



ALTERNATIVE PAYMENT STRATEGIES: MUST-KNOW DEFINITIONS THAT WILL IMPRESS YOUR COLLEAGUES

Even before the Patient Protection and Affordable Care Act (ACA) became law in 2010, private and public payers were working to control health care costs. One of the objectives of the ACA is to “reduce the growth of health care costs while promoting high-value, effective care.”¹ To support this objective, the ACA created the [Center for Medicare and Medicaid Innovation \(CMMI\)](#),² which funds projects to test different ways to deliver and pay for quality health care. These strategies move away from traditional fee-for-service to value-based payment and reimbursement models. These models are designed to achieve the “[Triple Aim](#),” a health system performance framework. The goals of the Triple Aim are to:

- 1) Improve the patient experience of care, including quality and satisfaction,
- 2) Improve population health, and
- 3) Reduce the per capita cost of care.³

Efforts to reduce health care costs and promote quality have led to new ways to pay for health services. This glossary can help Title V staff, family leaders, policymakers, providers, advocates, and others become familiar with alternative payment strategy definitions.

Value-Based Purchasing (VBP)

Value-Based Purchasing describes strategies that link financial incentives to providers’ performance on a set of defined measures (Damberg, et al 2014). Payers (private and public insurers, etc.) offer incentives to providers for containing costs while meeting certain quality standards for their patients. Examples include:

1. **Accountable Care Organizations (ACOs):** health care organizations comprised of doctors, hospitals, and other health care providers work together to coordinate

their patients’ care. This group of providers agrees to be accountable for the overall costs and quality of care for a patient population. In ACOs, providers can receive a share of the savings for improving care delivery and meeting certain quality and spending targets negotiated between the ACO and the payer (insurer). They also take a financial risk for not meeting the performance standards (Damberg, et al., 2014).

Visit the National Academy for State Health Policy (NASHP) [State ‘Accountable Care’ Activity Map](#) to learn more about ACO activity in your state.⁴

2. **Bundled Payments:** health care providers are paid based on the expected costs for a clinically defined episode of care or a bundle of related health care services. As with ACOs, reimbursement depends on meeting financial and quality performance goals. The various ways to define an “episode of care” include:

- Payment for a defined period of time such as one year for a chronic condition, or
- The period of a hospital stay and 30 days post-discharge, or
- Single or multiple types of health care providers (e.g., hospital only, hospital and ambulatory provider) who receive a set amount of money for working together to manage their patients’ health care.

Bundled payments may also be called episode-based payment, episode payment, episode-of-care payment, case rate, evidence-based case rate, global bundled payment, and global payment (Damberg, et al., 2014).

¹http://www.hhs.gov/about/strategic-plan/strategic-goal-1/index.html#obj_d

²<https://innovation.cms.gov/>

³<http://www.ihl.org/engage/initiatives/TripleAim/Pages/default.aspx>

⁴<http://www.nashp.org/state-accountable-care-activity-map/>

3. Pay-for-Performance (P4P): uses financial incentives to motivate providers to achieve a set of performance goals the payer wants. Providers get rewards, such as bonuses or shared savings, for meeting quality and/or efficiency benchmarks. They are also penalized (payments are reduced) for not meeting their goals (Damberg, et al., 2014).

Value-Based Insurance Design (VBID)

Value-Based Insurance Design describes alternate payment relationships between a payer (such as a self-insured employer) and the people covered (employees). To promote the use of evidence-based health services that are highly effective and low cost, VBID plans reward the consumer with lower out-of-pocket costs (and other incentives) based on how beneficial a specific health service or prescription is (Fendrick, 2009). Examples include:

- Design by Service: Waives or reduces copayments or coinsurance for select drugs or services that are highly effective for treating a health condition,
- Design by Condition: Waives or reduces copayments or coinsurance for medications or services based on the specific clinical conditions patients have,
- Design by Condition Severity: Waives or reduces copayments or coinsurance for high-risk members who would be eligible for a disease management program.

To date, most VBID initiatives focus on adult populations.

Patient-Centered Medical Homes (PCMH)

PCMH is often mentioned in connection with alternative payment strategies. It is a model of care delivery that supports the Triple Aim by paying for quality rather than volume of services. PCMH promotes the relationship between the patient and primary care provider. It focuses on the importance of coordinated primary care.

There is no single definition for PCMH, but practices have to adopt certain features. These may include using electronic medical records, providing after-hours care, and engaging patients as partners in their own care. See more PCMH features at [National Committee for Quality Assurance PCMH Crosswalk](#).⁵

⁵<http://www.ncqa.org/Programs/Recognition/Practices/PatientCenteredMedicalHomePCMH/PCMH2011PCMH2014Crosswalk.aspx>

⁶<http://www.ama-assn.org/ama/pub/advocacy/state-advocacy-arc/state-advocacy-campaigns/private-payer-reform/state-based-payment-reform/evaluating-payment-options/shared-savings.page>

⁷<http://www.hdwg.org/catalyst/publications/vbp>

Insurers may reimburse practices for their efforts with P4P (e.g., bonuses, shared savings⁶) and/or Per Member Per Month (PMPM) payments when providers meet certain performance criteria. Examples include reducing their patients' hospital admissions or coordinating care for patients with chronic illnesses.

Want to know more about Value-Based Purchasing and children with special health care needs? Read the Catalyst Center policy brief "[The Affordable Care Act and Value-Based Purchasing: What's at Stake for Children with Medical Complexity?](#)"⁷

References

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LT Leticia Manning, MPH, MCHB/HRSA Project Officer

Health & Disability Working Group
Boston University School of Public Health
The Catalyst Center

Primary author: Kate Jankovsky, MSW

Contributing authors: Angela Wangari Walter, MSW, MPH, PhD, Yiyang Yuan, MPH, Beth Dworetzky, MS

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