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
- 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

Year One
Oct 03 – Sep 04

Condition
- 1st Decile
- 2nd Decile
- 3rd Decile
- 4th Decile
- 5th Decile
- 6th Decile
- 7th Decile
- 8th Decile
- 9th Decile
- 10th Decile

Payment Adj. Threshold

Year Two
Oct 04 – Sep 05

Condition
- 1st Decile
- 2nd Decile
- 3rd Decile
- 4th Decile
- 5th Decile
- 6th Decile
- 7th Decile
- 8th Decile
- 9th Decile
- 10th Decile

Payment Incentive

Year Three
Oct 05 – Sep 06

Condition
- 1st Decile
- 2nd Decile
- 3rd Decile
- 4th Decile
- 5th Decile
- 6th Decile
- 7th Decile
- 8th Decile
- 9th Decile
- 10th Decile

Payment Incentive

Anticipated Payment Scenario

Year One
Oct 03 – Sep 04

Condition
- 1st Decile
- 2nd Decile
- 3rd Decile
- 4th Decile
- 5th Decile
- 6th Decile
- 7th Decile
- 8th Decile
- 9th Decile
- 10th Decile

Payment Adj. Threshold

Year Two
Oct 04 – Sep 05

Condition
- 1st Decile
- 2nd Decile
- 3rd Decile
- 4th Decile
- 5th Decile
- 6th Decile
- 7th Decile
- 8th Decile
- 9th Decile
- 10th Decile

Payment Incentive

Year Three
Oct 05 – Sep 06

Condition
- 1st Decile
- 2nd Decile
- 3rd Decile
- 4th Decile
- 5th Decile
- 6th Decile
- 7th Decile
- 8th Decile
- 9th Decile
- 10th Decile

Payment Incentive

Payment Adj. Year 3
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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