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## P4P Primer

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## **P4P “Primer”**

Pay for performance (P4P) is a strategy that rewards healthcare providers for improving the quality and cost-effectiveness of care they deliver to patients. P4P is viewed by many as a solution to soaring healthcare costs, rising malpractice fees and growing quality concerns. An increasingly popular concept among businesses and health plans, the Federal government is also beginning to implement P4P initiatives via the Centers for Medicare and Medicaid Services (CMS).

P4P is defined by the Leapfrog Group as “incentive programs designated to overcome the limitations of current reimbursement arrangements by aligning financial rewards with improved outcomes.”<sup>1</sup> P4P programs set expectations, measure performance, and present rewards based on the results.<sup>2</sup> The three primary objectives of P4P are:

- Creating a fair payment system,
- Creating financial incentives for improved outcomes, and
- Encouraging providers to add efficiency by stretching financial resources.<sup>3</sup>

The key players in P4P are providers, payers and the federal government. Commercial health plan and government P4P programs exert pressure on providers (i.e., physicians and specialists) to perform well with respect to quality benchmarks and to share their quality scores or rankings publicly in order to receive financial incentive payments.

According to Kaveh Safavi of Solucient (an information products company that serves the healthcare industry and maintains the nation’s largest healthcare database), providers are most concerned about the fairness of P4P payment methods. Some payers (ie, healthcare insurance companies) provide the P4P incentive payments to physicians based on the magnitude of improvement in performance on certain measures. Physicians argue that providers who demonstrate high quality pre- and post-implementation of P4P receive less of an incentive than those whose performance went from poor to good.

In an article for Physician Executive, Lawrence Fink describes P4P as a program that “disvalues medical ethics.” He writes that P4P is driving providers out of the system and leading to the establishment of concierge service medicine.<sup>4</sup> While Fink believes that the ethical components of beneficence and non-maleficence are lacking in P4P programs, others believe that there is nothing unethical about offering incentives to physicians to encourage good quality.

Although the U.S. healthcare system is more advanced than other nations’, its considerable resources are being used inefficiently. Among the current initiatives to improve efficiency in health care are:

- Rules of engagement for efficiency, established by a collaborative effort among the Agency for Healthcare Research and Quality (AHRQ), Bridges to Excellence and The Leapfrog Group.<sup>5</sup>
- Health Plan Employer Data and Information Set (HEDIS) measures for payers scheduled to be introduced in 2008 by the National Committee for Quality Assurance (NCQA.)

- Cost-efficiency improvements envisioned by the Medicare Payment Advisory Commission (MedPAC), a Federal government initiative.

In its recommendation to the Congress, MedPAC asked that a portion of Medicare payments be made to hospitals, physicians, home health agencies, providers of dialysis patients, and Medicare Advantage (MA) patients based on quality.<sup>6</sup> Another government agency, the United States Department of Health and Human Services, provides data sharing and a reporting mechanism for hospital quality indicators.

Medicare should, at minimum, get the best value possible for the dollars spent.<sup>6</sup> The rate set aside by Medicare for P4P initiatives is 1-2% of current payments per provider. Pay-for-performance will alleviate one of Medicare's historic problems – the system makes equal payment to providers regardless of the quality of care they deliver.<sup>1</sup> Under a P4P program, provider payments will be based on their ratings on a set of quality indicators.

**Summary:** P4P is a strategy aimed at aligning healthcare provider payments with the efficiency and quality of care delivered. Specific quality standards are set by the CMS, JCAHO, and NCQA/HEDIS. Ongoing evaluation of P4P programs will determine their effectiveness in changing patterns of healthcare delivery and improving quality.

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