

The Potential Impact of Pay-for-Performance on the Financial Health of Critical Access Hospitals

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Introduction

While pay-for-performance (P4P) has the potential to improve clinical quality and the patient's experience receiving care, it also may have a broader impact on the health care infrastructure. In order for P4P to have its desired consequences, it must put providers at meaningful financial risk. Thus, financially struggling providers might find themselves in even worse financial condition under a P4P initiative. This study models the impact of different pay-for-performance (P4P) incentives on the financial health of Critical Access Hospitals (CAHs).

Approach

The impact of P4P on CAHs is modeled by simulating the change in Medicare revenue using different exchange functions. The exchange function translates hospital quality outcomes into payments. Data sources for the study include 1) Hospital Compare, CMS's public reporting system for hospitals, 2) Hospital Cost Report Information System (HCRIS), and 3) the Flex Monitoring Team's census of CAHs. The analysis is limited to CAHs that had converted by 2006. The quality performance measures are composite quality scores for the conditions of pneumonia and heart failure. The financial measure used is an estimate of Medicare inpatient revenue based on HCRIS data.

Results

The analysis finds that for pneumonia and heart failure, hospitals that provide higher quality of care also are more profitable as measured by net revenue. P4P incentives likely reduce the financial health of hospitals already in financial distress. However, the impact of commonly used P4P incentive structures on CAHs is modest (i.e., the number of CAHs in financial distress increases by approximately one percentage point). To increase the number of hospitals in financial distress to two percentage points would require an extremely aggressive payment system relative to the one used in the CMS/Premier Inc. Hospital Quality Incentive Demonstration (HQID) project.

Conclusions

An obvious concern with P4P is that it may negatively affect the financial stability of hospitals that are in a precarious position. CAHs are prime candidates for P4P programs to have such unintended consequences. However, our work suggests that P4P incentives are likely to have, at best, only a modest impact on the financial stability of the CAHs that are already under significant financial pressure. Thus, if P4P programs are able to induce hospitals to increase quality, those benefits need not be weighed against the risk of putting already financially distressed CAHs in greater financial jeopardy. The results suggest that CAHs should be included in future P4P initiatives so we can better understand how payment incentives affect the quality of care in small rural hospitals.

Key Findings

- Pay-for-performance (P4P) incentives likely reduce the financial status of CAHs already in financial stress. However, P4P incentives are likely to have only a modest impact on the financial stability of CAHs.
- If P4P programs lead to increased hospital quality, those benefits would not have to be accomplished at the expense of putting CAHs in greater financial jeopardy.
- CAHs should be included in future P4P initiatives to provide a clear understanding of how payment incentives affect the quality of care in small rural hospitals.

This policy brief is based on Flex Monitoring Team Briefing Paper No.23 by Robert Town and Ira Moscovice, available at <http://flexmonitoring.org/documents/BriefingPaper23/P4P-Financial-Impact-CAH.pdf>

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