Aligning mixed provider payment systems

AfHEA pre-conference workshop on strategic purchasing

11th March 2019, Accra Ghana

World Health Organization

SPARC
STRATEGIC PURCHASING AFRICA RESOURCE CENTER

What role does provider payment play?

Health care provider payment systems--the way providers are paid to deliver the covered package of services—are an important strategic lever in universal health coverage.

They can help balance system revenues and costs and create incentives for providers to improve quality and deliver services more efficiently

This ultimately makes it possible to expand coverage within limited funds

<u>The challenge</u>: How to pay providers to align their interests with those of the patients and the purchaser—especially when there are multiple purchasers.

Incentives

All provider payment systems create incentives

An incentive is a **signal** with positive or negative consequences that **directs** individuals or organizations **toward self-interested behavior**.

Types of **"signals"**

Financial reward or penalty

- Payment
- Financial authority or power
- Opportunity for future financial gain

Non-financial reward or penalty

- Satisfaction
- Recognition
- Reputation

Others?

How payment are incentives created

- ✓The mix of payment methods used
- ✓How the payment system is designed
- ✓Implementation arrangements
- ✓Payment rates (absolute and relative)

Provider payment policy levers—best practices for creating the "right" incentives

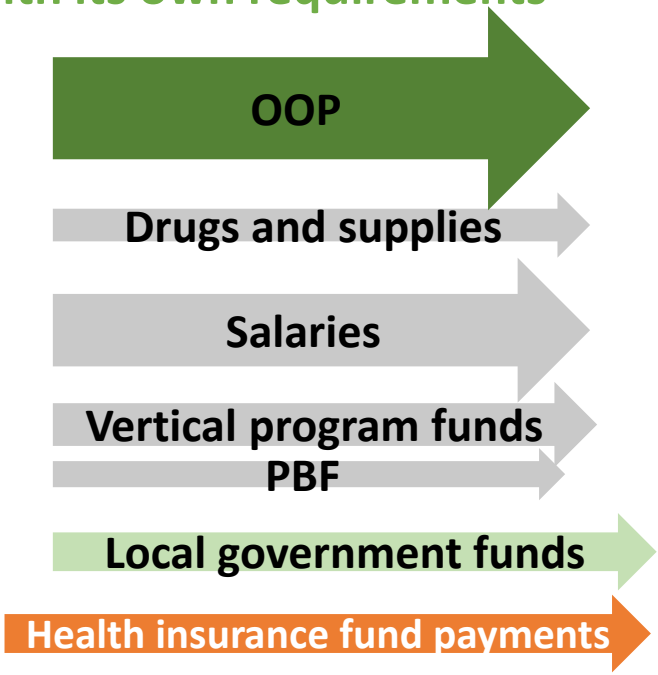
Choose the **right mix of provider payment methods**	Appropriate for the country **context** and create the right incentives to achieve **objectives**
Strategically design the payment system	Payment system is based on a **formula** with strategic decision about each **component**
Create the **right implementation arrangements and supporting systems**	Clear **contracts**, **information systems**, **complementary measures, provider autonomy**
Calculate **appropriate payment rates**	Payment rates based on a combination of **policy priorities, cost information** and **negotiation**

What are the options?

Payment Method	Definition
Line-item budget	Providers receive a fixed amount to cover **specific input expenses** (e.g., personnel, drugs, utilities,).
Global budget	Providers receive a fixed amount of funds for a certain period to cover **aggregate expenditures**. Budget is flexible and not tied to line items.
Per diem	Hospitals are paid a fixed amount per **day that an admitted patient is treated in the hospital**.
Case-based ("DRG")	Hospitals are paid a fixed amount **per admission** depending on patient and clinical characteristics.
Fee-for-service	Providers are paid for **each individual service provided**. Fees are fixed in advance for each service or group of services.
Per capita ("capitation")	Providers are paid a fixed amount in advance to provide a **defined set of services for each individual enrolled for a fixed period of time**.

What happens when payment systems are not aligned?

Multiple payment streams…
each with its own requirements



Health facility receives unclear or contradictory signals about who to serve, what to provide, and quality

What are potential consequences of misaligned payment systems?

- Providers may shift to services that can increase revenue (resource shifting)
  - e.g. shifting from immunization (paid by line-item budget) to curative services (paid fee-for-service by health insurance fund)
  - E.g. shifting to less efficient mix of inputs (resource shifting) and over-using inputs that are paid separately (e.g. drugs)
- Providers may shift to patients that increase revenue (patient discrimination)
  - e.g. shift to patients covered by insurance system that pays the most
- Providers may shift away services/patients that decrease their revenues (e.g. unnecessary referral or hospital admission)

What do aligned payment systems look like?

- **Alignment of payment methods** at the level of one purchaser and across purchasers (uniform payment methods and at best harmonised payment rates) to make incentives coherent
- **Blending**: Intentional mix of several payment methods to pay for one specific service or a provide to increase desired incentives (and minimize undesired incentives) of each payment method, e.g.
  - capitation payment for PHC + (small amount of) fee-for-service (FFS) for priority interventions
  - specifically for episodic care: e.g., FFS + P4P, DRGs + global budget
- **Bundling**: Fixed payment per patient per period or for a package of care to cover costs of the package/bundle
  - to manage the interface and continuum between primary, secondary and tertiary care
  - especially for continuous and coordinated care (chronic conditions)
  - e.g., consultation, diagnostic tests, case management, drugs, procedures and probabilistic costs of hospitalisations

Continuum from incoherent to aligned payment systems

Most coherent-- Ideal

- Consistent payment systems across purchasers
- Harmonized payment systems within and across services and levels of care

More coherent

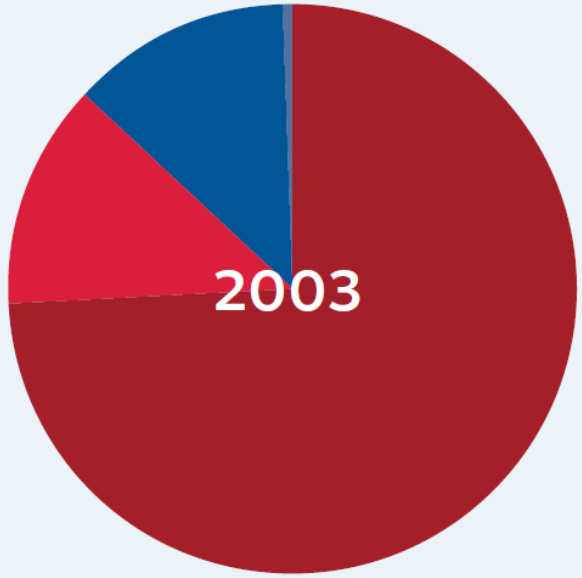
- Consistent payment systems across purchasers
- Misaligned payment systems across levels of care

Most incoherent

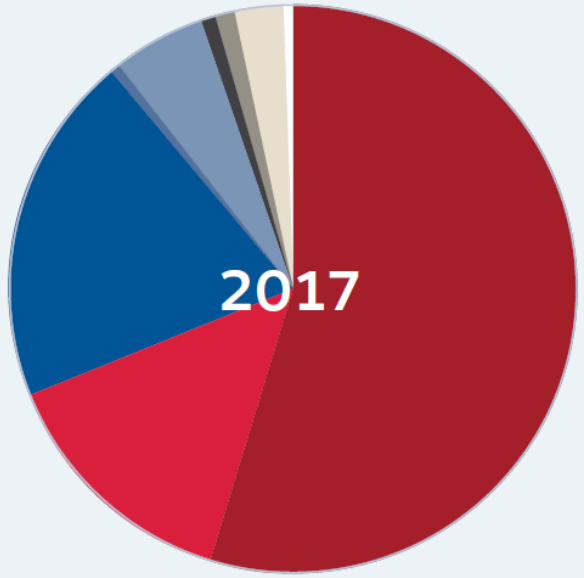
- Different payment systems within and between purchasers
- Incoherent payment systems for an individual provider
- Conflicting payment systems for the same service
- Misaligned payment systems across levels of care

Aligned payment systems within PHC in Estonia

EVOLUTION OF ESTONIA'S PHC CAPITATION PAYMENT SYSTEM (2003–2017)



2003	PAYMENT	2017
74.3%	Capitation	55.0%
12.6%	Basic allowance	14.1%
12.6%	Investigation fund	20.0%
0.4%	Distance fee	0.8%
-	Second nurse fee	5.2%
-	Activity fund	0.7%
-	Therapeutic fund	1.3%
-	Quality bonus	2.7%
-	Out-of-office hours pay	0.4%



But are payment systems aligned across levels of care?

Main Messages

- ✓**Health provider payment systems** create incentives for providers that will motivate their behavior in terms of which patients they serve, which services the provide, and which/how much inputs they use.
- ✓The challenge is **to create a coherent set of incentives in the payment system** to motivate providers to act toward health system objectives
- ✓**Strategic selection of the mix of methods, design and implementation** should maximize the good and minimize the potential bad consequences of payment incentives
- ✓Providers will adapt to payment system and contextual factors and objectives will **change—there is need for continuous review and revision of the payment system, there is no endpoint to provider payment reform**