CENTER FOR HEALTH
INFORMATION AND ANALYSIS

ANNUAL REPORT ON THE PERFORMANCE OF THE MASSACHUSETTS HEALTH CARE SYSTEM

SUPPLEMENT 11: ALTERNATIVE PAYMENT METHODS

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Alternative Payment Methods

Alternative Payment Methods (APMs) are non-fee for service (FFS) based payments between payers and providers in which some of the financial risk associated with both the occurrence of medical conditions as well as the management of those conditions is shifted from payers to providers to incentivize cost-containment and quality care delivery. The use of APMs in payment structures that are established between payers and providers has been encouraged both in Massachusetts and nationally as a mechanism to help control costs and to encourage more integrated and higher quality care.[1]

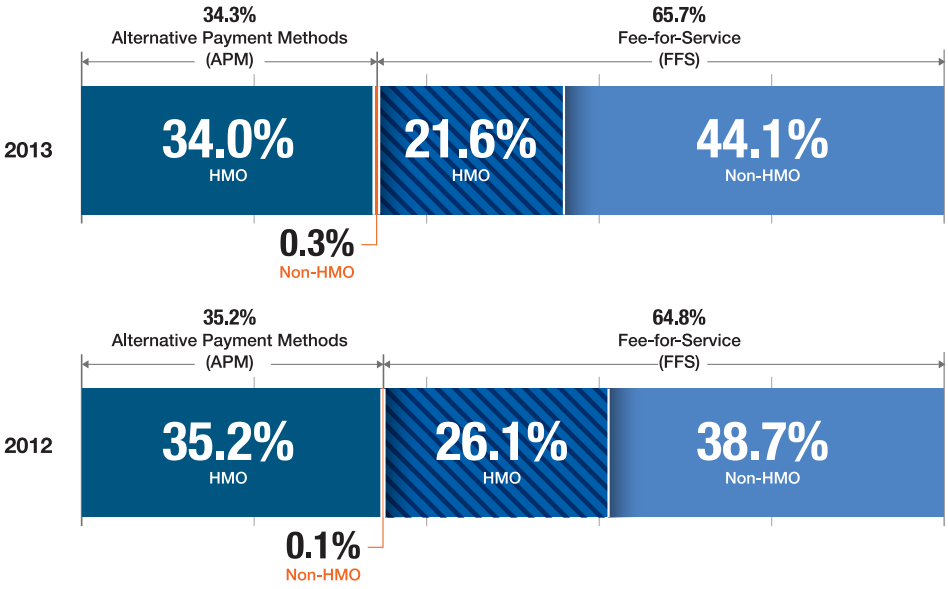
Key Findings:

Use of alternative payment methods (APMs) in the Massachusetts commercial market decreased slightly from 35.2% in 2012 to 34.3% in 2013. Fee-for-service (FFS) remained the most prevalent payment method.

Global payments accounted for nearly all of the APMs in use during 2013.

Health New England (HNE) had the highest proportion of APM utilization in 2013, with 72% of member care subject to APMs.

Tufts Health Plan (Tufts) was the only payer that reported the use of global payments for its PPO members (3.1% among PPO members). All of these members were enrolled in PPO products through the Group Insurance Commission (GIC).



11.1 **Use of Alternative Payment Methods in the Commercial Market (2012-2013)**

Note: Enrollment shown by payer-reported member months for both commercial full- and partial-claim members. APM use among PPO and other products was reported for 0.32% of commercial member months in 2013 and 0.07% in 2012. Proportions may not sum to 100% due to rounding.

Adoption of Alternative Payment Methods in the Commercial Market

The adoption rate of APMs has decreased slightly between 2012 and 2013, from 35.2% to 34.3%. While use of APMs is prevalent in certain types of commercial insurance products, the fee-for-service (FFS) payment method continues to be the predominant payment arrangement between health care payers and providers in Massachusetts (Figure 11.1).[2] Under the FFS payment model, health care providers are compensated by payers at negotiated prices for individual services delivered to patients.[3] The proportion of commercial members who had their care paid for using the FFS payment model remained stable between 2012 and 2013 at about 65%.

Figure 11.1: Use of Alternative Payment Methods in the Commercial Market (2012-2013)

[1] Recommendations of the Special Commission on the Health Care Payment System (July 2009). Report available at: http://www.mass.gov/chia/docs/pc/final-report/final-report.pdf (Accessed June 19, 2014). Chapter 224 further reinforces a number of legislative initiatives in Massachusetts that promote the use of APMs.

[2] For more information on the data source and the definitions of payment methods, please see Technical Appendix.

[3] There is variability in how the unit of service and the price for that service is determined. Some types of FFS payment arrangements may incorporate financial or quality performance incentives for providers, such as: Diagnosis Related Group (DRG) payments, per-diem payments, fixed procedure code-based fee schedules, claims-based payments adjusted for performance measures, discounted charge-based payments, and Pay for Performance incentives that accompany FFS payments.

[4] Global payments are payment arrangements made between payers and providers that establish spending targets to cover all of the expected costs for health care services to be delivered to a specified population during a stated time period.

[5] Catalyst for Payment Reform (2013). National Scorecard on Payment Reform. Available at: http://www.catalyzepaymentreform.org/how-we-catalyze/national-scorecard (Accessed August 18, 2014)

A. Global Payments

The global payment method is the most widely used APM in Massachusetts, accounting for more than 97% of members whose care was paid using an APM.[4] In 2013, approximately 33.4% of commercial members had their care coordinated by a physician group that was paid using a global payment method. Adoption of global payments in Massachusetts has been above national adoption rates.[5]

Use of Global Payments among Payers

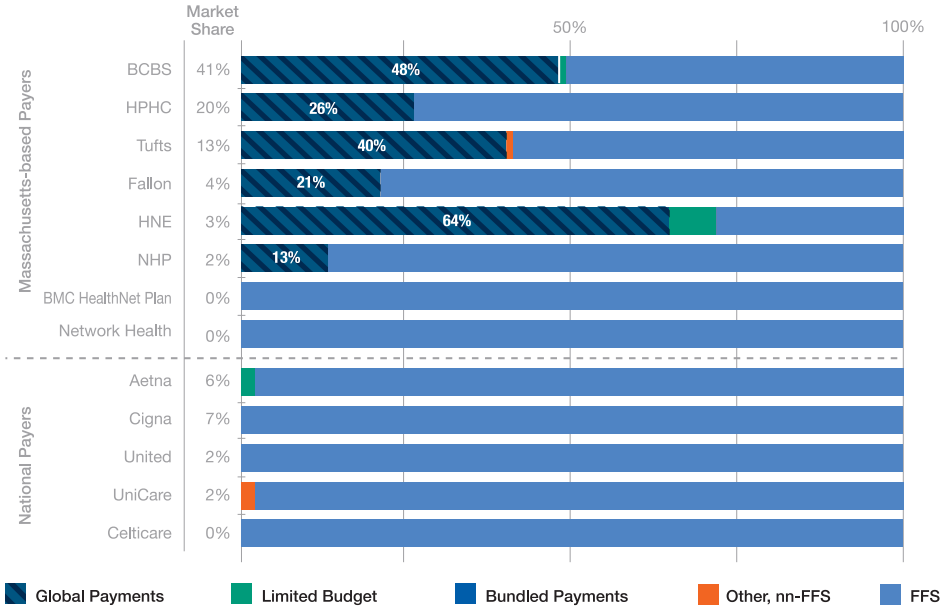
Use of global payments varied significantly across payers in 2013 (Figure 11.2). There is a notable distinction between Massachusetts-based plans and nationally-based plans; Massachusetts-based plans have adopted global payments for a proportion of members ranging from 13% and 64%. In contrast, none of the five nationally-based payers reported use of global payments. Only Aetna and UniCare reported other types of APMs in their commercial plans.[6]

The use of global payments is nearly exclusive to HMO-type products, in which a member selects a primary care provider (PCP) who coordinates the member's care. Massachusetts has seen declining enrollment in HMO-type products in recent years.[7] In 2013, use of global payments was reported by one payer for 3% of their PPO members[8] (Figure 11.2). All Massachusetts-based payers—with the exception of BMC and Network Health–had some use of global payments in their HMO-type products. BCBS, the state's largest payer, reported significant adoption of APMs (48% of members).

B. Other Alternative Payment Methods

Payers reported limited adoption of APM methods other than global payments. Commercial payers in Massachusetts reported almost no use of bundled payment methods in 2013.[9] [10] In addition, limited budgets were used to pay for the care of less than 1% of commercial members in 2013.[11] In 2013, a very limited number (less than 0.2%) of health care services for commercial members under an APM were paid using other, non-FFS based methods such as care management payments made to providers participating in the Patient Centered Medical Home Initiative.

Figure 11.2: Adoption of Alternative Payment Methods by Commercial Payer, 2013



11.2 **Adoption of Alternative Payment Methods by Commercial Payer, 2013**

Note: Payers reported very little use of bundled payments and "other, non-FFS" payment methods (less than one percent) in 2013 (not visible on graph). Proportions may not sum to 100% due to rounding.

[6] Aetna reported use of Limited Budget, while UniCare reported use of Medical Home in the "Other, Non-FFS" category.

[7] See Supplement 10 for more information on enrollment.

[8] All of these members were enrolled in Tufts Health Plan PPO plans through the Group Insurance Commission (GIC). Tufts provided the following description: "THP has engaged with the GIC in two ways to introduce risk-based payments to the PPO population. We use an attribution formula to assign PPO members to PCPs. Certain provider groups have been designated Integrated Risk Bearing Organizations. They receive clinical and financial data on the members who are attributed to them, and share risk with THP in a model similar to our HMO risk arrangements."

[9] Payers may have reported such limited adoption of bundled payments because they were required to report payment methods to CHIA using a hierarchy. It is not known whether this hierarchy may have masked the reporting of certain types of APMs that are not as comprehensive as global payments.

[10] Bundled payments are a method of paying multiple providers across multiple settings for health care services associated with a defined "episode of care" (e.g. colonoscopy, pregnancy and delivery, hip replacement, etc.) under a single payment rate. Bundled payments aim to promote care coordination and improve the quality of care while eliminating the incentives for performing a high volume of services inherent in the FFS payment model.

[11] Limited budgets are payment arrangements in which payers and providers agree to pay for a specific set of services, either prospectively or retrospectively, to be delivered by a single provider. This could include, for instance, capitated payments for primary care or oncology services.

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