

# Building a New Payment System: Stakeholder Perspectives on Principles and Elements

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# Presentation Overview

- HFMA's approach to payment reform
- Current payment system problems
- Principles of reform
- Elements of a new payment system
- Next steps



# HFMA's Approach

- Start with nation's healthcare goals
- Seek early input from key stakeholders
- Provide framework for reform efforts
  - Identify principles for reform
  - Identify elements of new payment system
  - Publish *Healthcare Payment Reform: From Principles to Action*
  - Promote dialogue through thought leadership retreats

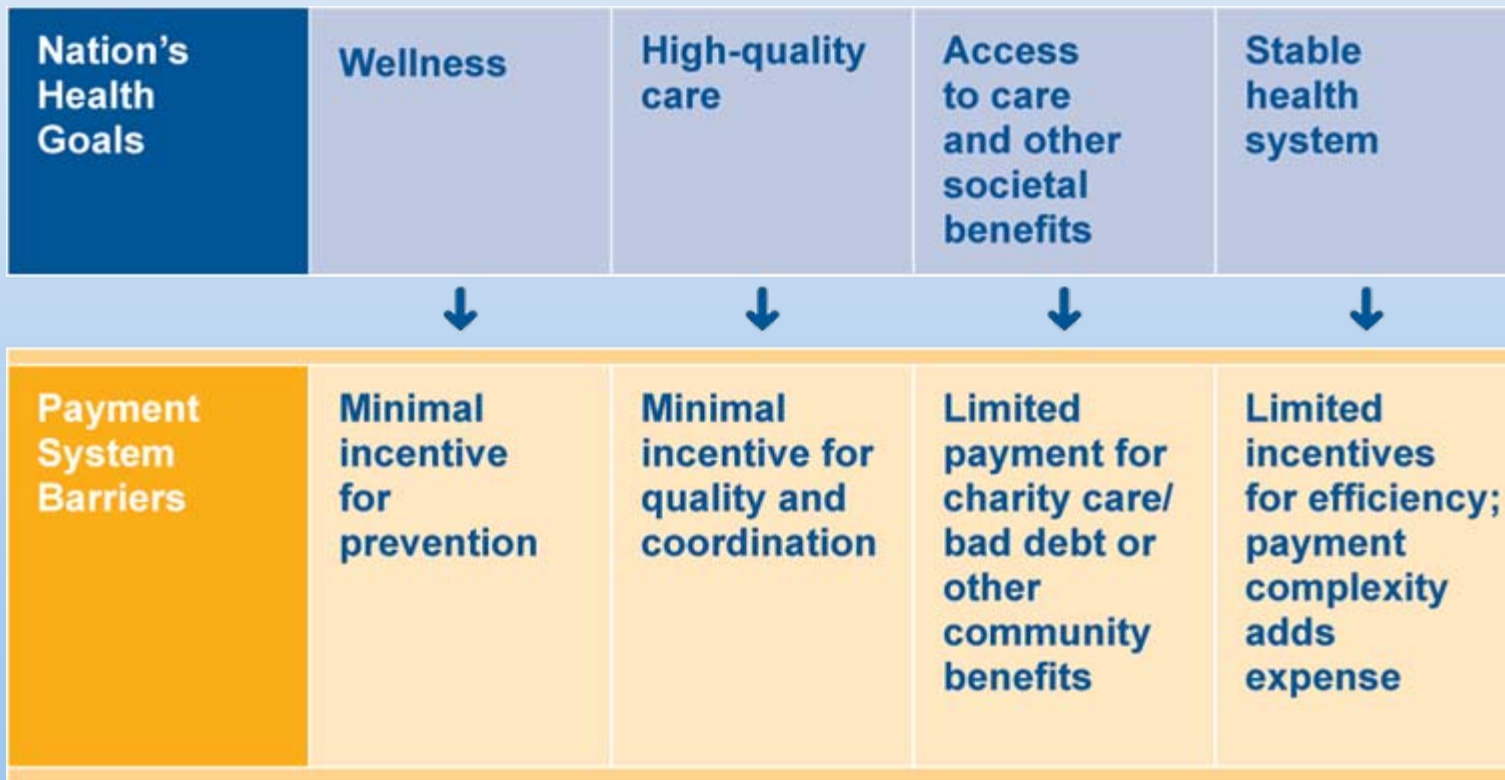
# Focus on Nation's Healthcare Goals

The healthcare payment system should support these goals.

<b>Nation's Health Goals</b>	<b>Wellness</b>	<b>High-quality care</b>	<b>Access to care and other societal benefits</b>	<b>Stable health system</b>
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# Current Payment System Barriers

The payment system blocks each of the nation's health goals.



# Key Stakeholders

- HFMA sought input of key stakeholders, including:
  - Healthcare leaders: CEOs, CFOs, others
  - Payers: America's Health Insurance Plans
  - Employers: National Business Group on Health
  - Physicians: Medical Group Management Association
  - Consumers: AARP/Access Project
  - Government: Medicare
  - American Hospital Association
  - And many others
- Convened at first thought leadership retreat, September 2007

# Reform Principles

- Quality
- Alignment
- Fairness/Sustainability
- Simplification
- Societal Benefit

# Reform Principles – Quality

- Encourage and reward evidence-based procedures
- Reward positive outcomes instead of processes
- Incentives for wellness system, not sickness care
- No payment for “never-events”

# Reform Principles – Alignment

- Align all stakeholders for efficiency and coordination
- Stimulate healthy choices
- Share decision-making processes with patients

# Reform Principles – Fairness/Sustainability

- Develop prices commensurate with cost and utilize services according to clinical need
- Match payment levels to financial requirements of efficient providers
- Give consumers incentives to pursue needed, high-quality care (including preventive care)

# Reform Principles – Simplification

- Reduce volume/complexity of communications to healthcare consumers
- Standardize system of payment methodologies
- Make payment methodologies transparent to those affected by them

# Reform Principles – Societal Benefit

- Recognize and compensate for societal benefits such as medical research, medical and public health education, and care of the disenfranchised and uninsured
- Encourage medical innovation to enhance high-quality, safe, and efficient care

# Reform Principles Support Goals

Each of the nation's health goals is supported by payment reform principles.



# Reform Principles – Stakeholder Consensus

- Broadest support on following principles:
  - *Quality*
  - *Aligning incentives*
  - *Simplification*
- Clear consensus on accountability, efficiency, shared responsibility, and use of evidence-based care
- Shared support for consumers to select healthy alternatives

# Reform Principles – Stakeholder Concerns

- Reaching agreement on outcome/quality measures
- Cost and speed of transitioning to new system
- Fostering a sense of urgency to change
- Revenue shifts from one group of stakeholders to another
- Defining and apportionment of societal benefits
- Behavioral changes in how consumers and providers view and practice health care

# Elements of a New System

Payment system design elements can support healthcare goals.



# Elements of a New System: Possible Payment Methodologies

- Fee for service. Payment based on each service provided.
- Per diem. Pre-established amount provided for each day of treatment for particular condition.
- Episode of care (individual provider). Global payment to single provider for related group of services.
- Episode of care (multiple provider). Global payment given to provider group for related group of services.
- Condition-specific capitation. Single payment for group of services for specific health condition.
- Full capitation. Single payment for group of services for nonacute health needs of covered group of individuals.

# Elements of New System – Stakeholder Risks

Stakeholder risks depend on the application of incentives.

	LOW PROVIDER INCENTIVE TO LOWER THE NUMBER OF EPISODES OF CARE			HIGH PROVIDER INCENTIVE TO LOWER THE NUMBER OF EPISODES OF CARE		
	Fee for service	Per diem	Episode of care (individual provider)	Episode of care (multiple providers)	Capitation: condition-specific	Capitation: full
Providers	←—————→			←—————→		Highest financial risk
Payers	←—————→			←—————→		Lowest financial risk
Patients	←—————→			←—————→		Risk of undertreatment
Employers	←—————→			←—————→		Risk of high costs from undertreatment

# Elements of New System – Examples

- Periodic, risk-adjusted payment for preventive services
- Condition-specific and risk-adjusted capitation for many chronic care services
- Global episode of care payment for accident or acute illness
- Specific identification and funding of societal benefit within or outside of direct care payment system

# Healthcare Payment Reform – Next Steps

- Second Payment Reform Thought Leadership Retreat, September 25-26, 2008
- Focuses on:
  - Effects of Revenue Redistribution
  - Sharing Investments and Savings
  - Standardizing Payment Approaches
  - Defining Societal Benefit Costs
  - Operational Infrastructure Needs

# Healthcare Payment Reform – Next Steps

## Key Issues to Resolve

- Patients must take responsibility for their health and be rewarded or penalized accordingly.
- Providers who take on more financial risk (e.g., capitation, warranties) should be rewarded accordingly.
- The use of quality measurement and reporting requirements should be better focused and coordinated.
- Cost shifting to commercial insurers because of underpayment by others must change.
- Funds should be redistributed to providers with more charity care.
- Societal benefit issues will be among the hardest to resolve:
  - Should the problem of the uninsured be made part of payment reform?
  - How should different types of societal benefit – care for uninsured, medical research and education—be quantified and compensated?

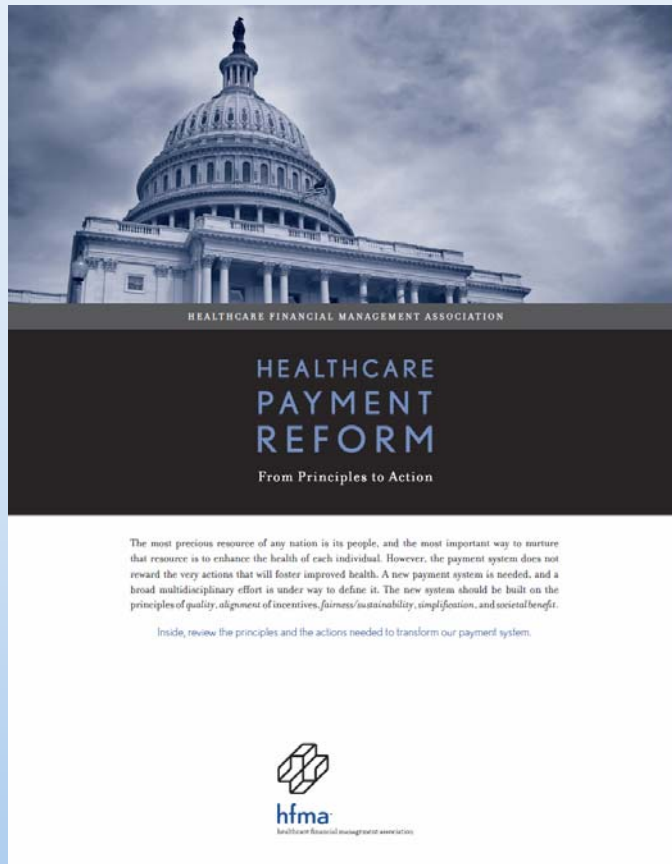
# Healthcare Payment Reform – Next Steps

## Retreat Follow-up

- Circulate small group proposals to stakeholders to achieve consensus
- Work out with stakeholders the operational details of reform proposals—the “how to”

# Payment reform will require...

making  
connections



[www.hfma.org/paymentreform](http://www.hfma.org/paymentreform)