Massachusetts Special Commission Proposes Abolition of Traditional Fee-For-Service Health Care Payment Model and Adoption of Global Payments

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Overview

On July 16, 2009, the Massachusetts Special Commission on the Health Care Payment System ("the Commission") released its final report [.pdf], in which it recommends abolishing the traditional "fee-for-service" ("FFS") payment model for all public and private payers in Massachusetts, and replacing FFS with a "global payments" model. Under a global payments model, health care providers would be compensated prospectively for most (or all) of the care their patients will receive over a set contractual period. As Massachusetts would be the first state in the nation to eliminate FFS for both public and private payers, this proposal would, if implemented, constitute a significant change in how health care is delivered and reimbursed. Additionally, the Massachusetts payment reforms could provide a model for national payment reform initiatives. Understanding the Commission's recommendations is therefore crucial for anyone involved in the health care, insurance, biotechnology, or drug and device sectors.

Background

In April 2006, Massachusetts passed its landmark health reform act, designed to enable all Massachusetts residents to obtain affordable, quality health care insurance. Yet while access to health care has increased markedly over the past three years as a result, so too have health care costs. In August 2008, the Legislature responded to these concerns by passing cost containment legislation, one key element of which was the creation of a ten-member Special Commission on the Health Care Payment System. The Commission was tasked with identifying alternatives to the traditional "fee-for-service" payment model that is currently dominant both in Massachusetts and across the nation. After nine public meetings, the Commission released its final report on July 16, 2009.

Summary of the Commission's Recommendations

The Commission was charged with examining alternatives to the fee-for-service payment model, and providing reform recommendations that would "provide incentives for efficient and effective patient-centered care [and] reduce variations in the quality and cost of care." The Commission was given with three specific responsibilities: (1) to examine payment methodologies and purchasing strategies, (2) to recommend a common transparent payment methodology, and (3) to recommend a plan for the implementation of the common payment methodology across all public and private payers in the Commonwealth.

Overall Context

Before presenting its recommendations, the Commission outlined the context of its appointed task. The Commission began by acknowledging the advances Massachusetts has made in health care reform, but warning that unmitigated growth in health care costs threatens the viability of the 2006 reforms. The Commission further noted that Massachusetts has the highest per capita health care costs in the nation, and that these costs were expected to continue increasing. The Commission also observed that access to primary care physicians is declining, and that the operating margins for community hospitals remain perilously low.

Principles for Payment Reform

The Commission based its ultimate recommendations on a set of ten "principles for payment reform" that it developed in collaboration with key stakeholders. The foremost of these principles was that the FFS payment methodology "rewards service volume rather than outcomes and efficiency," and thus needed to be replaced by a payment model that was more closely aligned to the delivery of high-quality, patient-centered care. Other guiding principles developed by the Commission included the premises that "differences in payments should reflect measureable differences in value," that "health care per capita costs and cost growth should be reduced [and the] payment system should be transparent," and that the implementation of reforms should be phased in on a clear and predictable timetable.

Alternatives to FFS and Proposal to Adopt Global Payments

Guided by these ten principles, the Commission examined numerous alternatives to FFS, including blended capitation rates, episode-of-care payments, medical home models, global budgets, pay-for-performance ("P4P") programs, tiering of providers, evidence-based purchasing strategies, episode-based payments, and global payments.

The Commission then reached two main conclusions. First, the Commission concluded that while "modifying" FFS might initially appear more attractive than replacing FFS outright, the "pervasive incentives" of FFS (and the added complexity that would be created by grafting new models onto the FFS methodology) rendered this option wholly inadequate. Second, the Commission concluded that the "global payments" model was the best available option for promoting "safe, timely, efficient, effective, equitable, patient-centered care" while simultaneously reducing "growth and levels of per capita health care spending."

Under the global payments approach, providers are compensated prospectively for most (or all) of the care their patients will receive over a set contractual period. The "global payment" is thus designed to reflect the expected cost of the covered services, and is calculated using factors including a patient's underlying health conditions and broader patient demographic data. While global payments thus place the "performance risk" squarely on providers, global payments are risk-adjusted to reduce the "insurance risk" that would be shouldered by any given provider. Notably, the Commission advocated introducing a system further financial adjustments, to better incentivize and reward the provision of accessible high-quality care (particularly primary care).

In addition, the Commission recognized that "that certain narrow classifications of services or practitioners should continue to be paid outside of the global payment model," such as "very high cost drugs or providers of very limited and specialized services." Overall, the Commission concluded that global payments "provide appropriate incentives for efficiency in the delivery of services, while strongly encouraging improvements in quality and access to appropriate, coordinated care should serve as the direction for payment reform."

In envisioning what a fully-implemented global payments model might look like in Massachusetts, the Commission anticipated the inclusion of the following key elements.

- In terms of patient care delivery, the Commission's model would include the development of Accountable Care Organizations ("ACOs") to coordinate patient care, a strong focus on primary care, an emphasis on patient choice, and the increased use of pay-for-performance incentives for providers.
- In terms of financial management, the Commission's model would include required participation by both public and private payers (including Medicare and Medicaid), the sharing of financial risk between ACOs and insurance carriers, an emphasis on strong and consistent risk adjustment, and enhanced transparency in both cost and quality via a system of common metrics.
- Finally, the Commission endorsed a global payments model that would incorporate the widespread adoption of the "medical home" concept.

Timing and Implementation

On the question of timing and implementation, the Commission concluded that a global payments model could be implemented statewide within five years. Although some providers have the capability to adopt global payments quickly and voluntarily, the Commission also recognized that others would need to transition more gradually, and would require greater technical assistance. In addition, the Commission recognized that the interaction of a global payment system with the Medicare and Medicaid programs would require waivers granted by the federal government. The Commission therefore emphasized that adoption of global payments would require investments in infrastructure, provider training, and technical support, and recommended several financial incentives that might be implemented to speed this transition. Finally, the Commission recommended the establishment of either an independent board or an executive branch agency to oversee the implementation of the new system.

The Commission acknowledged that concerns had been raised about previous efforts to implement global payments in other jurisdictions. However, the Commission responded that it had made significant improvements on previous capitation models, particularly by including in its recommendations the following five elements: 1) a deliberative and transparent transition process, 2) robust monitoring and oversight, 3) financial incentives for access and quality, 4) improved risk adjustment models, and 5) support for health information technology. The Commission thus argued that any general concerns about the adoption of global payments had been largely mitigated as a result of these tailored improvements.

Next Steps

Under the terms of its enabling legislation, the Commission is entitled to propose to the Legislature and the Governor any "legislation needed to implement [its] recommendations." Although the Commission has not yet made any such submission to date, it is highly likely that both the Legislature and the Governor will give serious consideration to the Commission's recommendations as they attempt to control the Commonwealth's health care costs. Legislative hearings could be held as early as this Fall. As such, for-profit and non-profit organizations with interests in the Massachusetts health care payment and reimbursement system would be well advised to understand how the adoption of these recommendations could impact their activities going forward.

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