

Value-Based Health Care Requires Value-Based Payment

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There are many opportunities to redesign healthcare delivery in order to produce better outcomes for patients, lower spending for payers, or both. However, current methods of paying for healthcare services make it difficult or impossible to initiate and sustain these higher-value approaches. The reason is that most healthcare payment systems, including fee-for-service, case rates, capitation, and global budgets, create one or more of the following barriers to delivering high-value care:

- **No payment for higher-value services.** There are many cases in which a service that produces better outcomes or costs less cannot be delivered because there is no payment for that service. For example, many physicians have been unable to deliver cost-effective care management and telehealth services because there are no payments or inadequate payments to support them.
- **Inadequate payment to sustain essential services at lower volumes.** Fees for services and case rates are typically set so that revenues cover costs at current levels of volume. However, if value-based care results in fewer patients needing services, a provider's revenues can fall short of the cost of sustaining adequate minimum service capacity.
- **Failure to recognize differences in patients and their health problems.** The outcomes that can be achieved and the costs of achieving those outcomes differ for different subgroups of patients, but most payment systems fail to adequately adjust for these differences.
- **Short time horizon for returns on investment.** Preventive care, care management, and other services that result in lower net spending over a multi-year period can require higher spending in the short run than what has been budgeted or planned by payers.
- **Higher costs for better outcomes.** Although better outcomes for patients will often result in lower healthcare spending, that is not always true. In some cases, higher-value care will require an increase in healthcare spending beyond what has currently been budgeted.

Most efforts to create "value-based" payments have failed to encourage or sustain higher-value care delivery because they fail to remove these barriers. For example, pay-for-performance and shared savings payment systems typically do not provide new payments for innovative services, and bonuses tied to quality and spending measures are inadequate to cover the costs or losses associated with delivering higher-value care. Moreover, the performance-based payments can inappropriately penalize providers who treat more complex patients or reward them for failing to deliver services patients need.

Fortunately, it is possible to design true value-based payment systems that will support high-value healthcare delivery. Examples of these kinds of payments and the process for developing them will be described at May 14th in the VBHC community week in a live session with the possibility to ask questions. One of the secrets to success is to recognize that value-based *payment* must be specifically designed so it provides adequate support for value-based *care*, rather than merely trying to "incentivize" it through bonuses or penalties. The innovators who are showcased through the Value-Based Prize each year provide the kinds of insights into high-value care delivery that are needed to develop truly successful value-based payment systems.