Medicare Demonstrations: Incentives for Healthcare Quality

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Outline of Discussion

- Medicare hospital P4P agenda
- Premier payment model
- Premier extension proposal changes
- Challenges and issues

Examples of Medicare Demonstrations

- DRGs for hospital prospective payments
- Medicare managed care and PPOs
- Critical Access Hospitals in rural areas
- Skilled nursing facility PPS
- Medicare disease management
- Hospital gainsharing (in development)

Scale of Medicare Demonstrations

- 30 demonstrations operational
- 12 demonstrations under development
- Most demos required by law
- Demonstration evaluations essential to guide future policies

CMS P4P Demonstrations

- Premier Hospital Quality Incentive Demo
- Physician Group Practice, in operation
- Medicare Care Management Performance Demonstration (small-med physician offices, in development)
- Nursing Home Value Based Purchasing Demonstration (in development)
- Home Health P4P (in development)

Medicare Hospital Value Based Purchasing Status

- Premier demonstration in completion stages
- Premier extension being considered
- DRA 5001(a) requires a CMS report on hospital P4P for FY 2009
  - Initial issues paper scheduled January 3, 2007
  - Public listening session meetings January 17,2007
  - Report to Congress scheduled August 2007

The Premier Hospital Quality Incentive Demonstration (HQID)

- CMS demonstration with Premier, Inc.
- Uses financial incentives to encourage hospitals to demonstrate high quality inpatient care
- Report quality measurement data on CMS website
- Test the impact of quality incentives
- Implemented Oct. 2003 to Sept. 2006
- Now in post-operational period, one year

HQID Hospital Scoring

- Hospitals scored on quality measures related to each of 5 conditions
- Roll-up individual measures into overall score for each condition
- Categorized into deciles by condition to determine top performers
- Incentives paid separately for each condition

HQID: Recognition & Financial Rewards

- Bonuses to top hospitals for each condition
  - Top decile given 2% bonus of their Medicare DRG payments for that condition
  - Second decile given a 1% bonus
  - Incentives paid as annual bonus amount
- Top 50% of hospitals in each clinical area publicly acknowledged on CMS website

Payment Model

- Incentives in proportion to Medicare payment amounts
  - DRG and area wage adjustments only, not IME, DSH, etc.
- Cases defined by principal diagnosis or procedure, procedures trump dx
- Hospitals not paid on DRGs have DRGs simulated (MD, CAH)
- All Medicare cases in dx or procedure are included in payment base
  - E.g., only elective, primary hip and knee replacements in quality measures, but all H/K in payment category

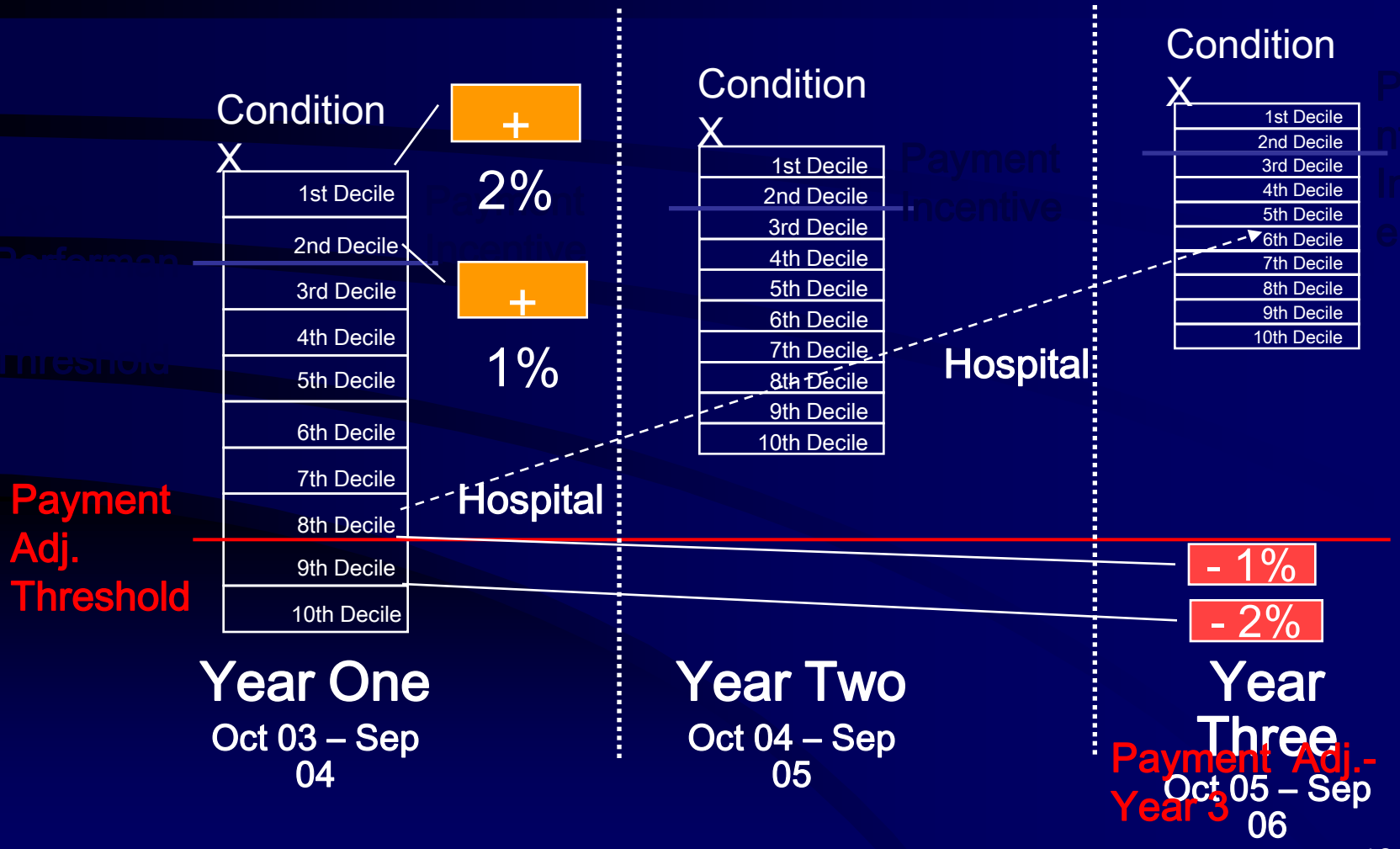
Steps to Determine Payment

1. Get list of ICD-9 codes for clinical category
2. Run data to determine payment amounts for all Medicare ffs discharges with those principal dx or procedure ICD-9 codes at each participating hospital
3. Determine hospitals with high quality
4. Calculate 2% or 1% of payment amounts for those hospitals

HQID: Year 3 Quality Score Must Exceed Baseline

- Demonstration baseline
  - Clinical thresholds set at year one threshold scores
  - Lower 9th and 10th deciles
- If performance in year 3 does not exceed baseline, hospital will receive payment penalty
  - 1% lower DRG payment for conditions below 9th decile baseline level
  - 2% lower DRG payment for conditions below 10th decile baseline level

Anticipated Payment Scenario



HQID Year 1 –Results

- Released November 14, 2005
- $8.85 million awarded to 123 top performers
- Top performers represented large and small facilities across the country

Policies Considered for Demonstration Extension

1. Incentives if exceed baseline mean, two years earlier
2. Pay for highest 20% attainment, not such a large gap between first and second deciles
3. Pay for highest improvement, must also exceed baseline mean
4. Hospital that qualifies for #2 and #3 receives the larger of the two

Lessons Learned

- P4P can work: provides focus and incentives
- P4P is inevitable, need to be prepared
- Modest dollars can have big impacts, continued improvement
- Measure roll up method less important than choice of measures and perception of fairness

Challenges to P4P Incentives

- Financial costs/ business case
- Scoring methods/ statistical problems
- Measure selection
- Public reporting
- Time lags of measures and incentives
- Need to prove effectiveness through objective evaluations

Challenges II

- Add other clinical areas
- Sharing rewards with physicians and other staff
- Coding requirements and costs
- Diagnosis present on admission
- Severity adjustments
- “Teach to the test” vs. overall improvements

Challenges III

- Social and racial equity
- Patient cooperation and compliance
- Develop crosscutting measures
- Develop efficiency measures
- Need for electronic records

More Information

- http://www.cms.hhs.gov/quality

Thank You

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