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.

| Nation’s Health Goals | Wellness | High-quality care | Access to care and other societal benefits | Stable health system |
The payment system blocks each of the nation’s health goals.

<table>
<thead>
<tr>
<th>Nation’s Health Goals</th>
<th>Wellness</th>
<th>High-quality care</th>
<th>Access to care and other societal benefits</th>
<th>Stable health system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment System Barriers</td>
<td>Minimal incentive for prevention</td>
<td>Minimal incentive for quality and coordination</td>
<td>Limited payment for charity care/bad debt or other community benefits</td>
<td>Limited incentives for efficiency; payment complexity adds expense</td>
</tr>
</tbody>
</table>
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.

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<th>Payment Reform Principles</th>
<th>Quality Alignment</th>
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<th>Societal benefit</th>
<th>Alignment Fairness/ Sustainability Simplification Societal benefit</th>
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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.

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**Examples of Possible Payment Elements**

(Most address several health goals and payment principles)

- Annual payment to cover management of preventive care services for a patient
- Provider financial incentives for preventive services/outcomes
- Patient financial incentives for prevention

- Financial incentives based on use of evidence-based care
- Financial incentives based on patient outcomes, satisfaction
- Global payment that covers all care management for patient with chronic condition

- Regionally established separate payments made by all payers to hospitals to cover their costs of providing societal benefits, including medical and public education, research, and uncompensated care

- Provider financial incentives for preventive services/outcomes
- Patient financial incentives for prevention
- Global payment that covers all care management for patient with chronic condition
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.

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<th>Low Provider Incentive</th>
<th>High Provider Incentive</th>
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<tr>
<td><strong>Lowest financial risk</strong></td>
<td>Fee for service</td>
<td>Episode of care (individual provider)</td>
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<tr>
<td><strong>Highest financial risk</strong></td>
<td>Per diem</td>
<td></td>
</tr>
<tr>
<td><strong>Risk of overtreatment</strong></td>
<td>Providers</td>
<td></td>
</tr>
<tr>
<td><strong>Risk of high costs from inefficiency</strong></td>
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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...
www.hfma.org/paymentreform