

What is Pay for Performance?

Pay-for-performance is a radical change in healthcare payment. Just as Medicare's Diagnosis Related Groups (DRGs) transformed the 1980s in capitation altered the 1990s, so this new method of reimbursement will characterize this decade for healthcare providers and payers. Unlike the adoption to DRGs, however, P4P is a grassroots movement in which payers are developing proprietary methodologies. Medicare has crafted its own system, but commercial payers are setting up their own reward incentives as well.

All of these systems are founded in the realization that current reimbursement methods are doing little to curb healthcare inflation. Four years of escalating, double-digit premium increases are prompting payers to look for new answers. Payers and providers both recognize that the current reimbursement system carries scant rewards for performance. The best and worst providers receive the same payment, a system that arguably is more socialistic than capitalistic. The evolution of the American healthcare system toward one that rewards performance is a certainty. Some health plans have always had "pay for performance" initiatives in which some providers could earn bonuses. However, this new generation of P4P adopts consumerism as a partner. Most of the systems are paired with consumer incentives, or at least consumer awareness about the level of performance bonuses. As a Centers for Medicare and Medicaid Services (CMS) leader said recently, "Nobody wants to be at the bottom of the list that says quality at the top." The launching pad for today's P4P wave was the Institute of Medicine's (IOM's) report in 2001 that recommended incentive payments to spur quality in the healthcare system. This recommendation followed the IOM's 1999 report that related the startling finding that medical errors are a leading cause of death in this country, ahead of breast cancer, AIDS or motor vehicle accidents. The 2001 report, *Crossing the Quality Chasm: A New Health System for the 21st Century*, outlined a strategy that included broad themes to make healthcare safer and more accountable. It jumpstarted the Leapfrog Group, a coalition of large employers, to develop methodologies that would enable the delivery of high quality healthcare. Amid different methodologies, the motivation for P4P focuses on the following:

- Reducing errors
- Reducing clinical practice variation
- Reducing acute treatment episodes
- Publishing quality and cost data
- Tying bonuses to improvement
- Improving the efficiency of care delivery

Implementing new information technologies to facilitate quicker coordination and communication among treatment teams