



Hospital Field Unified Principles on Rewarding Performance Excellence

Payers, both private and public, are considering and testing the use of incentive payments to reward hospital performance, sometimes referred to as “pay-for-performance” approaches. The goal of these approaches is to explore how payment adjustments and incentives can be structured to improve care quality. And hospital leaders believe that the concept of rewarding performance excellence holds merit.

In the meantime, pay-for-performance approaches are being implemented today. Hospital leaders have expressed concern that some of the approaches used to date have resulted in payment penalties, inequities and other serious consequences intended and unintended, for hospitals and the communities they serve. Concern has also been raised about the myriad of approaches being tried by insurers, leading to multiple requests for data and information and higher administrative costs for hospitals. And while a system exists today to measure hospitals’ quality and collect and report data on hospitals’ performance, such a system does not exist for most other providers, leaving no means at the moment for encouraging all providers to work together toward a common performance improvement goal.

Hospitals are committed to improving the quality and safety of the care that they provide every day. They are committed to providing safe, effective, patient-centered, timely, efficient and equitable care to all patients. At issue are various proposals that intend to give hospitals incentives to improve their quality and overall performance.

The following principles reflect the field’s view of how such approaches should be shaped to be fair and effective. They are intended for use in leading and guiding discussions with payers – Medicare, Medicaid and private insurers – about workable and unworkable aspects of proposals to reward hospital performance.

- **Hospital, physician and other providers’ incentives should be aligned.** To be effective, pay-for-performance approaches must align hospital, physician and other providers’ incentives, encouraging all to work together toward the same goals of improving quality and patient safety, providing both effective and appropriate care and creating better health outcomes. Measures and systems for collecting and reporting performance information for all types of care providers should be created. Special attention should be paid to creating performance measures across different providers that drive toward common improvement goals and link desired performance changes.

- **Incentive approaches should be developed collaboratively, involving all stakeholders.** Payers should be encouraged to come together with hospitals and physicians in collaborative efforts to structure payment incentive approaches. Together, payers, employers and providers should develop shared objectives, measures and payment methods and seek to minimize multiplicity of requests for information and data. **The goal of incentive approaches should be to improve performance.** The use of payment to change incentives in today's health care system should reward providers for demonstrating excellence in *improving quality and patient safety and providing effective care*. Incentive-based payment approaches should not be used as further cost-cutting measures for payers. Payment approaches should not reward performance based on the cost of the care provided, as the relative cost of care can reflect things other than performance (e.g., patient case mix, teaching activity, research).
- **Incentive approaches should provide rewards that will motivate change.** Rewards provided through incentive-based payment approaches should be significant enough to motivate change in the behavior of providers without placing too much at risk at an early stage in this payment experiment. In setting the amount of performance rewards, payers should consider the costs to providers of implementing such approaches and amounts that would truly allow for reinvesting in performance improvement.
- **Incentive approaches should be implemented incrementally.** There has been little well-designed evaluation of pay-for-performance approaches and existing research shows mixed results. In most approaches, the driving element behind performance improvement cannot be identified. As payers continue to explore this concept, it should be phased-in to allow continued testing of concepts as they are tried.
- **Quality improvement and quality attainment both should be rewarded.** The purpose of incentive-based payment approaches should be very focused on *improving quality and patient safety and providing effective care*. A program that rewards only high performance may discourage lower performers from engaging in quality improvement efforts. In contrast, a program that rewards only for improvement can direct resources toward providers that may be more in need of those resources, but could ignore providers that have already attained exemplary performance. A pay-for-performance program should provide incentives to providers for both attainment and improvement to reward a broad group of providers for their efforts.
- **The measures used to assess performance should be developed in an open and consensus-based process and selected to streamline performance measurement and reporting.** The quality measures used in a pay-for-performance system should be developed through an open, transparent and consensus-based process. As a result, only measures that have been endorsed by the National Quality Forum should be included in such a program and among those measures. Additionally, in order to streamline measure sets, decisions on which measures to include in the pay-for-performance program should coincide with measures selected for reporting by the Hospital Quality Alliance.

- **The measures used to assess performance in a pay-for-performance system should be evidence-based, tested, feasible and statistically valid.** To assist the process of measure development and refinement, as well as to provide hospitals with experience in using the measures, measures should be extensively tested among a broad group of hospitals before they are included in a pay-for-performance program. Only those measures that have been shown to be highly valid and reliable during field-testing should be used.
- **The measures should accurately recognize differences among hospitals and the patients they serve.** Measures should be selected to ensure that all hospitals have an opportunity to participate and succeed without bias or disadvantage, particularly for hospitals that serve a sicker or more vulnerable population of patients. Measures with built-in biases (e.g., Medicare spending/payment measures) should not be used. Hospitals should be rewarded or not based on their own individual organization's performance.
- **Efforts should be taken to ensure that the measures used do not institutionalize existing care disparities.** The measures used to determine rewards in a pay-for-performance system should be crafted with appropriate representation of our increasingly diverse population and should be relevant to all patient populations. Care should be taken to avoid measures that may create unintended consequences, such as decreasing access to care for the uninsured or vulnerable populations.