

# New health-care payment system slows spending while improving patient care

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In a new study with implications for state and federal efforts to reform payments to doctors and hospitals to encourage greater coordination of care, Harvard Medical School researchers found that a global payment system underway in Massachusetts lowered medical spending while improving the quality of patient care relative to the traditional fee-for-service system.

The study, published today in the [New England Journal of Medicine](#), examined the Alternative Quality Contract (AQC), which was first introduced by Blue Cross Blue Shield of Massachusetts (BCBSMA) in 2009 and now includes more than a third of the insurer's provider network.

Among the study's findings:

- The medical spending was nearly 2% lower among physicians and hospitals participating in the AQC compared with those in traditional fee-for-service contracts. Importantly, for physicians and hospitals with no previous experience in a global payment model, spending was 6% lower than that of providers in traditional fee-for-service contracts. These year-one savings were largely the result of physicians changing referral patterns and shifting care to lower-cost facilities. By the end of year-1, quality of care among AQC providers was significantly higher than that of non-AQC providers in the BCBSMA network, especially for adults with

chronic illness and for children.

- Because the AQC contract shared savings with providers, rewarded providers for quality and, in some cases, include provider support for [infrastructure development](#), the total dollars paid to AQC groups in the first year likely exceeded the savings achieved through reduced medical spending.
- This outcome reflects the design of the AQC, which focuses on slowing the growth of spending and improving quality initially, rather than saving money in the first year.

"The finding of reduced spending, together with improved quality in year-one of the contract is significant," says senior author Dr. Michael Chernew, Harvard Medical School. "For policymakers contemplating improved payment models for US health care, reducing medical spending while improving quality and outcomes is the Holy Grail. While much remains to be seen over the next years of these AQC contracts and as the model expands to other providers, these early results provide reason for optimism."

Chernew noted that changes in referral patterns like the kind accomplished in the AQC's first year can subsequently affect pricing in the health care market, as high-price facilities feel pressure from decreased volume. He also noted that the significance of the changes in physician thinking and behavior that are required to accomplish such changes in practice should not be understated.

Provided by Harvard Medical School

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