Medicare Urged to Use Pay-for-Performance System

BY JANE ANDERSON
Contributing Writer

The U.S. Department of Health and Human Services should gradually replace Medicare's current payment system with a pay-for-performance system that would reward physicians and other providers for efficiency along with patient-centered, quality care, according to a report from the Institute of Medicine.

Pay-for-performance plans do not yet have an established track record of improving care, so IOM's report, "Rewarding Provider Performance: Aligning Incentives in Medicare," urges a phased-in program that will evaluate pay-for-performance initiatives as they are implemented.

Pay for performance will help transform the Medicare payment system into one that rewards both higher value and better outcomes, Robert Reischauer, Ph.D., president of the Washington-based Urban Institute, said at a press briefing sponsored by IOM. Dr. Reischauer served on the committee that wrote the report.

"The committee does not feel that pay for performance is the magic bullet," he said. "Pay for performance should be considered one of several key elements needed to restructure the current payment system."

Any changes in Medicare's payment system would need to be approved by Congress.

The panel's report urged lawmakers to adopt an initial system that would reduce base Medicare payments across the board and use the money to fund rewards for strong performance. At the same time, Medicare officials would evaluate the program to make certain it is having the desired effects.

The proportion of Medicare payment withheld would be small at first, and providers would be compensated both for excellent work and for improving their performance in areas that encompass care quality, efficiency, and "patient centeredness."

"We are recommending a performance-based system in which both excellence is rewarded and significant improvement is rewarded," Dr. Reischauer said. "Everyone can play and everyone can get back the money that was withheld initially from them."

Many large health care providers and organizations already have the capacity to begin participating in a Medicare pay-for-performance system and should be required to do so as soon as it is launched, the IOM report said. However, participation by small physician practices should be voluntary for the first 3 years.

Gail Wilensky, Ph.D., a senior fellow at Project HOPE and a member of the IOM panel, said she would expect most physicians to welcome a new, pay-for-performance–based system.

"Many physicians have complained that, when participating in Medicare, they are penalized if they provide care that's more prevention-oriented," said Dr. Wilensky, who noted that a pay-for-performance–based system would reward those physicians. "This is in many ways a response to some of that criticism by physicians."

Panel member Dr. Robert Galvin, director of global health care for General Electric Co., agreed.

"There is a substantial percentage of physicians who like these programs [and] who like the idea of working in teams and having their performance rewarded," Dr. Galvin said. "There is already a culture shift going on." ■

The full report is available at www.iom.edu.

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