

# Value Over Volume

## Quality-Based Health Care Purchasing for State Policymakers

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### Summary

American health care costs are growing at unsustainable levels, consuming over 17% of the national economy. At some point in 2010, government's share of that growing bill is expected to pass 50%. There is ample evidence that more spending does not improve the quality of health care. In areas of the United States with higher health spending, fewer patients receive recommended levels of care and patient satisfaction is lower. A consensus is building among payers, consumers, providers and policymakers that the way we pay for health care is a large part of the problem. Currently providers are paid based on volume and the intensity of care; there is little financial return for preventing health problems. Providers are also paid regardless of the quality of care delivered, leaving no incentive to invest in quality improvement.

There is growing interest in radically reforming the health care payment system to reward quality and efficiency, or value, rather than volume. Quality based purchasing is a reorganization of incentives to promote better health outcomes, improved health status, lower costs of care, improved patient safety, and better patient satisfaction. As the nation's largest purchaser of health care, Medicare has embraced quality-based purchasing, conducting and testing over twenty pilot programs.

As substantial purchasers of health care, state government budgets are increasingly strained by escalating health costs and lagging quality. One in five Americans is covered by a state-run Medicaid program; state employee plans are very large coverage pools providing comprehensive coverage paying generous rates. States have other unique and important roles in the health care system – states license and train providers, regulate insurers, sponsor public health programs, collect and analyze health data, and have led the nation in health system innovation. States have a trusted role in educating the public and convening disparate stakeholders to collaborate on shared goals.

States have several options to implement quality-based purchasing. Improved transparency, including provider and health plan report cards, give consumers the tools they need to drive the market toward higher quality. At least 25 states no longer pay for “never events,” serious, avoidable medical errors. States have embraced pay-for-performance programs, awarding bonuses to health care providers who reach quality standards. States have begun steering consumers toward higher quality, more effective care by reducing cost sharing for accessing care through preferred providers. States have also begun to provide consumers with incentives to identify and reduce health risks, such as quitting smoking and complying with prenatal care. Some states are sharing the savings realized through payment reforms with the providers who helped generate the savings, providing another value incentive. States are experimenting with bundled payments, flat rates to cover a defined clinical episode of care. Others are considering global payments to providers to cover all costs associated with each consumer's health needs. To ensure fairness, payments are risk-adjusted,

providing more resources for patients with more needs. To counter incentives to reduce the quality of care, global payments are linked to quality bonus systems such as pay-for-performance. States have embraced other initiatives that support quality based purchasing such as patient-centered medical homes and formation of Accountable Care Organizations.

Current state laws and regulations may hold barriers to implementation of quality-based purchasing. Some of those barriers include anti-trust provisions, state regulation of insurance risk, ownership, privacy and security standards of health quality data and analysis, non-discrimination provisions, and interactions with federal law. States pursuing quality based purchasing reforms are advised to clarify state law to be supportive while recognizing the state's responsibility to protect the public.

Some important lessons have emerged from states that are pursuing quality based payment reform. It is critical to get all stakeholders to collaborate on a strategy through a fair and open process, to take the time necessary, start small and with the strongest partners, to coordinate across payers, be very clear on goals, emphasize patient education, engage the power of transparency and disclosure, invest in data and analysis, and plan for transitions. To guide states embarking on payment reform the Council of State Governments/Eastern Regional Conference Health Policy Committee has assembled a set of guiding principles for state quality based purchasing. The principles include the importance of aligning and fairly balancing the interests of patients, providers and payers, building the system to improve quality and foster innovation, rewarding efficiency to reduce the long term growth of health care costs, sharing savings among all stakeholders, promoting patient-centered care, and ensuring transparency.