# Payment: the Long Hard Road from Cost and Charge Based Reimbursement to Value Based Purchasing

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# Let's Go Back 50 Years

**Medicare adopts Blue Cross methods**

- Hospitals paid costs
- Physicians paid customary, prevailing and reasonable charges
- Drugs not covered

# Medicare Transforms Payment

**Medicare sets payment rates**

- DRGs change how hospitals are paid
- RBRVS changes how physicians are paid
- Risk adjusters allow for Medicare Advantage

And private insurers adopt some of Medicare's innovations

e.g. nearly all private insurers use the RBRVS method to set rates

# More Reform is Needed

- Current systems reward volume not value
- Encourage “silos” not teams
- Some of the payment methods are difficult for private insurers to adopt
  - E.g. outpatient payment methods
  - DRGs do not apply to all patients

# The Next Generation of Payment Innovation

- Blended
- Bundled
- Global
- Price and quality transparent
- Based on value to Medicare beneficiary

# Example of Future Payment Models

- Medicare Advantage with providers at risk
  - Providers and health plan have the same financial incentives
  - E.g. Kaiser Permanente, Geisinger, Intermountain



# Medicare Advantage – Next Steps

- Most Medicare advantage plans still pay providers on a fee for service basis
- As a result, the provider's incentives to improve quality or reduce spending is limited
- Medicare could make it easier for plans to receive 4 and 5 star bonuses if they use value based payment methods

# Accountable Care Organizations

- Shared savings should be viewed as a temporary solution
- All ACOs should assume financial risk similar to Medicare Advantage

# Blended or Bundled Payments

- Hospitals, physicians and other clinicians should have identical financial incentives to reduce volume and improve quality
- Bundled payments eliminate silos and encourage care coordination
- Examples include:
  - Advanced Primary Care Practices
  - Bundled Payment for Care Improvement
- The real technical challenge is bundled payment for chronic conditions

# Value Based Payment

- Programs are underway
  - Value based  purchasing payment for hospitals
  - Similar programs are being phased in for physicians
- Next steps
  - Replace SGR with bonus payments for high performing providers and 0% updates for others
  - Increase value based payments and reward providers that participate in them

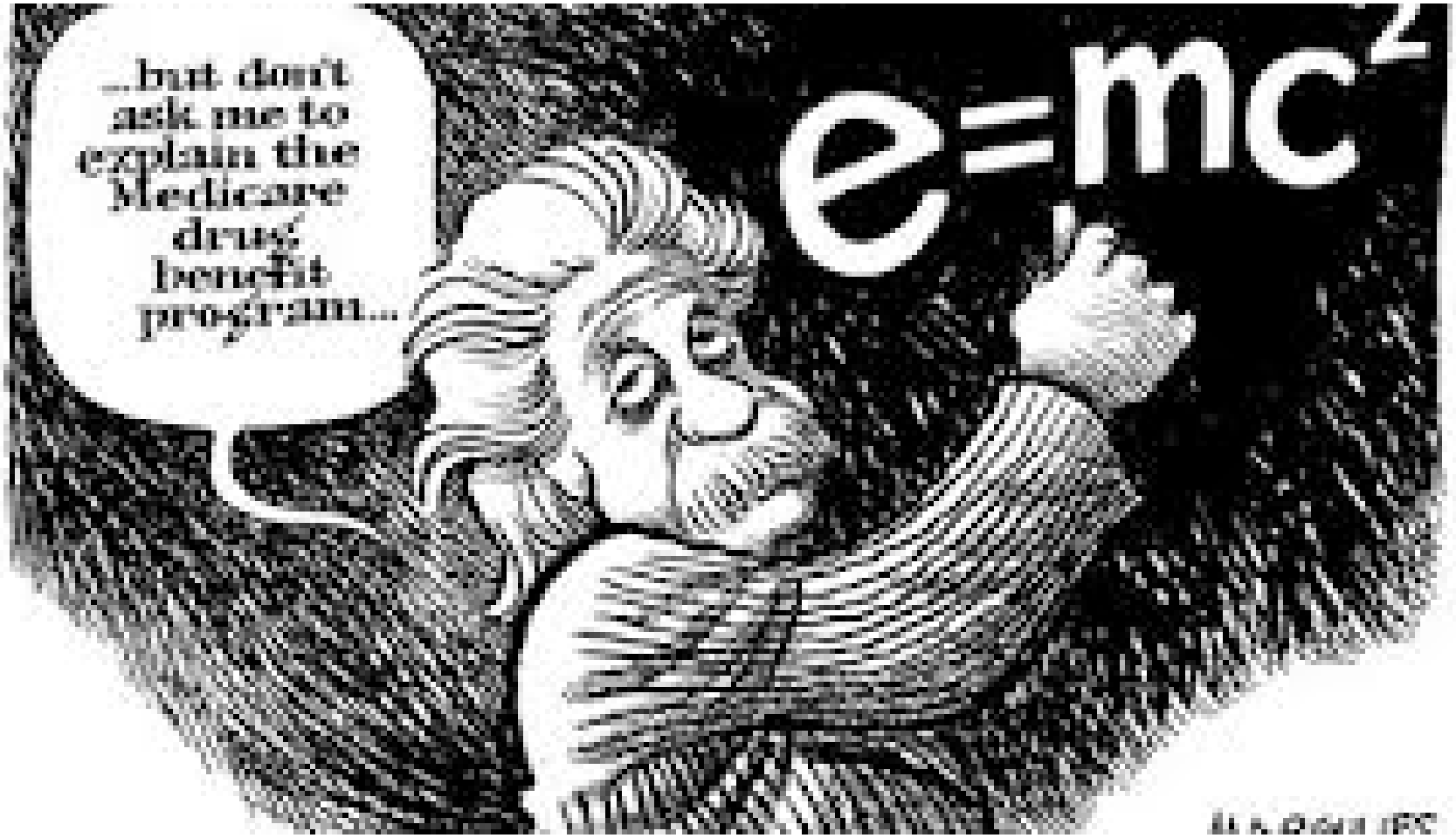
# Price and Quality Transparency

- Medicare programs should be price transparent
- Price transparency allows other insurers to adopt Medicare payment methods (but not necessarily the same payment rates)
  - This reduces administrative costs to both insurers and providers
- All of the Medicare programs are moving towards greater price transparency except for drugs

# Pharmaceuticals

- The federal government purchases drugs in many different ways and pays very different prices for the same drugs
- Typically the Medicare program pays higher prices for drugs than other governmental agencies
  - Currently the VA and DOD pay the lowest prices
- Medicare should be the model for other federal and state agencies in purchasing drugs
- Price transparency is a necessary reform

# Keep Payment Simple



# Bottom Line

- Medicare can be and should be the model for all insurers
- Medicare has the economies of scale to develop and maintain the payment methods
- Having all insurers using the same payment system (but not necessarily paying the same rates) will reduce administrative spending for both insurers and providers and facilitate the adoption of reforms such as bundling, value based purchasing

# Moving from Medicare Volume-Related Payment to Value-Related Payment