Centre for Health Economics and Policy Analysis

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Funding, Financial Incentives, and Triple Aim

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2013 Annual CAHSPR Conference

Vancouver, British Columbia

May 28, 2013

Pay-for-Performance — What is it?

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Ontario Preventive Care Bonus Payment Scheme:

Pap smear	Proportion of FP's rostered female patients aged 35-69 who received a Pap smear for cervical cancer screening during the previous 30 months[c]	• 60% of target population: $220 • 65% of target population: $440 • 70% of target population: $660 • 75% of target population: $1,320 • 80% of target population: $2,200

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Ontario Diabetes Management Assessment Fee Code ($37.00)

- encourage the regular, comprehensive management of diabetic patients the regular, comprehensive management of diabetic patients
- maintain a diabetes flow sheet that tracked cholesterol, haemoglobin, retinal eye examination, blood pressure, weight, and other parameters relevant to diabetes management
- bill the code up to three times per year per diabetic patient

Economics, Agency Theory and Pay-for-Performance

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Question

How can the principal design a system of payment to ensure that the agent pursues the principal's goals rather than the agent's own interests?

Economics, Agency Theory and Pay-for-Performance

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Designing good P4P systems in health care is very difficult.

Pay-for-Performance: Does it Work in Health Care?

Systematic Reviews (Giuffrida et al. 1999; Armour et al. 2001; Town, Kane, and Johnson 2005; Rosenthal and Frank 2006; Christianson et al. 2008; Scott et al. 2011)

Rosenthal and Frank (2006): *". . . the empirical foundations of pay for performance in health care are rather weak."*

Christianson et al. 2007: *the evidence is not sufficient to inform the effective design and implementation of pay-for-performance*

Scott (2011): *". . . there is insufficient evidence to support or not support the use of financial incentives to improve the quality of primary health care."*

Pay-for-Performance: Does it Save Costs?

- Little or no evidence regarding net impact on costs
- Cost-per-unit change in service provision is often high
    - windfall gain to all those already meeting targets

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- Even if effective, as traditionally conceived it could never serve as the foundation for a concerted, comprehensive initiative to improve system quality
  - only a small share of provider activity can be targeted in this way
  - the approach requires creating a parallel "fee-schedule" of bonus payments linked a dozens of specific actions/diseases

Funding Matters

- Distinguish the use of targeted financial incentives from funding *per se*
- Funding schemes unavoidably create financial incentives
  - fee-for-service vs. case-based funding vs. capitation vs. global budgets
- Decades of research confirm that these incentives importantly shape provider behavior, system costs and (less well documented) quality
  - increased "prospectiveness" associated with greater cost control and no lower quality
  - alternative payment methods offer differing scope for innovative delivery arrangements and, consequently, non-financial initiatives to improve quality

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- Increased prospectiveness of funding with link to quality (but not necessarily specific actions)
- Increased funding linkages across primary, secondary, and institutional care
- Joint design of funding models and delivery models

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Some Examples

- Bundled Payment Models
- Shared Savings Models

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- Virtue in simplicity and transparency

Thank You