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healthcare financial management association

Building a New Payment System

The U.S. healthcare payment system doesn't work. It's unfair, illogical, and nightmarishly complex. Despite recent initiatives, it does not encourage high-quality and cost-effective care. And it struggles to fund care for more than 46 million people without health insurance.

But what should we do about it?

It was this question that led HFMA to bring together hospital and health system executives from across the nation to meet with a panel of experts representing payer, consumer, and employer interests at its Building a New Payment System thought leadership retreat this past fall in Washington, D.C.

HFMA's goal for bringing everyone together, according to president and CEO Richard L. Clarke, DHA, FHFMA, was to gain hospital and health system leadership's perspectives on and expand their thinking about:

- Principles of an ideal payment system
- Elements of a system that would embody these principles
- Potential barriers, implications, and actions to implementation of an ideal system

Clarke said he frequently hears HFMA members' concerns relating to payment issues with government and private insurers. "As you go through these conversations, it's very obvious that what we have is a massively flawed system that has inequities not only for providers—but at the end of the day, also for the patients that we serve," he said.

And merely recognizing these flaws isn't enough. "The industry needs to consider alternatives," he said. "And this is the beginning of the dialogue within HFMA as to what that payment system might look like."

The two-day retreat, which was sponsored by 3M Health Information Systems, as well as KPMG and McKesson, included presentations and facilitated panels with representatives of the various stakeholder groups describing key payment goals and concerns, a poll of attendees' views on payment system priorities, and interactive sessions where attendees discussed pros and cons associated with various payment principles and application of alternate payment structures.

The retreat served as the beginning of HFMA's thought leadership efforts in support of a new payment system. This paper is intended to report highlights of the events and ideas from the retreat. As additional research is conducted with various healthcare stakeholders in coming months, a formal paper discussing the concepts in relation to industry reform and HFMA objectives will follow.

Challenges of Today's Payment System

"Payment structures send very powerful signals about the types of care that those paying the bill would like to see delivered," observed speaker Paul Ginsburg, PhD, president and CEO of the nonpartisan policy research organization Center for Studying Health System Change. And yet, as Ginsburg noted, "Many of the current signals in today's payment system are not in accord with society's priorities."

Among weaknesses in today's payment system noted by many of those in attendance:

- The current payment system focuses on unit of care, encouraging greater volume of care delivery without regard to quality. (Strangely enough, sometimes the effects of low-quality care yield *more* payment because more units of care become needed for amelioration.)
- High-tech care is more valued than other services such as chronic disease management and coordination of care. In particular, payment for cardiac, orthopedic, and neurological services is typically much higher than what is seen for other types of services, which has spawned unbalanced clinical attention and market focus in these specialties.
- Separate payment by provider does not encourage cooperative efficiencies or prevention of redundancies. The result often is overuse of services and fragmentation of care.
- Payment doesn't always reflect relative costs.

This last point is particularly troublesome, since payment shortfalls may lead healthcare providers to raise prices elsewhere. Over time, such cost shifting often results in hospital prices that lose relationship to rational benchmarks, such as cost, value, or market demand. Such pricing is difficult for consumers to understand and for providers to implement.

What's more, a particular urgency surrounds this burden of uncompensated care.

Medicare and Medicaid—which often don't pay at levels to cover the costs of care—are taking up an increasing and unsustainable share of the economy. And demands on government payment are predicted to increase substantially, as the population of aging boomers—now becoming Medicare users—enters a life stage where they are likely to require greater use and intensity of healthcare services.

In addition, the number of uninsured and underinsured individuals continues to grow. Many of these self-pay accounts end up as receivables that won't or simply can't be paid. About 20 percent of the adult population under the age of 65 has medical debt, noted Mark Rukavina, executive director for The Access Project, a research affiliate of the Schneider Institute for Health Policy at Brandeis University. "Many of those people—about two-thirds—have insurance. They're trying to do the right thing, and the payment system obviously isn't working for them," he said.

Speaker List

The Building a New Payment System thought leadership retreat featured perspectives from those representing government, employer, managed care, and consumer interests. Those speaking at the invitation-only event, which was sponsored by 3M Health Information Systems, KPMG, and McKesson, included:

- John Casillas, founder and president, the Medical Banking Project
- Jeff Conklin, PhD, director, CogNexus Institute
- Carol Cotter, CIO, Lifespan
- Susan Delbanco, PhD, CEO, The Leapfrog Group
- Paul B. Ginsburg, PhD, president and CEO, Center for Studying Health System Change
- Karen Ignagni, president and CEO, America's Health Insurance Plans
- Mark Rukavina, executive director, The Access Project
- Bruce Steinwald, director, health care, U.S. Government Accountability Office
- Derek van Amerongen, MD, vice president and chief medical officer, Humana Health Plans-Ohio
- James C. Vertrees, PhD, senior economist, 3M Health Information Systems

Perspectives on Change

Although the challenges associated with today's payment system may seem relatively obvious, determining where change should begin is no easy task. In health care, each stakeholder group brings its own priorities for a payment system, and those priorities frequently conflict. Adding to the challenge is that every attempt to solve the problem seems only to reveal new aspects of the problem.

Consider just a glimpse at the types of questions that could arise when discussing just one of the principles that an ideal payment system might be expected to include: encouragement of quality.

How do you define quality? Who will bear the costs of investing in technology to facilitate quality data reporting and analysis? Will lack of patient compliance affect a provider's quality scores? Does level of quality need to be balanced with cost? Should employers and consumers have to pay more for higher levels of quality? Is it fair to provide higher quality of care to those who can afford it? If uniform pricing associated with quality is put in place, could insurers' lose their purchasing leverage to negotiate lower prices on behalf of their customers? Because patients see multiple physicians over time and often at the same time, how do you determine quality throughout the patient encounter and beyond to ensure that the provider delivering high-quality care is the same receiving the associated payment?

There are similarly dizzying discussions as you bring in other principles a new payment system might embody and various payment models that could affect implementation.

It's easy for conflicting priorities to lead to a state of inaction, said Bruce Steinwald, director, Health Care, U.S. Government Accountability Office. "Even though there's a lot of sentiment for healthcare reform, there's a natural inclination among participants in the field to not want to do anything that could cause their vested interests to be compromised."

Yet, he continued, as mandatory spending encumbers an escalating share of federal reserves—for example, with Social Security and Medicare obligations jumping from $13 trillion to about $39 trillion from 2000 to 2006—clearly, the current system can't be sustained.

"If everyone could get together and make some sacrifices that were seen to be equal in nature, we might have a better chance for reform," Steinwald said.

Principles of a New Payment System

With this in mind, a natural first step to an improved payment system seems to be seeking an alignment among stakeholders about the types of guiding principles that a new incentive structure might embody. Such principles could then guide evaluations of payment system alternatives and potential payment implications of broader healthcare reform proposals.

To initiate such a discussion, HFMA introduced the following principles for attendees to examine.

Who Participated?

Nearly 100 healthcare executives from across the nation attended the Building a New Payment System thought leadership retreat. A self-reporting audience survey shows more than two-thirds of those attending were health system executives, with the remainder split almost equally between executives from freestanding hospitals and nonprovider service organizations, such as consulting firms. Most were in C-level positions, with 65 percent CFOs/vice presidents in finance, 13 percent CEOs/presidents, and 12 percent other executives.

Payment processes should be simple. Transactions should be streamlined and automated in such a way as to reduce significantly the per-claim cost of billing, adjudication, and payment when compared with the current system.

Payments should cover the full, reasonable cost of care. Payment levels should be set to cover the financial requirements of efficient providers (including reasonable provisions for capital reserves). Cost shifting or payment shortfalls should be eliminated or substantially reduced.

Payments should align incentives for efficient care. Payment systems should provide aligned incentives among the many providers who participate in an episode of care to eliminate redundancy and ensure that care is provided at the right time, at the right place, and in a cost-effective manner.

Payments should reward high-quality care. Payment systems should provide incentives for high-quality processes and protocols that use evidence-based models of care and meet or exceed standards of quality and safety.

Payments should cover the costs of broad social benefits. Payment systems should explicitly identify and cover the costs of healthcare activities that are of a broad benefit to society, such as medical education, research, and health promotion.

Payment systems should stimulate innovation. Payment systems should reward innovators who develop technologies, venues, and procedures that enhance safe, high-quality, and effective care.

Attendees at the retreat broke into small groups and discussed priorities and possible implications associated with these payment principles. The hospital executives were largely supportive of them, with the ranking of

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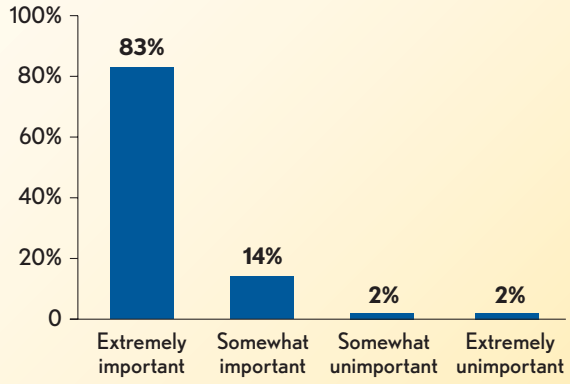

"extremely important" being given to the coverage of full, reasonable cost of care by 83 percent of respondents; to alignment of incentives for efficient care by 71 percent, and to simplicity by 61 percent.

When asked which principle they thought was least important to achieve, many of those attending indicated stimulation of innovation (41 percent) and coverage of social benefit costs (21 percent).

It is important to note that many attendees also recommended inclusion of a principle that would encompass respect for the healthcare consumer and an articulation of this role within the payment system.

What's Next?

Key next steps to change the payment system include clarifying the principles of an effective payment system, identifying elements needed to enact the principles, and gaining consensus regarding both the principles and elements from key stakeholder groups, including hospitals, physicians, health plans, employers, community groups, and government.

Those attending the thought leadership retreat examined some elements by which the principles might be enacted. The groups did not endorse or rule out any payment system models, but objectively explored strengths and weaknesses relative to the proposed principles.

However, much work remains to achieve broad consensus around payment system principles and elements. In coming months, HFMA will present a paper that includes a version of the principles and elements based on additional research and input from diverse stakeholders, and will be working hard to achieve formal consensus.

Clarke vowed that HFMA will remain dedicated to improving the industry's payment structure as part of its commitment to its members and the communities they serve, noting that "the payment system is a critical issue to the way in which healthcare reform for our nation will evolve."

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