

**CENTER FOR HEALTH
INFORMATION AND ANALYSIS**

**PERFORMANCE OF THE MASSACHUSETTS
HEALTH CARE SYSTEM SERIES:
ADOPTION OF ALTERNATIVE PAYMENT METHODS
IN MASSACHUSETTS, 2012-2013**

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DEFINITIONS

Global Payment: The global payment method is a type of payment arrangement between payers and providers that establishes a spending target for a comprehensive set of health care services to be delivered to a specified population during a defined time period. Global payment arrangements may shift some financial risk from payers to providers. In these cases, if costs exceed the budgeted amounts, providers must absorb those costs, subject to negotiated risk sharing agreements. On the other hand, providers may share in, or retain, the savings if costs are lower than the budgeted amounts and health care quality performance targets are met.

It is important to note that within the framework of a global payment arrangement with a managing physician group, payments to service providers are generally made on a fee-for-service (FFS) basis. Also, global payments as defined here do not consider the extent of risk, if any, borne by the managing physician group. It is difficult to capture levels of risk, as there is currently no standardized approach to risk classification or reporting.

Limited Budget: Limited budgets, like global payments, represent a move away from FFS-based payments. Limited budgets are payment arrangements whereby payers and providers, either prospectively or retrospectively, agree to pay for a specific set of services to be delivered by a single provider. This could include, for instance, capitated primary care or oncology services. Limited budgets also shift some financial risk from payers to providers.

Bundled Payment: Bundled payments are a method of reimbursing providers, or a group of providers, for providing multiple health care services associated with defined “episodes of care” (e.g. knee surgery, pregnancy and delivery, etc.) for a patient or set of patients. These payments may include services developed based upon clinical guidelines, severity adjustments to account for the general health status of a patient and comorbidities (other related ailments), and even designated “profit” margins and allowances for potential complications.

Other, non-FFS-based: This category includes all other payment arrangements that are not based on a FFS model, but that also do not easily fit into any of the other categories. This category includes supplemental payments for the Patient-Centered Medical Home Initiative (PCHMI), for instance.

Fee-for-service (FFS): Under this model, health care providers are reimbursed by payers at negotiated rates for individual services delivered to patients. A variety of FFS payment arrangements exist, including, but not limited to, Diagnosis Related Groups (DRGs), per-diem payments, claims-based payments adjusted by performance measures, and discounted charge-based payments. This category also includes pay-for-performance incentives that accompany FFS payments.

INTRODUCTION

The adoption of Alternative Payment Methods (APMs) among payers and providers has been identified as a key strategy to reduce health care costs while improving care quality and efficiency. APM implementation is encouraged by Chapter 224 of the Acts of 2012, Massachusetts' health care cost containment legislation. To monitor the adoption of APMs, the Center for Health Information and Analysis (CHIA) has collected two years (calendar years 2012 and 2013) of APM data from 13 commercial payers.¹ This brief provides updates to commercial market APM data published in CHIA's baseline APM report (December 2013)² as well as in the most recent Annual Report on the Performance of the Massachusetts Health Care System (September 2014).³ Additionally, this analysis offers a first look at the degree of APM adoption among MassHealth Managed Care Organization (MCO), Commonwealth Care, and Medicare Advantage plans.

APM ADOPTION BY INSURANCE CATEGORY

COMMERCIAL MARKET

The proportion of members covered by APMs in the commercial market⁴ remained stable from 2012-2013, increasing by less than two percentage points from 32.8% in 2012 to 34.3% in 2013 (Figure 1).⁵ Global payments accounted for almost all APM adoption in the commercial market in 2012 and 2013, while fee-for-service (FFS) remained the predominant payment method between payers and providers. In addition, though the use of APMs is most prevalent in HMO products, Tufts Health Plan (Tufts) and Aetna reported an initial use of APMs in their commercial PPO products.⁶ This is noteworthy because the proportion of Massachusetts residents in HMO products has decreased in recent years. As such, adopting APMs in non-HMO products is essential in order to leverage the advantages of these payment mechanisms in Massachusetts.⁷

¹ These payers account for approximately 99% of the Massachusetts commercial market.

² Center for Health Information and Analysis (2013). Alternative Payment Methods in the Commercial Market: Baseline Report. Available from: <http://chiamass.gov/assets/docs/r/pubs/13/alternative-payment-methods-report-2012-data.pdf>. (Accessed January 13, 2015).

³ Center for Health Information and Analysis (2014). Annual Report on the Performance of the Massachusetts Health Care System. Available from: <http://chiamass.gov/assets/docs/r/pubs/14/chia-annual-report-2014.pdf> (Accessed January 13, 2015).

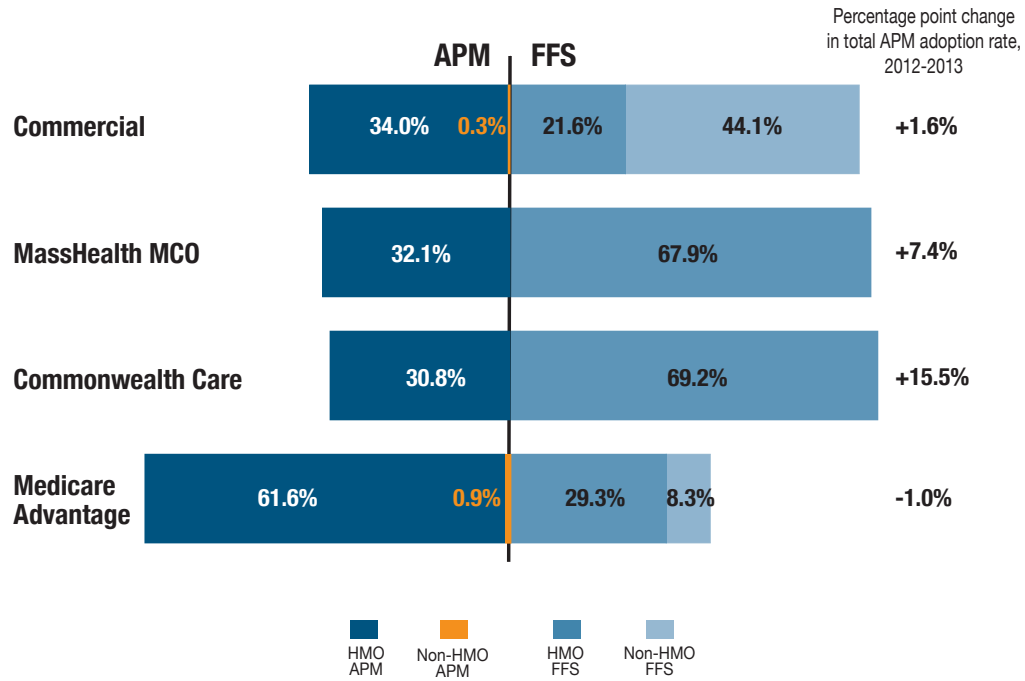
⁴ In this brief, the commercial market membership includes self- and fully-insured commercial business for both full-claim and partial-claim member populations of the reporting payers.

⁵ APM data published in CHIA's 2014 Annual Report showed a slight decrease in the APM adoption rate from 35.2% in 2012 to 34.3% in 2013. The numbers presented in this brief reflect data updated by certain payers since the publication of the Annual Report in September 2014.

⁶ Tufts reported use of global payments in PPO products and Aetna reported use of limited budgets and Patient-Centered Medical Home (PCMH) arrangements in PPO products.

⁷ For more information on enrollment in HMO and non-HMO products, see Supplement 11 of CHIA's September 2014 Annual Report. Available from: <http://chiamass.gov/assets/docs/r/pubs/14/chia-annual-report-2014-supplement-11-alt-payment.pdf> (Accessed January 13, 2015).

Figure 1: Adoption of Alternative Payment Methods by Insurance Category, 2013



MASSHEALTH MCO

Utilization of APMs in the MassHealth MCO market grew by more than seven percentage points, from 24.6% in 2012 to 32.1% in 2013, bringing the APM adoption rate among MassHealth MCO plans in line with that of the commercial market. In contrast to the commercial market, the global payment method made up less than half of the APMs used by MassHealth MCOs in 2013. Instead, the predominant APM category reported by the MassHealth MCO plans was other, non-FFS methods (primarily Patient-Centered Medical Home (PCMH) arrangements).

COMMONWEALTH CARE

Adoption of APMs in the Commonwealth Care market grew by about 16 percentage points, from 15.3% in 2012 to 30.8% in 2013, showing the greatest growth among the four insurance categories included in this analysis. Similar to the MassHealth MCO plans, Commonwealth Care plans reported a proportionally higher use of other, non-FFS methods (mostly PCMH arrangements) than global payments.

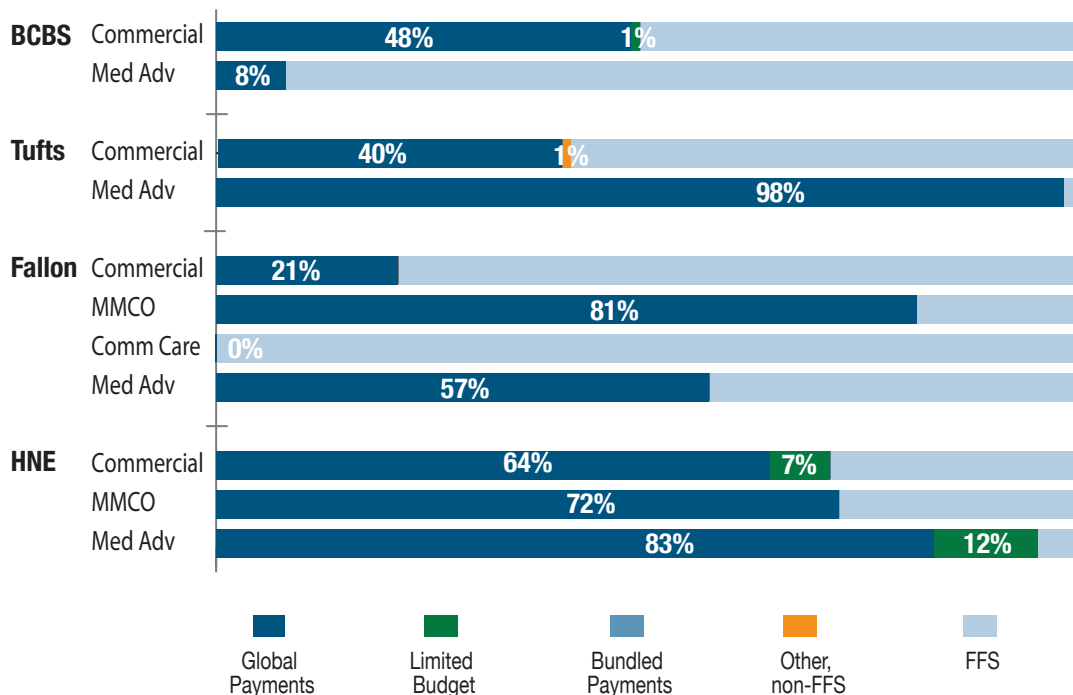
MEDICARE ADVANTAGE

Adoption of APMs in the Medicare Advantage market remained stable from 2012 to 2013 (63.4% in 2012 to 62.4% in 2013). Despite the lack of growth, the APM adoption rate in the Medicare Advantage market remains almost twice that of the commercial, MassHealth MCO, and Commonwealth Care markets. While more than 90% of Medicare Advantage beneficiaries were enrolled in HMO-type products in 2013, about 67.7% of these members' plans utilized APMs, which was close to the 61.2% APM coverage of commercial HMO members. Almost all APM adoption in the Medicare Advantage market was in global payment contracts.

COMPARISON OF PAYER APM ADOPTION BY INSURANCE CATEGORY

Among the four largest Massachusetts-based payers offering both commercial and government-sponsored insurance products, the adoption of APMs varied significantly across insurance categories (Figure 2).⁸ Blue Cross Blue Shield of Massachusetts (BCBS) had a 49% APM adoption rate for its commercial products but only an 8% adoption rate in its Medicare Advantage products. Tufts reported proportionally higher APM utilization in its Medicare Advantage products than in its commercial products, with about 98% of Medicare Advantage beneficiaries' care paid under APMs and a 41% commercial APM adoption rate (almost entirely global payments in both markets). Fallon Health (Fallon) offered products in all four insurance categories: commercial, MassHealth MCO, Commonwealth Care, and Medicare Advantage. Fallon's APM adoption rates ranged from 0% in Commonwealth Care products to 81% in MassHealth MCO products. Health New England (HNE) was the only payer reporting high APM adoption rates (greater than 70%) across all three insurance categories in which it offered insurance products.

Figure 2: Adoption of APMs across Insurance Categories by Top Four Massachusetts-based Payers Offering Multiple Insurance Products, 2013

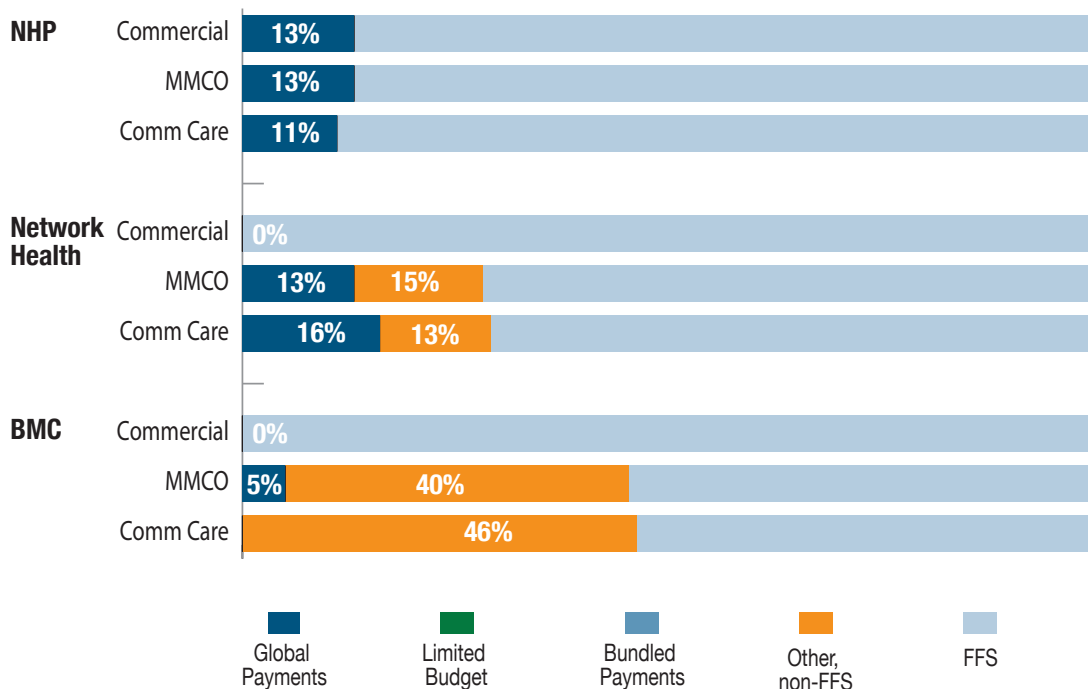


Abbreviations: **MMCO**: MassHealth MCO; **Comm Care**: Commonwealth Care; **Med Adv**: Medicare Advantage

⁸ Some Massachusetts payers, such as Harvard Pilgrim Health Care, did not offer coverage in both commercial and government-sponsored markets for these data years, and thus are excluded from this analysis. See Figure 9 in this brief's accompanying chartbook for a detailed comparison of payers' APM adoption by insurance category.

The remaining three Massachusetts-based health care payers offer commercial plans, and government-sponsored plans primarily in the MassHealth MCO and Commonwealth Care markets (Figure 3). Neighborhood Health Plan (NHP) showed almost no variation in APM adoption across its three markets (ranging from 11% to 13%) in 2013. In contrast, Network Health and BMC HealthNet (BMC) did not use any APMs in their commercial products but had significantly higher APM adoption rates in their MassHealth MCO and Commonwealth Care products. Network Health had 28% and 29% of its members under APMs in MassHealth MCO and Commonwealth Care markets, respectively, with APM adoption split almost evenly between global payments and other, non-FFS payment methods.⁹ BMC had 45% and 46% APM adoption rates in MassHealth MCO and Commonwealth Care plans, respectively (almost entirely other, non-FFS payment methods).

Figure 3: Adoption of APMs across Insurance Categories by Massachusetts-based payers primarily



Abbreviations: **MMCO**: MassHealth MCO; **Comm Care**: Commonwealth Care; **Med Adv**: Medicare Advantage

⁹ Members attributed to the “other, non-FFS” payment method in the MassHealth MCO and Commonwealth Care markets were generally Patient-Centered Medical Home-affiliated members.

CONCLUSION

From 2012 to 2013, MassHealth MCO and Commonwealth Care markets exhibited growth in APM adoption with the overall rate increasing by seven percentage points in the MassHealth MCO market and by 16 percentage points among Commonwealth Care plans. There was essentially no growth in APM adoption in the commercial and Medicare Advantage markets, yet a significant development in the commercial market was the first reported use of APMs for PPO products. CHIA will continue to monitor and report on APM implementation across all segments of the Massachusetts health care market.

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