



## Value Based Purchasing in Health Care

Value based purchasing (VBP) is a general term used in health care to talk about several different ways that purchasers of health care can link payment to performance on measures of quality and cost or resource use. Public or private entities that pay for health care can engage in value based purchasing in three broadly defined ways:

1. **Pay for performance (P4P)** – arrangements where providers or managed care organizations are rewarded through bonuses or penalized by reductions in payment based on certain quality or resource use targets they are expected to meet.
2. **Shared savings** – arrangements usually with health care organizations that come together voluntarily to provide coordinated care and agree to being held accountable for outcomes for specific population of patients
3. **Bundled payments for episodes of care (also called global payments)** – payments to providers are based on expected costs for a pre-defined episode or bundle of related health care services; episodes can be defined in many different ways.

Most VBP arrangements still allow for payment for services rendered, but add a bonus or permit providers to share in savings accrued through better quality care.

Medicare and other health care purchasers have been moving more and more toward these types of payments arrangements, at least for some types of services, providers and populations. In Medicare, the Hospital Value-Based Purchasing Program, which makes payment adjustments (both bonuses and penalties) to hospitals based on performance, began implementation in October 2012, and the Physician Value-Based Payment Modifier started in January 2015.

According to a recent RAND study, published in the *Journal of the American Medical Association*, April 2017, “hospital participation in voluntary value-based reforms was associated with greater reductions in readmissions.”

The goal of any VBP arrangement is to move from volume-based payment, as in fee-for-service payments, to payments that are more closely related to outcomes. Critical factors in the success of such arrangements are:

1. Timely and accurate data;
2. Clearly defined goals, objectives and outcome measures; and,
3. Arriving at a payment model that will incentivize providers to focus on the outcomes desired.