Moneyball in Medicare? It's working, study says

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Incentives for hospitals to improve their quality and reduce costs do work, according to a new University of Michigan study.

The research shows that hospitals that participate in such programs benefit not only from direct payment from patients' treatment but also the good scores they get from patients on the treatment they receive.

"Hospitals traditionally think that how much they get paid by Medicare is just the predetermined payment for a patient with a particular condition," said Edward Norton, professor of health management and policy at the U-M School of Public Health and professor of economics at the College of Literature, Sciences, and the Arts.

If an elderly patient comes in with a heart attack, Medicare will not only reimburse the hospital for that hospital visit, but also pays an additional amount when hospitals do well on a variety of quality measures, he said. The total reimbursement, therefore, depends on how that patient affects all of the quality measures and how that changes the hospital combined score, which ultimately affects the financial payments to the hospitals in the future.

Norton, who is a member of the U-M Institute for Healthcare Policy and Innovation, and colleagues used data from the Hospital Value-based Purchasing Program, a national program that rewards or penalizes hospitals based on their quality and episode-based costs. It also incentivizes integration between hospitals and post-acute care providers.

In their analysis, the researchers estimated the magnitude of the marginal future reimbursement for individual patients across each type of quality and performance measure. Then, they described how these incentives differ across hospitals, including integrated and safety-net hospitals.

"We found that hospitals improved their performance over time in the areas where they have the highest incentives to improve care, and that integrated hospitals responded more than non-integrated hospitals," Norton said. "If a patient does really well, they're happy, they go home,

they don't die, they're not readmitted, the hospital's measures improve and the hospital will make more money in the future. So the total reimbursement for that patient is higher.

"If, on the other hand, the patient has a bad experience, doesn't get proper care, they spend a lot of money and then die within 30 days, all the measures get worse and the hospital is penalized financially, possibly even enough that the hospitals could lose money overall."

Norton said their study also showed that there is a wide range when it comes to financial incentives.

"For a lot of patients, there are actually no financial incentives to do better," he said. "But for some patients and some measures, it can be up to tens of thousands of dollars, so some hospitals have a large financial incentive to do better.

"When hospitals have a larger financial incentive to improve, they're more likely to improve. And that's really important because the whole premise of this program is to have a financial reward for doing better."

The study is published in the September issue of the *Journal of Health Economics*.

More information: Edward C. Norton et al. Moneyball in Medicare, *Journal of Health Economics* (2017). DOI: 10.1016/j.jhealeco.2017.07.006

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