



# MEDICAL MANAGER

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### Pay for Performance in Business

It is fairly common practice among businesses to financially award employee for good performance. If you've ever had a job in the business world, you've probably sat down for a performance appraisal with your boss, and possibly there was some kind of raise or financial bonus attached to the outcome. If this practice is good for business, it would follow that it could be good for other industries such as education and health care. However, how these performance measures are determined is a critical issue in all areas where pay for performance is used.

## PAY FOR PERFORMANCE HEALTH CARE?

With all of the current discussion and debate over health care reform, it seems everyone is looking for a way to improve our health care system and, more importantly, how to pay for the changes in care and coverage being proposed. It is not yet known what laws will eventually be passed, but another recent movement in health care reform is also worth considering—that of pay for performance health care. Research shows that nearly 75% of businesses connect at least some part of employee compensation with performance. Pay for performance health care is a system that awards physicians and hospitals financially for meeting certain goals in caring for their patients. A pay for performance system has been in place in the United



Kingdom for some years and some US states, including California, have experimented with their own systems. There are also over 100 private and federal pilot systems in the works. Obviously the issues with pay for performance are many, and we will discuss some of those in this issue of "Medical Manager". Controversies surrounding how performance is to be measured, how rewards are to be distributed, and what, if any, consequences for lack of performance will be given abound. But perhaps in all the discussion surrounding health care reform

going on today, pay for performance should be considered in the quest to find fiscal solutions.

We will look at several different studies of pay for performance situations as well as discuss the pros and cons being debated. Finally, we will point you to some resources where you can find out more about pay

for performance initiatives. Whatever changes in health care are coming, it is always best for physicians, as well as patients, to stay informed. And, as always, if MD Alliance Billing, LLC can help you in any way, please do not hesitate to contact our office.

Have a happy fall!  
Cloe Sill  
President  
MD Alliance Billing, LLC

## WHAT KIND OF INCENTIVES?

What's the bottom line on pay for performance incentives:

- California's program paid out bonuses of \$1500 to \$2000 to physicians who qualified
- Medicare's program awarded the top 10% of participating hospitals a 2% increase in payments and a 1% increase to the next 10% - one hospital was paid \$750,000 for raising quality of care four years in a row



*“Pay for performance care, also known as ‘value based purchasing’ pays providers based on the degree to which they meet pre-established goals for delivery of health care service.”*

*“A statewide pay for performance initiative was launched by the California Integrated Health Care Association in 2003 that included 7 major health plans and 225 physicians’ groups.”*

*“Medicare’s pay for performance, or P4P, programs were implemented in 2005 and involve both incentives for hospitals and physicians groups.”*

## WHAT IS PAY FOR PERFORMANCE?

Most medical care is paid for by Medicare and other insurance companies on a fee for service basis. Pay for performance care, also known as “value based purchasing”, pays providers based on the degree to which they meet pre-established goals for delivery of health care service. These goals are based on measurements of quality and efficiency. Additionally, penalties for not meeting those established goals have been proposed. Most programs that exist today in the US have been voluntary and results are mixed. Some have shown modest



improvement in quality of care, but cost savings have been minimal because of increased administrative time needed to process the meas-

urements and report the data. In the next two articles we will briefly outline two programs that have been implemented here in the US. Whether or not pay for performance is a long term solution for increased quality of care remains to be seen. There are certainly pros and cons which we will briefly outline on the next page. It will be interesting to see how this issue develops as further discussion about improving health care quality while cutting costs continues. As a physician, this is an important topic that should be carefully researched.

### CALIFORNIA PROGRAM

A statewide pay for performance initiative was launched by the California Integrated Health Care Association in 2003 that included 7 major health plans and 225 physicians’ groups. Under the program, physicians would receive financial bonuses for meeting certain

performance guidelines, such as increasing the number of diabetes patients who receive recommended blood tests. Other measures included improving patient experience and adoption of medical technology. Results were mixed—some physicians felt the incentives (between \$1500 and \$2000) were too small to en-



courage any real change. Others were concerned with the time and effort required to comply with the program was not cost efficient. Further study is needed.

### MEDICARE PROGRAM

Medicare’s pay for performance, or P4P, programs were implemented in 2005 and involve both incentives for hospitals and physicians groups. Quality standards for preventative care and treatment of chronic illnesses were outlined by the Center for Medicare and Medicaid Services. Participating hospitals and physicians groups were awarded bonuses based on reported scores for these measures.

Both programs have reported modest increases in quality and efficiency. Negative incentives for poor performance were recently added. However, the programs required initial monetary investment in a new system of case management for which funding was not provided, so costs were increased, making the value of the whole program questionable overall.



Some critics call it a “social experiment” that has little overall value in improving health care.

# PROS AND CONS

## Pros

- Most programs have shown some improvement in overall quality and efficiency
- Pay for performance, in theory, awards providers for better care for patients and focusing on preventative care
- Proponents argue that it can actually save costs in the long run by providing better care and preventing patients from return visits for the same illness

## Cons

- Increased administrative costs to comply with reporting requirements have been sighted across the board for these programs
- Some are concerned about physicians refusing to treat difficult cases where success may not be easy to report based on required measurements
- Issues of privacy and doctor/patient relationship and confidentiality come into play
- Debate over proper measurements for success continues—what determines a good outcome and where does a physician’s professional judgment come in?
- Is this just reducing health care to a list of items to check off?



*“Is this just reducing health care to a list of items to check off?”*

*“The true benefits of these programs may take more time to be realized and it is likely that investments in other quality efforts will be needed in addition to performance-based pay.”*

# RESPONSES

- American Academy of Family Physicians: "there are a multitude of organizational, technical, legal and ethical challenges to designing and implementing pay for performance programs"
- American Geriatrics Society: "quality measures (must) target not only care for specific diseases, but also care that addresses multiple, concurrent illnesses and (are) tested among vulnerable older adults. Using indicators that have been developed for a commercially insured population...may not be relevant"
- RAND research: "The true benefits of these programs may take more time to be realized and it is likely that investments in other quality efforts will be needed in addition to performance-based pay."

# RESOURCES

- American Medical Associate P4P Initiatives—[www.ama-assn.org](http://www.ama-assn.org)
- RAND research on pay for performance initiatives—[www.rand.org](http://www.rand.org)
- Wikipedia entry on pay for performance health care—[http://en.wikipedia.org/wiki/Pay\\_for\\_performance\\_\(healthcare\)](http://en.wikipedia.org/wiki/Pay_for_performance_(healthcare)).



- Medicare P4P Initiatives—<http://www.cms.hhs.gov/apps/media/press/release.asp?counter=1343>.

- New England Journal of Medicine article on California programs—<http://content.nejm.org/cgi/content/abstract/355/18/1895>

### Medical Manager Minute

Kevin MD, one of the most popular doctor bloggers, had this to say in a recent blog post (<http://www.kevinmd.com/blog/2009/03/does-pay-for-performance-work-and-will.html>)

“In effect, we are charging ahead full-bore in adopting these payment systems without knowing if they will really work. I suppose that any system is better than what we have now, which is essentially pay-for-quantity, giving financial incentives to utilize more medical care. But without definitive data, pay-for-performance proponents may be setting themselves up for disappointment once the effects of this type of reimbursement system are analyzed.”

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## REVIEW

- Pay for performance is a reimbursement system for medical care that pays doctors and hospitals based on performance on a set of defined quality and efficiency measurements
- Some pilot programs have been conducted in California and by Medicare nationwide
- While quality and efficiency do seem to improve slightly, there are major concerns over administrative costs, physician freedom, and patient privacy



- General consensus is that more research is needed to determine if this is a viable way to improve the quality of health care
- Several medical associations as well as prominent physicians online

have weighed in on the matter—check out their websites and blogs for more information

- MD Alliance Billing, LLC encourages you to look into any pay for performance programs that your office may be able to participate in so that you can find out for yourself if the quality and efficiency of your care improves
- If we can help you find out more about this topic or about our billing and practice management services, do not hesitate to contact our office