Pay-for-Performance Gathers Strength

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Pay-for-performance, or the idea of reimbursing health care providers based on quality and efficiency, has been gaining support in Congress and with health care providers. Pay-for-performance will ultimately benefit the Medicare system and will help control healthcare cost and motivate providers to focus on preventative healthcare. Currently, Medicare covers approximately 48 million individuals, with the majority of those individuals receiving benefits under a traditional fee-for-service structure. Under fee-for-service (FFS) Medicare providers are paid a fixed amount that is associated with a Current Procedural Terminology (CPT) code. These rates do not vary with the quality of care an enrollee receives, and generally do “not provide reimbursement for health services that are linked to quality, such as comprehensive case management, care coordination, health counseling, and many other services that may reduce the need for hospitalization or more expensive future medical procedures.” Since traditional fee-for-service payments offer little impetus to improve quality or avoid low-value services, they fail to provide clinical quality and efficiency. Furthermore,

although fee-for-service is responsive to patient demand for services in the sense that the health care system is responsive to the sickest patients who require more complex and higher levels of care, this type of payment structure offers no incentives to providers or patients to improve overall health status through preventive services or lower-cost interventions that ultimately reduce the demand for more complex clinical services. The systems pay for treating illness and injury, not for keeping people well.

In 2001, a groundbreaking report from the Institute of Medicine (IOM) first raised the radical idea of pay-for-performance in healthcare. The report stated that fundamental changes needed to occur in the U.S. health care system and charged purchasers and policy makers to create “an environment that fosters and rewards improvement.” In essence, pay-for-performance represents an attempt to redesign the payment system to provide incentives to providers who improve health outcomes while using resources

1 As of 2005, 42,394,926 of Medicare beneficiaries were enrolled in fee-for-service programs while 5,498,113 enrollees were enrolled in Medicare Advantage plans. See Kaiser Family Foundation, Medicare Enrollment as a percentage of total population, 2005, available at http://www.statehealthfacts.org/cgi-bin/healthfacts.cgi.
2 INSTITUTE OF MEDICINE, REWARDING PROVIDER PERFORMANCE: ALIGNING INCENTIVES IN MEDICARE, 26 (2007).
3 Id.
4 Id.
6 Id. at 182.
prudently.\textsuperscript{7} In explaining the concept behind pay-for-performance, the Institute of Medicine stated:

At the most basic level, improving care requires changes in the behavior of providers. Paying providers for improving performance or achieving superior levels of performance should motivate them to focus on doing so in measured areas. Pay for performance also has the potential to achieve change by influencing the environment in which providers practice. For instance, performance-based payment could make it attractive for both providers and provider organizations to invest in improved systems for tracking and enhancing the quality of care, making them better able to manage the health of the populations they serve. Ideally, pay for performance would encourage certain changes in structural and organizational practices, such as a new emphasis on comprehensive and coordinated care and collaboration across individual settings of care, and stimulate consumers to pay attention to quality practices.\textsuperscript{8}

Since the Institute of Medicine’s initial report, both the government and the private sector have initiated pay-for-performance programs. Currently there are over 100 pay-for-performance programs in the United States.\textsuperscript{9} Approximately twelve states currently have some form of pay-for-performance in their Medicaid program.\textsuperscript{10} Furthermore, the Centers for Medicare and Medicaid Services (CMS) is conducting the Physician Group Practice Demonstration (PGP), a three year study that rewards physicians for improving the quality and efficiency of health care services delivered under the fee-for-service framework.\textsuperscript{11} Under the Demonstration, participating physician groups continue to be paid on a fee-for-service basis but are eligible for performance payments derived from savings from the implementation of strategies designed to “anticipate patient needs, prevent chronic disease complications and avoidable hospitalizations, and improve quality of care.”\textsuperscript{12} Performance payments will be based on thirty two measures that focus on common chronic illnesses and preventive services.

While the effect of pay-for-performance initiatives has not been fully felt in healthcare, the appeal for these types of programs will continue as long as health care costs continue to rise for health plans and consumers and provider reimbursement continues to be reduced.

\textsuperscript{7} INSTITUTE OF MEDICINE, \textit{ supra} note 2 at 28.
\textsuperscript{8} Id at 27-28.
\textsuperscript{9} JULIE BAKER, CMS PHYSICIAN VOLUNTARY REPORTING PROGRAM, 5 (Price Waterhouse Coopers 2004).