



Key Elements in Developing and Implementing Payment Innovations

Synopsis

The recently passed health reform law establishes new payment initiatives to provide incentives for better and more efficient care. For these initiatives to be successful, they will have to produce changes in health care delivery, while allowing for the flexibility to tailor those changes to different circumstances. In a new report, *Developing Innovative Payment Approaches: Finding the Path to High Performance*, for The Commonwealth Fund Commission on a High Performance Health System, the authors discuss how the development, implementation, and evaluation of new approaches to paying for health care could be improved and how such improvements can help achieve the broader goals of health reform.

Background

Our current health care system is fragmented, with poor coordination and communication across providers, payers, patients, and settings. Driven by the fee-for-service payment system, the emphasis in health care delivery is on high-cost, intensive medical interventions rather than high-value primary care. To achieve the goals of health reform—improved access, enhanced quality, and slower cost growth—the health care delivery system must be reformed to emphasize coordinated, appropriate, and effective care. Delivery and payment system reform must occur in tandem to align system goals with financial incentives. However, because delivery and payment system reforms vary significantly across the nation, reform innovations must be flexible enough to meet the needs of all types of organizations and systems.

Policy experts have long recognized the need to change the way health care is paid for, and a variety of payment reform initiatives are under way in Medicare, Medicaid, and the private sector. The new health reform law builds on and goes beyond the current initiatives to improve quality and efficiency while cutting costs. The law calls for pilot projects on medical homes, accountable care organizations, bundled payments, pay-for-performance, and other payment and system innovations. Beginning in 2011, it creates a Center for Medicare and Medicaid Innovation within the Centers for Medicare and Medicaid Services (CMS) to oversee the development, implementation, and evaluation of pilots. Unlike the case in most current Medicare demonstrations, the new center will have the authority to extend or expand pilots if they are found to improve quality of care, reduce spending, or both.

Focus, Organization, and Management of the Innovation Center

The Innovation Center offers the potential to develop and implement needed payment reforms, but it must overcome a number of challenges to be successful. The following issues must be considered in establishing the center and designing, implementing, evaluating, and applying its initiatives:

- *Include Medicare, Medicaid, and the private sector in payment innovation pilots.* With some exceptions, Medicare rarely collaborates with Medicaid or the private sector when conducting pilots and demonstrations. Collaboration between the sectors could magnify incentives by sending consistent signals about what is valued across payers, reduce the administrative burden, and address unwarranted differentials in payment methods and rates among payers.

- *Use both a top-down and ground-up approach.* CMS should lead development and implementation of new payment policies, but should be open to and encourage initiatives developed and led by states or private sector entities.
- *Include an array of payment models, gain-sharing and risk-sharing arrangements and reward systems, with an emphasis on flexibility to modify pilots as experience is gained.* The pilots outlined in the PPACA, including the ACO model, medical homes, and bundled payments, should include an explicit set of objectives, and a system for monitoring and evaluating each pilot's performance relative to those objectives. The pilots should allow for adaptation to the environment in which the pilot is implemented, and use incentives to encourage adaptation.
- *Be flexible in determining the size of the pilots.* To ensure the new pilots can be successful in various environments, it is important the center initiates pilots that are large enough to have an impact in the areas in which they are implemented. The center must also allow for the development of smaller initiatives to facilitate testing and development of new approaches before they can be taken to scale.
- *Continue pilots as long as they are found to be effective and allow additional participants to join in if they meet eligibility criteria.* The appropriate time frame for each pilot will depend on its specific circumstances, objectives, and approach. Ongoing monitoring and evaluation will help determine whether to continue, adapt, or expand the initiative. Continuous monitoring will require a careful balance between design and implementation and measurement and evaluation.
- *Establish a support infrastructure and community-level shared resources for pilots.* Delivery system reforms will benefit from shared resources, such as health information exchanges and chronic care nurses. These may increase the probability of pilots' success while enhancing systemwide efficiency and effectiveness.
- *The results of the pilots should be considered in deliberations of any cost reduction entity such as the Independent Payment Advisory Board.* The center's activities should be coordinated with those of other entities like the Medicare Payment Advisory Commission and the Medicaid and Children's Health Insurance Program Payment and Access Commission. The Independent Payment Advisory Board should consider the results and recommendations developed by those entities in developing its recommendations on reducing Medicare and health system spending growth.

The new initiatives established by the Patient Protection and Affordable Care Act (PPACA) include:

- Patient-centered medical homes for high-need individuals, medical homes to address women's health care needs, and models to transition primary care away from fee-for-service-based reimbursement and toward comprehensive or salary-based payment. Community-based health care teams would support medical homes in small practices.
- Shared savings pilots for accountable care organizations (ACOs), an organizational model with local accountability to manage a continuum of care, with performance measurement and rewards for efficiency.
- A voluntary pilot program to test payment bundling for acute care episodes, including hospitals, doctors, and post-acute care providers.
- A Medicaid demonstration project in up to eight states to study the use of bundled payments for hospital and physician services provided during an acute care episode.
- A Medicaid global payment system demonstration project in up to five states, giving states the ability to adjust their current payment structure for safety-net hospitals from fee-for-service to capitated payment.

For more information on the delivery and payment reform provisions in the PPACA, see a [timeline on implementation of these provisions](#).

Overcoming Hurdles Faced by the Demonstration Program in Designing the Innovation Center

The pilots initiated by the Innovation Center will prove essential in developing rapid, large-scale innovation in payment, organization, and delivery of health care, but traditional demonstrations will continue to have a role. A number of obstacles have hindered the demonstration program. Though some were addressed by the PPACA, others must still be resolved lest they interfere with the operations of both the demonstrations program and the new center. Although many of these hurdles have a legitimate rationale, a balance must be struck between the need to protect the integrity of the programs and allowing for appropriate and necessary flexibility.

- *Transparency.* Increased transparency will help safeguard the integrity of the demonstrations and pilot programs while allowing for better and more timely decision-making.
- *Multipayer initiatives.* Multipayer initiatives are encouraged in the PPACA, and the establishment by and participation of the federal government in such pilots should be a high priority of the center.
- *Approval process.* The current demonstration process is long and burdensome because of the technical detail required, the need for agreement by parties inside and outside of government, and the large sums of money and public resources at stake. To encourage rapid innovation, the approval process should be simplified by increasing transparency and establishing clear lines of accountability.
- *Evaluation.* It is important to objectively monitor the successes or failures of the demonstration and pilot programs. However, the implementation of demonstration programs in constantly changing policy environments is often hindered by the need to adhere to rigid methodological criteria, the need for evolution as experience is gained from payment models, the absence of good baseline data, and difficulty defining and collecting data to populate measurements. Projects should be monitored to facilitate decisions on their continuation and expansion.
- *Translating pilots into policy.* Increased transparency and open discussion of policy changes and potential impact will help ease the process of turning successful pilots into successful programs. The PPACA requires submission of a biannual report to Congress on the activities of the Innovation Center and its results. Periodic congressional hearings on improvements will help translate lessons from the pilots into policy.
- *Resource availability.* There is bipartisan agreement that CMS is underfunded, and new resources are likely to be hard to come by. The PPACA earmarks funds for the center and the administration, design, and implementation of pilots, but careful thought should be given to the appropriate allocation of funds, including the timely availability of data to carry out pilots, support their implementation and monitoring, and develop awards and bonuses for participants; sufficient staff to oversee the pilots; and sufficient contracting funds to carry out evaluations.

Conclusion

The Patient Protection and Affordable Care Act provides a platform on which to build innovations with the potential to bend the health care cost curve, but its success will depend on whether the innovations can succeed in controlling costs and making health reform sustainable. The Innovation Center will be a key factor in achieving those objectives.

Citation

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