



# VALUE-BASED PURCHASING

In an effort to increase the quality of care and achieve better value for taxpayers, Congress and the Centers for Medicare & Medicaid Services (CMS) have increasingly focused on value-based purchasing (VBP) initiatives, which link Medicare reimbursement to hospital performance in a variety of quality-related domains. GNYHA agrees that performance measurement, reporting, and VBP must be an integral part of the health care system going forward because Medicare reimbursement rates were constrained under the Affordable Care Act (ACA) and Medicaid reimbursement rates have been similarly cut to address state budget deficits. It is vital to monitor the performance of the health care system to ensure that providers respond to the challenge of less revenue by restructuring the delivery system to improve quality and efficiency rather than by harming quality and service access.

## How CMS' Proposed VBP Program Works

The VBP program cuts acute inpatient prospective payment system (IPPS) rates to finance a VBP incentive pool. The cut, which appropriately excludes teaching, disproportionate share, outlier, and other special payments, will begin at 1% in Federal fiscal year (FY) 2013 and phase up to 1.25% in 2014, 1.5% in 2015, 1.75% in 2016, and 2% in 2017. Payments from the incentive pool will be based on each hospital's total performance score, which will be a weighted average of each of the hospital's domain scores. The domains will eventually cover all aspects of health care—effective, safe, timely, efficient, patient-centered, and equitable—but will begin with process and patient satisfaction measures. Within each domain, hospitals will be awarded points for achievement or improvement on a variety of separate measures, and the overall domain score will be the total awarded points as a percent of the maximum possible points. Each hospital's net VBP impact is the sum of its VBP cut and incentive payments. Since the program is budget neutral, some hospitals will have net losses while others will have net gains.

## GNYHA's Principal Concern

GNYHA noted that CMS' proposed regulation issued early in 2011 considered the effect of the VBP proposal on hospitals stratified by region, urban/rural, bed size, and Medicare

utilization and that CMS also considered teaching status when determining how to weight the domain scores to calculate total performance scores. An obvious omission was that CMS did not look at hospitals based on their Medicaid utilization. When GNYHA conducted this analysis, we observed that the VBP program would redistribute money away from the poorest hospitals to the richest. Consequently, we are very concerned that the current design would inadvertently increase health disparities.

In response, GNYHA has recommended that CMS modify the proposal to achieve a more balanced outcome among hospitals serving affluent, mixed income, and poor communities by avoiding or diminishing the importance of measures that impose systematic risk on inner-city hospitals, and overhauling the scoring of individual measures to identify truly deficient and exceptional providers, while avoiding false distinctions among all others.

## GNYHA Recommended Changes to the VBP Methodology

- For the patient satisfaction (HCAHPS) domain score:
  - CMS should either reduce the systematic risk to high Medicaid hospitals inherent in the

MEDICAID PERCENTAGE OF TOTAL INPATIENT DAYS	INCENTIVE PAYMENT AS A PERCENTAGE OF THE VBP CUT
Safety Net (Medicaid ≥ 40% and Medicaid + Medicare ≥ 80%)	81%
High (Medicaid ≥ 30%)	89%
Medium (Medicaid ≥ 15%)	97%
Low (Medicaid < 15%)	106%

methodology or give the score a weighting of less than 5% in the total performance score, as opposed to the proposed 30% weighting for the first year.

- To reduce the systematic risk to high Medicaid hospitals, CMS should:
  1. no longer downgrade the patient satisfaction scores of patients with low education attainment and for whom English is not the primary language,
  2. eliminate the “overall hospital rating” measure because it unfairly disadvantages crowded inner-city hospitals with insufficient capital for plant maintenance, upgrades, and amenities, and
  3. eliminate the “consistency” measure because it simply over-weights the hospital’s lowest score and CMS rejected a comparable measure in the process domain. The consistency score is based on a hospital’s lowest score during the performance period and is designed to encouraged hospitals to focus on achieving high performance on all of the HCAHPS measures. CMS should also consider stratifying hospitals based on their low-income patient percentages and evaluating patient satisfaction separately within each peer group.
- For hospital-acquired conditions (HACs), CMS should minimize their weighting in the total performance score because they are penalized under a separate ACA provision. The ACA specifically excluded readmissions

from VBP because of a separate penalty provision. It is unfair to penalize hospitals twice for a single performance measure.

- For all measures:
  - CMS should not claim precision where none exists by assigning different point values in narrow performance ranges. Instead, CMS should implement a scoring methodology that is more statistically valid, simple, and acceptable to clinicians.
  - CMS should not exaggerate performance differences among hospitals by excluding important “topped-out” measures on which most hospitals do well. All measures in each domain should be included.

### GNYHA Recommendation for Measuring Efficiency

The ACA requires CMS to add an efficiency domain in the VBP program in Federal fiscal year 2014 and further requires that domain to include a measure of Medicare spending per beneficiary, adjusted for age, sex, race, and severity of illness. GNYHA supports the approach taken by the Medicare Payment Advisory Commission (MedPAC) to evaluate spending per beneficiary from a service use perspective. To do this, MedPAC separated payment policy and service use by

1. standardizing provider payments for the variables required in the ACA, and
2. appropriately adjusting for the wage index, teaching, disproportionate share, and other policy payments that hospitals receive.

## GNYHA POSITION

Congress should urge the Administration to support GNYHA’s VBP recommendations.