

AMERICAN HOSPITAL ASSOCIATION

PRINCIPLES FOR USING PAYMENT TO REWARD PERFORMANCE

Payers, both private and public, are considering and testing the use of “incentive payments” for hospitals to reward their performance, sometimes referred to as “pay for performance” or “incentive-based” approaches. Hospital leaders believe that the concept of rewarding performance excellence through payment may hold merit as a future form of payment for health care services. AHA’s Ad Hoc Committee on Paying for Health Services has been working to address this broader question of how to best structure payment to yield desirable outcomes – a discussion unfettered by existing payment rules and regulations.

In the meantime, “pay for performance” approaches are being implemented today. Hospital leaders have expressed concern that many of the approaches used to date have resulted in payment penalties, inequities and other serious consequences intended and unintended, for hospitals and the communities they serve. Concern has also been raised about the myriad of approaches being tried by insurers, leading to multiple requests for data and information and higher administrative costs for hospitals.

Hospitals are committed to improving the quality and safety of the care that they provide every day and to better health outcomes. They are committed to providing safe, effective, patient-centered, timely, efficient and equitable care to all patients. At issue are various proposals that intend to give hospitals incentives to improve their quality and overall performance.

The following principles reflect the views of many hospital leaders about incentive approaches to payment that are being used today or are under development. These principles reflect the field’s view of how such approaches could be shaped for the better. They are intended for use in leading and guiding discussions with payers – Medicare, Medicaid and private insurers – about workable and unworkable aspects of proposals to reward hospital performance.

Incentive approaches should:

In General...

- **Link hospital and physician incentives.** To be effective, incentive approaches must align hospital and physician incentives, encouraging all to work toward the same goals of improving quality and patient safety, providing both effective and appropriate care and creating better health outcomes. The successful alignment of

physicians and hospitals, both in terms of their performance and financial incentives, is imperative to successful incentive-based payment approaches.

- **Be developed collaboratively, involving all stakeholders.** Payers should be encouraged to come together with hospitals and physicians in collaborative efforts to structure payment incentive approaches. Together, payers, employers and providers should develop shared objectives, measures and payment methods and seek to minimize multiplicity of requests for information and data.
- **Be used to improve performance.** The use of payment to change incentives in today's health care system should reward providers for demonstrating excellence in *improving quality and patient safety and providing effective care*. Incentive-based payment approaches should not be used as further cost-cutting measures for insurers. To that end, such approaches should be financed using additional funds -- new money -- and not be applied in a "budget neutral" manner. When used in the context of today's reimbursement systems, incentive-based payment approaches should not result in providers receiving less than they otherwise would have been paid in the absence of an incentive approach.
- **Use positive, not negative incentives.** Incentive approaches to payment should use a system of rewards to increase payments or reduce regulatory burden for successful providers. Because government Medicare and Medicaid reimbursement as well as many private insurers today already pay less than the cost of care, incentives involving penalties should not be used.
- **Provide meaningful reward amounts.** Rewards provided through incentive-based payment approaches should be significant enough to motivate change in the behavior of hospitals and physicians. In setting the amount of performance rewards, payers should consider the costs to providers of implementing such approaches and amounts that would truly allow for reinvestment in quality improvement.
- **Not be used within reimbursement systems that currently underpay for care.** Rewarding performance improvement is not effective in a system in which hospitals are paid less than the cost of providing care for their patients. Payers must ensure adequate reimbursement first for the cost of providing care to their enrollees, then consider rewarding performance. As one in three hospitals are losing money overall under today's reimbursement systems, rewarding or penalizing hospitals in this environment has the potential of further splitting the field into financial "haves" (those that have financial resources today that can be applied to win additional rewards in an incentive payment system) and "have nots."

And in Developing Performance Measures...

- **Define performance based on improving quality.** The purpose of incentive-based payment approaches should be very focused on *improving quality and*

patient safety and providing effective care. Payment approaches should not reward performance determined solely on the cost of the care provided, as the relative cost of care can reflect things both within a provider's control (e.g., efficiency) and outside a provider's control (e.g., patient case mix, teaching mission). Challenges in selecting appropriate measures of performance and improvement must be overcome.

- **Reward based on evidence-based measures of adherence to quality improving “processes.”** By using evidence-based *process* measures (e.g., was aspirin provided at arrival to patients with acute myocardial infarction; were antibiotics provided one hour prior to surgery) that providers either are or are not performing, *every* provider has the opportunity to succeed, thereby improving quality and patient outcomes in the system overall.
- **Use measures that accurately recognize differences among hospitals and the patients they serve.** Measures should be selected to ensure that all hospitals have an opportunity to participate and succeed without bias or disadvantage. Measures with built-in biases (e.g., Medicare spending/payment measures) should not be used. Hospitals should be rewarded or not based on their own individual organization's performance.
- **Ensure that any performance measures used are updated regularly to accommodate changing treatment protocols.** If performance measures are to be used as a basis for rewarding providers, payers must ensure that those measures are up-to-date and flexible enough to accommodate changing technology and practice. In this way, appropriate care can be rewarded on an ongoing basis.
- **Be selected to minimize data collection burden for providers.** Creators of incentive approaches to payment should work to *standardize* measures of performance and data collection requirements across all payers.