

Aligning Incentives for Value and Quality in the Medicare Program

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The high cost of health care in the U.S., projected at over 17 percent of the nation's Gross Domestic Product in 2009 and rising rapidly, puts increasing financial stress on businesses and their workforces and puts future generations of retirees at risk as it erodes retirement savings.¹ High premiums and out-of-pocket health care costs, in fact, are the American public's number one health care concern.² With health care spending projected to claim an increasing proportion of available resources, governments, businesses, and individuals will be forced to make difficult budget choices.

Although advances in medical science and health care technology have yielded gains in the quality of life and healthy life expectancy, there is broad evidence of excess costs, inefficient and poorly coordinated care, and variable quality.³ More expensive care does not necessarily translate into higher quality care, and our health system is not providing optimal value to its principal customers – patients, payers, and society at large.

Medicare is the largest single payer for health services in the U.S., accounting for more than one-fifth of national health expenditures in 2009.⁴ Medicare spending has grown steadily since the program's inception, putting increasing pressure on the federal budget and making it an important part of the health care problem.⁵ But Medicare, as the largest payer, can and must also play an important role in any solution to that problem.

In this presentation, we propose a new framework for Medicare provider payment reform that could help slow Medicare's cost growth, improve the value obtained for the dollars it spends, and serve as a model for broader health system change. The goals of this payment reform are to: 1) create incentives that empower health care providers to take broader accountability for the care and outcomes of their patients and enable them to benefit from doing so; 2) improve care coordination and reduce fragmentation of the delivery system; 3) slow the growth in Medicare outlays; and 4) serve as a model for private payers to enhance the value obtained for health care spending.

To date, efforts to increase value have centered on: developing appropriate measures of quality and efficiency; collecting data on provider performance according to those measures; establishing mechanisms for reporting those data so that payers, users, and providers can use them to make appropriate decisions and indicate, facilitate, and implement required improvements; and determining and operationalizing the criteria and methodology for financial incentives at the margin to achieve high performance. The next phase should be aligning the financial incentives not only at the margin but presented by the underlying payment mechanism to encourage and reward accountability and performance – in particular, higher quality and more coordinated and efficient care.

A flexible approach to calibrating payment rates and performance incentives, as well as disincentives for non-participation, will need to be implemented, learning as experience is gained, with rapid turnaround of programmatic information and monitoring of utilization and savings.

We face great peril if our health system continues on its current course of high cost and suboptimal performance, especially as other countries surpass us in improving mortality and other indicators of high quality care. In our very large and mostly privately owned and operated health care delivery system, changing payment incentives is one of the few tools available for inducing higher performance. The framework presented here shows how Medicare, using payment incentives could lead the nation to higher health system performance and yield great benefits for individuals, providers, and society as a whole.

NOTES

¹ C. J. Truffer et al., “Health Spending Projections Through 2019: The Recession’s Impact Continues,” Health Affairs 29, no. 3 (2010): 1-8.

² C. Schoen et al., Public Views on Shaping the Future of the U.S. Health Care System (New York: The Commonwealth Fund, August 2006).

³ Commonwealth Fund Commission on a High Performance Health System, Why Not the Best? Results from the National Scorecard on U.S. Health System Performance (New York: The Commonwealth Fund, July 2008).

⁴ C. Truffer et al., “Health Spending Projections Through 2019.”

⁵ Congressional Budget Office, The Long-Term Outlook for Health Care Spending (Washington: CBO, November 2007).