptably high rates of medical errors, adverse events, iatrogenic illness, etc. At the same time, the cost of health care has reached unaffordable levels, which is a major cause of high rates of uninsurance across the country.

The problematic incentives in current healthcare payment systems are increasingly recognized as one of the major barriers to addressing these kinds of problems. Current payment systems often financially penalize physicians, hospitals, and other healthcare providers for providing better quality services, and reward them for delivering more services to more people, which in turn fuels inflation in healthcare costs. Providers frequently lose revenues and profits if they keep people healthy, reduce errors and complications, and avoid unnecessary care.

There is growing agreement that payment reform is a necessary element of efforts to increase the value provided by the nation's health care system. But much work is needed to develop both the details of new payment systems and effective strategies for transitioning from current payment systems. Moreover, implementing new payment systems is only feasible if healthcare providers are able and willing to use them to improve the quality and control the costs of healthcare. If a large number of providers can and will accept and manage the payments effectively, then a new payment system can be successful. But if few or no providers can do so, then, as a practical matter, the payment system cannot be implemented or will likely not achieve the desired improvements in value.

The Center for Healthcare Quality and Payment Reform has been established to address these and other issues by:

- 1. Identifying and encouraging *action on major opportunities for improving quality and decreasing costs (i.e., increasing value) in the health care system.***

For example, two areas where significant improvements in quality and reductions in cost can be quickly achieved are:

- Reducing Hospital Readmissions. On average, about 1 out of every 5 people who are treated in a hospital will go back to the hospital within 30 days, increasing the total costs of healthcare for these individuals by thousands of dollars. Many of these readmissions can be prevented through a combination of improved hospital care, improved primary care, and improved discharge coordination, improving the quality of life for the patients and reducing expenditures for health care.

- **Reducing Hospital-Acquired Infections.** Every year, thousands of individuals get infections in hospitals that can result in disability or death and which significantly increase the total costs of healthcare. The rates at which these infections occur can be dramatically reduced by simple, inexpensive changes in care, improving the quality of life for the patients and reducing expenditures for healthcare.

The clinical solutions to these issues are known, and the benefits – both in higher quality and reduced cost – are clear. But current healthcare payment systems and organizational structures impede, rather than facilitate, implementation of the solutions. The Center’s contribution will be in clearly identifying these structural barriers, developing proposals for removing them, and encouraging implementation of the needed changes.

2. **Defining and encouraging *changes in healthcare payment systems to reward, rather than penalize, efforts to improve value in healthcare delivery.***

The Center for Healthcare Quality and Payment Reform will develop the details of policy changes that give healthcare providers more responsibility for increasing quality and controlling costs of services, without penalizing them financially for treating sicker patients. In particular, the Center will focus on:

- Systems called “episode-of-care payment” which involve paying a single price (a “case rate”) for all of the services needed by a patient for major acute episodes (such as a heart attack or a hip replacement), regardless of which providers are involved, instead of multiple fees for each specific service provided.
- Systems called “risk-adjusted global fees” and “condition-specific capitation,” which go a step further and pay healthcare providers a single fee for all of the outpatient care needed by their patients, particularly those with chronic diseases, in ways that reward the providers for keeping their patients healthy and for reducing duplicative and unnecessary healthcare services.

In addition, the Center will develop specific proposals for more modest changes to payment systems that can be used as transitional steps toward these ultimate payment structures.

3. **Defining and encouraging *changes in organizational structures and relationships among healthcare providers needed to improve value in healthcare delivery.***

Some have suggested that only large integrated health delivery systems or large multi-specialty group physician practices have the ability to accept and effectively manage true episode-of-care or condition-specific capitation payments. However, most patients across the country are not cared for by large physician practices or integrated systems, and encouraging the creation and expansion of large group practices and integrated systems would also mean greater consolidation of providers, which in turn could lead to less competition and higher prices. The Center for Healthcare Quality and Payment Reform will seek to identify creative approaches to organizational structures that can maintain or improve quality while maintaining or reducing costs, i.e., a value-driven healthcare system.

4. Defining and encouraging the creation of the *regional support systems* needed to foster implementation of payment and delivery system reforms.

A variety of structures and activities will be needed to facilitate the transition to new healthcare payment systems, ranging from building consensus on what should be done to providing technical assistance to healthcare providers and other organizations in actually implementing the necessary changes. The Center for Healthcare Quality and Payment Reform will identify the kinds of legal, financial, organizational, and other support systems needed to foster rapid implementation of desirable reforms at the regional level.

Although other organizations are working on many aspects of these same issues, the Center for Healthcare Quality and Payment Reform is being created to encourage more comprehensive, outcome-driven, regionally-grounded approaches to these issues. The Center's strategic approach will be unique in the following ways:

- **Fundamental Payment Reform Instead of P4P.** A huge national infrastructure has been developed over the past several years to administer modest pay-for-performance (P4P) incentive systems on top of the existing payment systems. Although well-intentioned, this has added new administrative costs without eliminating any existing costs or eliminating the counterproductive incentives in fee-for-service payment, and has the potential for stifling outcome-driven quality improvement by rigidifying currently accepted processes. The Center for Healthcare Quality and Payment Reform will focus on truly fundamental payment reforms that base payments on outcomes, rather than merely process measures.
- **Payment Reform as a Means to Better Value, Rather Than an End in Itself.** Too often, payment reforms of all types are discussed as ends in themselves, rather as means to enable and encourage specific changes in care delivery. For example, P4P systems are designed to provide additional payments as incentives for healthcare providers to deliver better quality-care, when the problem in many cases is not a lack of *willingness* by the providers, but a lack of *ability* to redirect current payments in ways that will result in better-quality care. Even where care changes and payment changes are discussed jointly, as in efforts to implement the patient-centered medical home, proposals tend to add new layers of payment, while leaving existing incentives in place, and to measure compliance with processes, rather than achievement of outcomes. The Center for Healthcare Quality and Payment Reform will focus on defining comprehensive, outcome-driven solutions, including not only payment changes but also the care delivery changes they will support.
- **Bottom-Up Rather than Top-Down Reform.** Healthcare is delivered at the local level and is paid for primarily at the local or regional level. Regions of the country differ dramatically in the structure of provider organizations and healthcare payers, so it is unlikely that there will be any one-size-fits-all national structure that will work effectively, at least in the short run. The Center for Healthcare Quality and Payment Reform will focus on how to design payment and care delivery reforms based on the unique assets and barriers which exist in individual regions, and on how to implement reforms in ways that are feasible for the providers, payers, purchasers, and patients who will be affected.

- **Pragmatic Pathways to Reform.** Relatively few healthcare providers have the organizational structure or skills in quality improvement or process redesign to immediately accept new payment structures. Since current healthcare payment systems primarily reward volume, not quality or efficiency, it is likely that skills in designing and managing care processes to improve quality and control costs will be in short supply until the incentives change. Consequently, the Center for Healthcare Quality and Payment Reform will not only work to define the ultimate structures for payment reform and improved delivery, but also to design transitional improvements to both payment systems and organizational structures that will set the stage for implementation of the ultimate structures – a “co-evolution” of payment and organizational capacity.
- **Win-Win-Win Solutions.** Better approaches to care delivery have the potential to improve patient outcomes and reduce healthcare spending, but current payment systems penalize healthcare providers for implementing these approaches. However, alternative payment systems which provide better incentives for quality may also create unnecessarily severe financial dislocations for providers. The Center for Healthcare Quality and Payment Reform will not only examine aggregate financial impacts of policy changes, but seek to find win-win-win solutions for both payers and providers as well as patients.
- **Broad-Based Understanding of the Problems and Solutions.** The kinds of payment and delivery changes needed will require the understanding and support of all stakeholders in the healthcare system, ranging from patients to physicians to public officials. The Center for Healthcare Quality and Payment Reform will work to translate payment and delivery system reform concepts into easily understood terms for both laymen and experts.
- **A National Network for Change.** Although care delivery and payment changes must be implemented at the local level, this does not mean that payment reform should be a parochial enterprise – regional initiatives across the country should work to coordinate their efforts, and national organizations should support the development, evaluation, and replication of regional payment demonstrations. The Center for Healthcare Quality and Payment Reform will work to establish a diverse, national network of both practitioners and thought leaders who can support needed changes at both the local and national levels.

There is a particularly critical need for the Center now, both because of the national urgency for addressing healthcare quality and cost problems, and because of the unique window of opportunity that is opening at both the federal and local levels:

- At the federal level, both President-Elect Obama and Congressional leaders have committed to addressing healthcare issues, and the country’s economic challenges have increased the imperative for addressing healthcare costs. But without the kind of carefully-defined and clearly understandable proposals for payment and delivery reform that the Center will create, there is considerable risk that weak or problematic policies will be implemented.
- At the regional level, there is now an unprecedented number of regional healthcare collaboratives in place or in formation, as a result of the HHS/AHRQ Chartered Value Exchange program and the Robert Wood Johnson Foundation’s Aligning Forces for

Quality initiative. Many of these regional collaboratives need the kind of education and technical assistance that the Center can provide to enable them to develop truly transformational changes in both their payment and delivery structures.

Products and Services

The Center for Healthcare Quality and Payment Reform will develop products and deliver services designed to encourage and facilitate efforts by individual regions of the country to reinvent the way they deliver health care. The systems for delivering and paying for health care differ dramatically from region to region, so the specific actions to be taken will also differ from region to region. Rather than trying to promote one-size-fits-all approaches, the Center will develop multiple options for overcoming the barriers to improved healthcare and help regions identify approaches that will fit their particular circumstances. In addition, the Center will identify the types of support needed at the national level to facilitate actions at the regional level.

In order to achieve its objectives, the Center will deliver six types of products and services:

- **Policy Analyses and Proposals.** The Center will develop clear analyses of the problems with current payment systems and organizational structures in healthcare that impede delivery of higher-value healthcare, identify and analyze options for addressing those problems, and make recommendations for policy changes and other actions.
- **Educational Materials and Presentations.** The Center will develop easy-to-understand summaries of the often complex concepts involved in payment and delivery system reforms in order to encourage regions to implement them.
- **Information-Sharing on Cutting-Edge Initiatives.** The Center will identify and summarize progress being made on payment and delivery system reform in regions across the nation, in order to help all areas of the country learn from best practices.
- **Policy Summits.** The Center will convene key decision-makers from the organizations that will need to implement payment and care delivery changes in order to discuss key issues and options and to achieve consensus on the actions needed to make progress.
- **Case Studies and “How-To” Guides for Regional Action.** The Center will document the successes and failures of past efforts to implement the kinds of changes being proposed and disseminate these case studies to others interested in pursuing similar actions. The Center will also develop step-by-step action guides that regional coalitions and government agencies can use to implement changes.
- **Technical Assistance and Support for Pilot Projects.** The Center will provide technical assistance to federal and state policymakers, regional healthcare quality collaboratives, and healthcare providers seeking to take the kinds of actions needed to implement policy changes, demonstration projects, etc. that will address the issues the Center has identified. In particular, the Center will seek to develop concepts for pilot payment reform/care improvement projects, identify regional healthcare collaboratives interested in pursuing those projects, and provide technical assistance and support to help implement them.

Capacity for Success

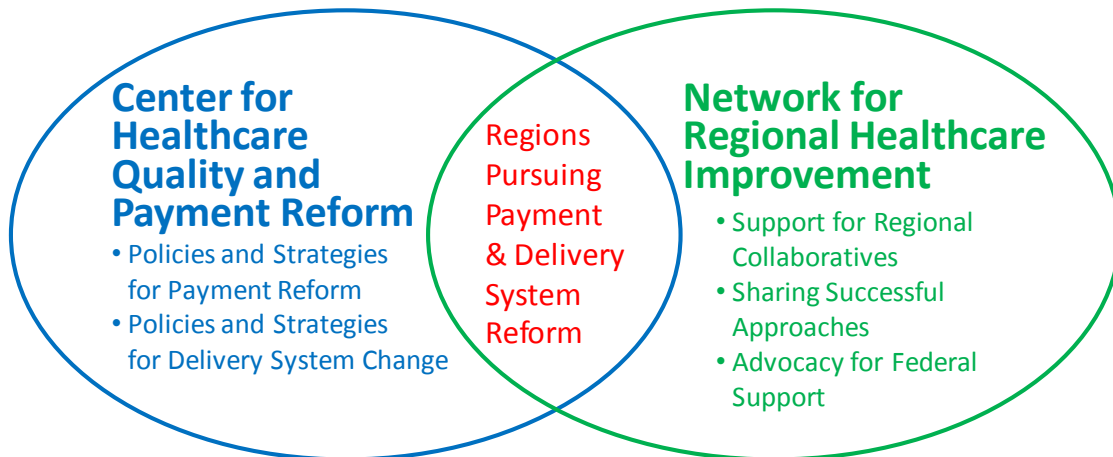
The Center for Healthcare Quality and Payment Reform will build on the pioneering work done by the Network for Regional Healthcare Improvement (NRHI) and its members to identify the most critical issues in payment reform and build consensus among stakeholders at both the regional and national levels on pragmatic strategies for addressing those issues:

- The Framing Papers on Healthcare Payment Reform developed for the NRHI Payment Reform Summits in 2007 and 2008, and the Recommendations emerging from the Summits, are widely regarded as the most comprehensive, understandable, and pragmatic guides to payment reform available. The materials developed by the Center for Healthcare Quality and Payment Reform will continue and build upon this track record of excellence.
- A national network of hundreds of payers, providers, purchasers, public officials, researchers, and thought leaders who are committed to moving forward on value-based payment and delivery reform has been assembled over the past two years through the NRHI Summits. The Center for Healthcare Quality and Payment Reform will build on this foundation to create an even broader national network and to provide opportunities for it to support changes at the national level.
- Many regional healthcare collaboratives have been working to advance initiatives in these areas, and the Center for Healthcare Quality and Payment Reform will utilize the expertise of these regional collaboratives to help other regions pursue similar initiatives. For example, the Pittsburgh Regional Health Initiative has done cutting-edge work to develop and demonstrate transformational changes in care delivery, ranging from its pioneering projects to reduce hospital-acquired infections to its current initiatives to reduce preventable hospital admissions and readmissions among patients with chronic disease. In both the infection-reduction and readmission-reduction projects, PRHI has documented the barriers imposed by current payment systems and is working to support the payment and delivery system changes needed to overcome them. Similarly, the Institute for Clinical Systems Improvement in Minnesota has developed the DIAMOND Initiative which includes both changes in payment structure and care delivery to improve outcomes for patients with depression. The Center for Healthcare Quality and Payment Reform will help to support the payment changes needed to institutionalize and expand these kinds of regional pilot projects.

Relationships with Other Organizations and Initiatives

The Center for Healthcare Quality and Payment Reform will work collaboratively with other organizations interested in similar issues. In particular, because of the Center's interest in encouraging action at the regional level, the Center will have a strong partnership with the Network for Regional Healthcare Improvement. NRHI's goal is to assist regional multi-stakeholder coalitions in their efforts to improve the value of healthcare delivery; the Center's goal is to identify and encourage implementation of specific changes in healthcare payment and delivery systems needed to improve value in healthcare delivery. Consequently, NRHI can help the Center identify those regions that are interested in payment and organizational changes, and

the Center can then help those regions design and implement changes as part of a broader program of technical assistance that NRHI is delivering.



The following are specific services that will be provided jointly by the Center and NRHI.

- **Development of Educational Materials on Payment Reform and Opportunities for Increasing Healthcare Value.** Information and research on issues related to payment reform, hospital readmission reduction, etc. will be developed by the Center for Healthcare Quality and Payment Reform and disseminated to NRHI members.
- **Technical Assistance/Facilitation for Payment Reform Pilots.** NRHI will encourage interested regions to pursue payment reform pilot projects, and the Center for Healthcare Quality and Payment Reform will provide support for those regions, including (a) making presentations to local leaders to explain payment reform concepts, (b) facilitating discussion among local leaders to select or design payment reform pilots, and/or (c) providing technical assistance to regional collaborative staff in planning a payment reform pilot.
- **Work Sessions on Key Payment Reform and Quality Improvement Issues.** The Center for Healthcare Quality and Payment Reform will organize periodic web-based work sessions designed to develop recommendations on key issues in payment reform and care redesign. Similar to the work sessions at the NRHI Payment Reform Summits, options for addressing the issue being discussed will be developed in advance of these virtual work sessions, so that the participants can engage in debate and discussion about how best to resolve the issue. Recommendations emerging from the work sessions will be turned into short position papers for distribution to regional healthcare collaboratives and relevant decision-makers.
- **Annual Summit on Value-Driven Healthcare.** The Center for Healthcare Quality and Payment Reform and NRHI will jointly organize an annual Summit on value-driven healthcare issues; the 2009 Summit will be focused on regional healthcare payment reform initiatives, as recommended by the attendees at the 2008 NRHI Payment Reform Summit.

Organizational Leadership and Staff

Leadership and Partnerships

A National Advisory Board is being established for the Center to provide advice and guidance on priorities and strategy. Stuart Altman, Sol Chaikin Professor of National Health Policy at Brandeis University, will serve as Chair of the Advisory Board, and Karen Wolk Feinstein, President and CEO of the Jewish Healthcare Foundation, will serve as Vice-Chair.

Both through the National Advisory Board and through other mechanisms, the Center will seek to develop close working relationships with other key organizations that can help to advance the Center's goals. The Center's goal is not to duplicate, but to complement the work of other organizations, and to focus its energies on issues and actions that can have an important impact but aren't being effectively addressed elsewhere.

Funding

The Jewish Healthcare Foundation has generously provided a grant to support operations of the Center for 2009 and 2010.

Staffing

Harold Miller will serve as the Executive Director of the Center. Miller has served as the Coordinator for both of the two national NRHI Payment Reform Summits and has authored all of the Framing Papers and Recommendations from the two Summits. In addition, Miller serves as the Strategic Initiatives Consultant for the Pittsburgh Regional Healthcare Initiative, giving him direct experience in the issues involved in both care delivery design and payment reform. Miller also served as the Facilitator for the Minnesota Health Care Transformation Task Force, which led to the passage of nationally-recognized legislation for payment and care delivery reform in Minnesota, and he has provided consulting assistance on payment reform and quality improvement initiatives to several other states and regions around the nation.

Miller will simultaneously serve as the President and CEO of the Network for Regional Healthcare Improvement (NRHI), enabling cost-effective coordination and sharing of resources between the Center and NRHI.

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