



Payment Reform to Improve Health Care

Ways to Move Forward

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Introduction and summary

Our health care system is broken. The United States spends more than twice as much on health care per person as all other developed countries yet we have some of the worst health outcomes, such as babies dying before their first birthday and overall life expectancy.¹ Nearly one in three people in our country are uninsured in a given two-year period² and another 25 million people in the nation are underinsured—devoting an inappropriate share of their incomes to medical costs.³ This unacceptable situation will continue to worsen unless we do something. We spent nearly 17 percent of our gross domestic product on health care last year but at the rate health care costs are growing we will spend 25 percent of GDP on health care by 2025. We cannot continue to have health care costs grow at this rate.

But the news is not all bad. Many experts argue that if we restructure how we pay for health care then we can slow the growth of health care costs while we improve the care Americans receive. The current health system reimburses doctors, hospitals, and other health care providers based on the number of visits and procedures that are done. As a result, health care providers' revenues and profits increase when they deliver more services and the cost of health care goes up.

But more services do not necessarily translate into better health care. In fact, they often produce worse outcomes. For many patients—especially the chronically ill, who account for more than 75 percent of health care costs⁴—spending more time face-to-face with a real person who helps them navigate the complicated health care system for the best overall care is what helps to improve their health and thus reduce health care costs.

Today we get what we pay for. When we pay for high-tech services and procedures, we get a health care system that emphasizes volume and intensity, paying for more services regardless of the value they provide. If we change the incentives by changing the health care reimbursement system so that we pay for value, not volume, then we have enormous potential to slow the growth in health care costs. Health care reform provides us with an opportunity to move in precisely this direction.

This paper is a result of a meeting convened by the Center for American Progress to evaluate payment reform proposals, identify where there is sufficient evidence, consensus, and capacity to move forward, and develop recommendations for action in health reform legislation to move toward a value-based system.

The experts we gathered together agree that the first step to reforming our health care system is to outline a vision of the health care system we want and write it into the legislation. This vision should then be used to guide and evaluate specific Medicare payment reforms, which in turn should be used as a template for payment reform across our health care system. This vision would promote value rather than volume through better coordinated care.

After agreeing to the importance of establishing a strong vision statement, we examined the most prominent payment reform proposals, among them:

- Rewarding the delivery of primary care through approaches such as the “medical home” and other care coordination programs that reimburse primary care practices to provide and coordinate patients’ care
- Bundling payment for episodes of care rather than paying for individual visits or procedures, again to coordinate care and improve outcomes
- Moving medical practices into integrated health delivery organizations and establishing payment arrangements that move toward so-called global capitation, which pays a single price for all the health care services needed by patients

The discussion revealed the opportunity and need for Medicare’s aggressive promotion and adoption of innovation. Specifically, our experts agree that Congress should authorize the Centers for Medicare and Medicaid Services, or CMS, to conduct a broad range of experimentation and then require its evaluation. Where success is evident from previous or new experiments, the group agreed that CMS should implement these reforms more broadly without additional legislation. These successful reforms could then be more effectively spread throughout the health care system.

To best stimulate innovation, CMS support for experimentation should not be limited to narrowly specified payment arrangements. Instead, subject to broad guidelines, CMS should encourage payment reform proposals from health care providers and insurers as well as develop and test its own ideas or collaborate on proposal development. This can be done through Section 646 of the 2003 Medicare Modernization Act, which provides a model for authorizing such broad-based experimentation. That authority has expired so Congress should reauthorize and expand it—both in the types of innovation CMS should pursue and in granting CMS authority for broader implementation.

Through this enhanced authority, CMS can then explore a wide variety of innovative health care payment arrangements to:

- Promote the delivery of primary care through the creation of medical homes and chronic care coordination programs

- Encourage the bundling of payments by episodes of care
- Develop shared savings and full or partial capitation payment approaches to expand coordinated and integrated care

In addition to expanded CMS authority, the group also largely agreed that Congress should move now to reduce inappropriate hospital readmissions, but recommended proceeding with care. There should be proper protections in place to protect vulnerable populations who may not have access to care after discharge. Policies should also target diagnoses for which a hospital readmission is often the result of poor care in the hospital or inadequate care after discharge rather than target particular hospitals. Because some readmissions reflect a transition problem—meaning that no health professional is responsible for the patient once he or she leaves the hospital—one solution is to focus on ways to promote the delivery of the care that should be delivered during that transition. Payment policy should therefore be revised to pay for transitional care that would ensure the coordination and continuity of health care as the patients move from the hospital to their home or another setting.

These proposals are detailed in the main body of this report. Slowing the growth in health care costs requires a transformation in the delivery of health care delivery—from the fragmented delivery of discrete services today to a true “system” of care that coordinates across the full set of services and providers. The path to that transformation lies in payment reform.

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