Title: *Pay for Performance.* By: Cutler, David M., Forbes, 00156914, 9/1/2003, Vol. 172, Issue 4
Database: *Academic Search Premier*

Pay for Performance

Section: On My Mind

If the government is going to plunge deeper into medical insurance, it should reward providers when they do their job--and punish them when they screw up.

When it comes to a new medicare drug benefit, liberals and conservatives have good reason to be nervous about who should run it. Both the government's Medicare program and the private sector have underperformed in delivering health care to consumers. That's why, in any reform that emerges, we should try something radically different: Link government payments to the quality of services provided. This will undoubtedly unleash howls from doctors and hospitals, but paying more when services are appropriate and done well--and less when quality is lower--will create incentives for a truly effective Medicare system.

In contrast to virtually all other industries, payment for medical services bears almost no relation to the quality of the services provided. Most private insurance plans--along with the government, in the most common drug benefit proposals--pay the same amount for each prescription. A prescription for Prozac to treat severe depression is reimbursed the same as Prozac taken for the temporary blues or other reasons. There is no bonus for good care, or penalty for missed opportunities.

The result is a system where quality can be fantastic, but where it often falls staggeringly short. A quarter of the elderly use drugs that studies show they don't need. At the other end of the scale, millions of depressed people are not diagnosed, not given the right prescription or not given help following through. Yes, measuring quality of care is tricky, but it's not impossible. There are well-defined standards for when particular drugs are appropriate, which the government could use in setting payments.

Let's say an antidepressant costs $100 per month. A government insurance plan might pay $90 if the patient had a diagnosis of major depression (where clinical trials show a large treatment benefit) and perhaps $50 if

symptoms fell short of that (where clinical evidence is less clear). Prescriptions without an approved use would not receive insurance reimbursement.

Similarly, the government could measure how well physicians' prescribing behavior matches guidelines. Organizations such as the National Committee for Quality Assurance have compiled guidelines for good care. Were people with depression prescribed an appropriate medication or referred to a qualified specialist? Did people with high cholesterol receive a prescription for a statin? Each year, physicians would be graded on those criteria. Doctors who did well would receive a bonus from Medicare--for superior performance, maybe 10% of income.

In a system of private insurance plans the government could pay insurers an amount contingent on how well prescription use matched guidelines. Plans giving appropriate care to patients would receive a bonus. Studies of the good HMOs show that quality improvement is possible. HealthPartners, an HMO in Minneapolis, doubled its perfomance on diabetes care a few years back by contacting physicians about disease management and refills. Plans that make care difficult, as the Medicaid program in Washington State did when it lowered pharmacy payments so much that many local pharmacies dropped out of the program, would be penalized financially.

Without a pay-for-performance system, reforms that contract out Medicare benefits will just replicate the managed care debacle of the 1990s. Managed care insurers earn a fixed amount per enrollee, with profits made when costs are kept low. The result is predictable. Insurers skimp on services and avoid serving the sick. Already, managed care plans participating in Medicare are cutting back on prescription drug coverage or pulling out of the market. Continuing this trend will only make matters worse.

Will my plan create a vast, Hillary Clinton-like bureaucracy to monitor performance? I don't think so. Doctors already have to tell Medicare what they diagnose to get reimbursed. Incorporating prescription information involves little additional effort.

Medicare reform can be a great benefit, but not if we repeat the failures of the past. By paying for prescriptions the right way, we can have a system that works, not one that creates headaches.

PHOTO (BLACK & WHITE): "In contrast to virtually all other industries, payment for medical services bears almost no relation to the quality of services provided."

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