**State University Partnership Research Brief**
**Preparing for Value-Based Purchasing Quality Metrics for All Hospitals in Kentucky**

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**What is Known on This Topic?**
Rising healthcare costs are a national concern. For this reason, Value-Based Purchasing, a healthcare concept that prioritizes paying for patient outcomes over mere volume of healthcare services, has been a subject of rising interest. In order for Value-Based Purchasing models to be effective, a set of valid and empirically measurable clinical outcomes are necessary.

**What Did this Project Do?**
This study investigated Kentucky's readiness for adherence to healthcare quality measures in service of a statewide Value-Based Purchasing model for Medicaid plans. To do this, the research project involved: (1) an analysis of surveys provided to Kentucky hospitals and; (2) interviews with Medical Directors of Medicaid Managed Care Organizations.

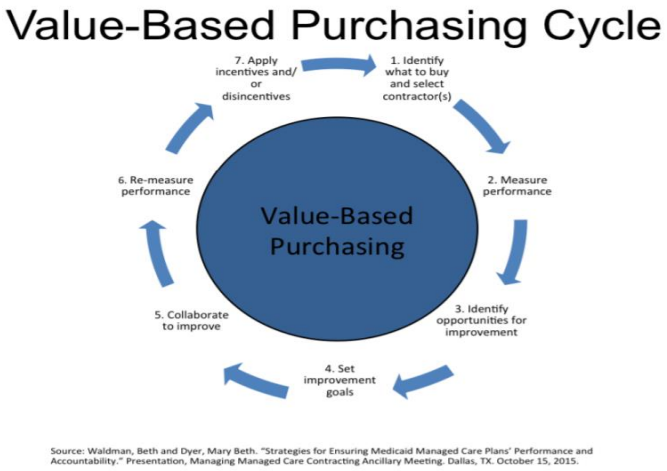
**What Could Medicaid Do with These Conclusions?**
This project allows for Medicaid officials in Kentucky to get a sense of how the provider community feels about their current capacity for implementation of this new payment scheme. Using this information and a review of the literature, the study authors offers several policy recommendations.

## Introduction

*Value-Based Purchasing*

Noted investor and businessman Warren Buffett once mused that healthcare costs have become a, "tapeworm on the American economy." Indeed, scholars and public officials across the political spectrum are in near universal agreement that the cost of providing healthcare in the U.S. is becoming unsustainable – even to the point of becoming a national security concern. This problem has spurred a number of endeavors to discover ways to keep costs down without compromising the quality of care that patients receive.

Value-Based Purchasing is an alternative payment model that has become a very prominent approach to solving this cost problem. In conventional payment models, health insurers pay hospitals and other healthcare providers for individual services and treatments at negotiated rates – without much regard for whether they "worked" for patients. Some argue that this model actually incentivizes low-value care, because each new instance of treatment gets paid for at the same rate (even when they are preventable). For example, a patient who must be readmitted to a hospital multiple times to correct for an ineffective surgery has not received high-value care. Nor has that patient's health insurance provider, who must pay for the bulk of the cost of those readmissions.




Source: Waldman, Beth and Dyer, Mary Beth. "Strategies for Ensuring Medicaid Managed Care Plans' Performance and Accountability." Presentation, Managing Managed Care Contracting Ancillary Meeting. Dallas, TX. October 15, 2015.

Value-Based Purchasing changes this dynamic by factoring the clinical value delivered to patients into how healthcare providers are reimbursed. In other words, it aims to direct dollars to treatments that have been demonstrably effective. While there are multiple models for how to achieve this end, they all involve three primary components: (1) providers and payers agree on objective measures of clinical quality (e.g., Hemoglobin A1c values within an acceptable range for patients with diabetes); (2) payers use financial incentive regimens to reward providers for meeting clinical benchmarks and; (3) providers incur some financial risk for failing to meet those clinical benchmarks (e.g., penalties for high hospital readmission rates within 30 days of a patient's discharge). Several scholars have noted that transplant surgery centers have pioneered a replicable model for delivering high value care.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*"In the U.S., bundled payments have become the norm for organ transplant care. Here, mandatory outcomes reporting has combined with bundles to reinforce team care, speed diffusion of innovation, and rapidly improve outcomes. Providers that adopted bundle approaches early benefitted. UCLA's kidney transplant program, for example, has grown dramatically since pioneering a bundled price arrangement with Kaiser Permanente, in 1986, and offering the payment approach to all its payers shortly thereafter. Its outcomes are among the best nationally, and UCLA's market share in organ transplantation has expanded substantially."*

Dr.'s M. Porter and T. Lee in *The Strategy that Will Fix Healthcare*

## Project Methods and Results

This study was conducted to gauge the degree of readiness for implementation of Medicaid Value-Based Purchasing in Kentucky hospitals and Medicaid Managed Care Organizations (MCOs). This project consisted of two major parts: (1) Analysis of a survey conducted by IPRO in 2018 with Kentucky healthcare providers and; (2) a new survey of Medical Directors and their associates from Kentucky Medicaid MCOs.

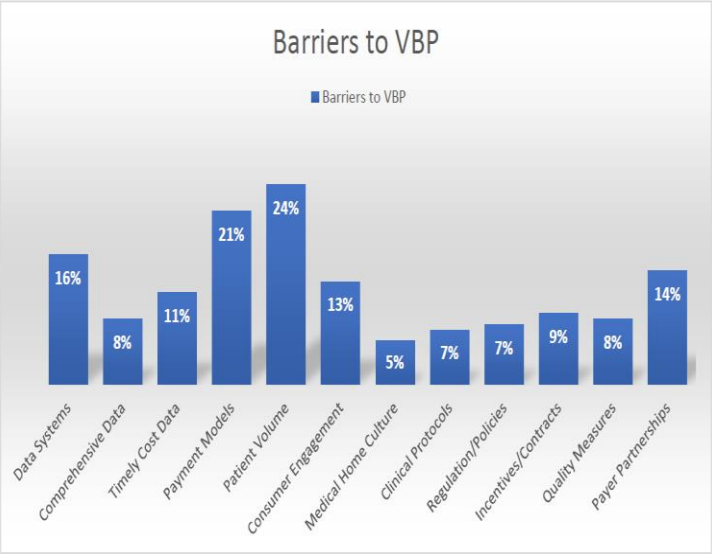
The analysis of the 2018 survey with hospital leaders revealed a set of barriers to engaging in Value-Based Purchasing. The top three barriers named by survey respondents were:

#1 Insufficient patient volume by payer to take on clinical risk.

#2 Inability to adequately understand and analyze payment models.

#3 Lack of interoperable data systems.

**Figure 1. Barriers to Providers Engaging in Value-Based Purchasing**




**Source:** (Commonwealth of Kentucky, 2018)

**Table 1:** *SWOT Analysis*

| Strengths | Weaknesses |
|---|---|
| • Shared understanding of quality measures and Value-Based Purchasing by MCOs.<br>• MCOs have existing software or vendor contracts in place to capture quality administrative data.<br>• Good provider relationships and some existing protocols for obtaining provider data. | • Time lag in transition to collecting all core quality measures – some are more time intensive than others.<br>• MCOs pull and analyze care quality data in different ways.<br>• Limited staff and personnel.<br>• Lack of technical specification around non-HEDIS measures and measures not currently collected by MCOs. |
| **Opportunities** | **Threats** |
| • Example Value-Based Purchasing programs from other states may prove advantageous.<br>• The Kentucky Health Information Exchange (KHIE). | • Current number of quality measures developed by the Performance Measures Alignment Committee (PMAK) is too high (38 measures).<br>• Variety of tools for health plan measures both internal and external to the MCOs.<br>• Investment in Value-Based Purchasing and capacity for change will greatly vary by provider based on several factors.<br>• Patients have an active role in health outcome measures. |

## Health Policy Recommendations for Medicaid

1. Convene MCOs and Kentucy DMS officials for iterative meetings to discuss Value-Based Purchasing goals.
2. Develop a timeline that embraces gradual uptake of core quality measures, with only 5-8 measures introduced within a 1 to 2-year timeframe.
3. Assemble coalitions of similar providers to discuss their related interests and needs to be accounted for within a Value-Based Purchasing program.
4. Ensure adequate staff and operations.
5. Build collaborative partnerships and community engagement to embrace the social determinants of health.
6. Establish a framework for sustainability with clear priorities and business processes.



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