MEDPAC Medicare Payment Advisory Commission

MEETING BRIEF

April 24-25, 2003

Using incentives to improve quality in Medicare

ISSUE: Should Medicare use its demonstration authority to evaluate payment differentials for providers on improving quality in Medicare? How do we design incentives to minimize unintended consequences? In which settings can CMS begin to evaluate the use of payment differentials for providers?

KEY POINTS: Medicare already uses non-financial incentives and many other tools for improving quality, but, generally, the current payment system is neutral toward quality and fails to reward plans or providers who improve quality. Private payers' experience with several types of incentives to improve quality seems to suggest that the most promising incentive not yet used by Medicare is provider payment differentials. Medicare has a chance to play a leading role in implementing this type of incentive.

However, because of its size, Medicare would need to be cautious when implementing provider payment differentials to avoid unintended consequences. This chapter suggests strategies CMS could use to avoid unintended consequences by its choice of measures, and its mechanism for distributing payment.

Because a robust set of well-accepted measures and a standardized method of data collection exists in two settings — Medicare+Choice plans and inpatient rehabilitation facilities — we suggest that CMS could start with these settings to implement demonstrations linking payment to quality. We also suggest goals for further research or demonstrations to identify measure sets or data collection methods for hospitals, physician practices, skilled nursing facilities, home health agencies and dialysis facilities.

ACTION: The Commission should discuss the draft recommendation for CMS to use its demonstration authority to learn more about broadly implementing payment differentials for providers. The Commission should also provide staff feedback on the guidance the chapter provides to CMS on the focus of the demonstrations.

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