

Study outlines strategies to test new payment models for health care

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A new RAND Corporation study outlines methods that might be used to test a novel payment system for medical care that would provide doctors, hospitals and other health providers a set fee for treating an ailment such as hip replacement surgery.

Proposals to pay health providers for so-called "episodes of care" have gained momentum during the ongoing debate about national [health care reform](#) as a strategy that could both curb medical spending and improve the quality of care.

While payments based on episodes of care have been widely discussed, the approach is largely conceptual with little real world experience that might help guide the design or adoption of the strategy, according to the study published in the September/October edition of the journal *Health Affairs*.

Researchers from RAND Health analyzed claims information from a large group of Medicare beneficiaries and identified key issues that should be considered to help determine how to define episodes of care and identify which provider is accountable for an episode.

"While using episodes of care as the basis for payment has enormous potential, we found there are many unanswered questions that must be addressed before moving forward," said Peter Hussey, the study's lead author and a policy researcher at RAND, a nonprofit research organization. "We've identified steps that should be taken to help move

from concept to implementation."

Critics of the current payment system for health care say it encourages overuse of services because physicians and others are paid separately for each procedure or test performed.

Under an episode of care approach, some or all of the services related to the management of a patient's chronic or acute medical condition would be grouped together and paid for in a lump sum. For example, public or private insurance programs might make a single payment for all of the physician, facility, and pharmacy services related to care for conditions such as implanting an artificial hip or managing a patient's diabetes.

Supporters of the strategy say it would shift the financial incentives in a way that would encourage providers to eliminate unnecessary procedures and tests, as well as promoting the best quality care to help [patients](#) stay healthy or recover quickly.

The RAND study highlights some of the challenges that must be overcome in designing a program to test the utility of paying for medical care based on episodes of care.

Among those challenges is defining what provider is responsible for managing treatment for different conditions, a complicated task because patients frequently are treated by a wide variety of providers and in numerous settings for many different problems.

For example, RAND researchers found that in more than half of the hip fractures they examined among Medicare beneficiaries, patients were treated in four or more different settings. For some conditions, including diabetes and low back pain, most patients were treated in just one setting.

In addition, many of the patients studied had multiple chronic conditions such as high blood pressure and elevated cholesterol levels. Encouraging a single-condition focus through an episode-based payment plan may not be optimal for these patients, according to the study.

RAND researchers outline several applied studies they say would facilitate more rapid movement of episode-based payment approaches from concept to implementation beyond the approaches used in the current pilot studies.

Among the issues studies must address are: how to define an episode of care; understanding the sources of variation within episodes of care; and whether some types of providers would be put at undue financial risk if their patients were treated under an episode of care scheme.

"Our analysis shows that doing these sorts of studies at the beginning of an evaluation period could help answer some important questions and increase the chance of success during real-world evaluations of episode-based payments." Hussey said. "Our recommendations serve as a starting point for a more-robust testing agenda."

Source: RAND Corporation

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