The Future of Payment Reform

Michael Chernew
Health spending exceeds income growth by:

<table>
<thead>
<tr>
<th>Decade</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>1970s</td>
<td>2.2%</td>
</tr>
<tr>
<td>1980s</td>
<td>3.2%</td>
</tr>
<tr>
<td>1990s</td>
<td>1.6%</td>
</tr>
<tr>
<td>2000s</td>
<td>2.7%</td>
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Perspective Matters

- **Total spending**
  - Most comprehensive measure of health system performance

- **Government spending**
  - Most relevant for taxes
### Medicare’s Challenge

<table>
<thead>
<tr>
<th>Excess spending growth per beneficiary (percentage points)</th>
<th>Medicare share of GDP in 2035 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>8.0</td>
</tr>
<tr>
<td>1</td>
<td>6.6</td>
</tr>
<tr>
<td>0.5</td>
<td>6.0</td>
</tr>
<tr>
<td>0</td>
<td>5.4</td>
</tr>
</tbody>
</table>

Share in 2015 was 3.6 percent. To remain at 3.6 percent of GDP in 2035, real demographically-adjusted Medicare per beneficiary spending needs to grow at a rate of 2 percentage points below GDP. Faster GDP growth would imply slightly lower Medicare shares for any amount of excess spending growth.

Sources: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, National Health Statistics Group; and US Department of Commerce, Bureau of Economic Analysis and Bureau of the Census.
Total state spending on Medicaid now surpasses K-12 education.

Source: National Association of State Budget Officers (NASBO). State Expenditure Reports.
Private Health Care Spending is not Sustainable
Solutions
What will slow spending growth

- Payment reform
- Consumer strategies (benefit design)
Payment Reform

- Pay less
  - Reductions in payment to providers

- Move away from FFS
  - Episode bundles
  - Population based payment (ACOs)
Top MIPS performers could out-earn APM participants for years

Physician fee rates as a percentage of 2015 levels

**MIPS “Exceptional” Performer**

**MIPS Top Performer**

**Advanced APM**

**MIPS Base**

**MIPS Bottom Performer**

Source: Data compiled based on fee update and performance-based bonuses and penalties under the two incentive programs outlined in the Medicare Access and CHIP Reauthorization Act of 2015.

Note: Advanced APM line excludes contract performance and MIPS excludes the use of a conversion factor that can magnify a MIPS bonus or penalty by as much as three times to ensure budget neutrality.
Alternative Payment Models
Basic Features

- Transfer risk to providers
- Include P4P
- Data support
Value Based Payment
From Volume to Value
Transforming Health Care Payment and Delivery

Employee Benefits
Produced in Cooperation with the Employee Benefit Research Institute and the International

In Tough Economic Times, Employers Turn to Value-Based Health Care

The Strategy That Will Fix Health Care
by Michael E. Porter and Thomas H. Lee

Reconciling Prevention And Value In The Health Care System
Michael Chernew, J. Sanford Schwartz, and A. Mark Fendrick
Why Do We Call It
“Value Based Payment”

JUST A SPOONFUL OF SUGAR HELPS THE MEDICINE GO DOWN
Episode Payments

Some evidence of savings

- Some lower spending in episodes with post-acute care\(^2,3\)
  - PAC spending decreased ~20% (incl. SNFs, IRFs, Home Health)\(^3\)
- BPCI saved ~4% on orthopedic episodes\(^3\)

Savings may be offset by increased episode volume (Fisher, 2016)

No consistent quality impact BPCI\(^1,2\)

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