



Center for Medicaid and State Operations

SHO #06-003

APR - 6 2006

Dear State Health Official:

In the August 23, 2005 letter announcing the Medicaid/State Children's Health Insurance Program (SCHIP) Quality Initiative, we noted that quality-based payment strategies are an important component of the Centers for Medicare & Medicaid Services' (CMS) Medicaid and SCHIP Quality Strategy. States are showing growing interest in the voluntary adoption of payment methods that utilize market forces to improve quality, access, efficiency, and successful outcomes. This letter provides answers to several questions that have recently come to CMS as they relate to pay-for-performance.

Quality-based purchasing, also known as pay-for-performance, is the use of payment methods and other incentives to encourage quality improvement and patient-focused high value care. There are many models for financial and non-financial incentives used in pay-for-performance strategies. It is important to remember that pay-for-performance programs should be viewed as only one component of a broader strategy of promoting health care quality.

In Medicaid and SCHIP, quality-based purchasing may take on a different structure in every state, depending on the nature of the State's Medicaid and SCHIP programs. At least 10 states throughout the country have implemented some form of pay-for-performance program, and others have expressed an interest. The following provides answers to several frequently asked questions regarding pay-for-performance:

1. Is there evidence that pay-for-performance really works?

Pay-for-performance initiatives are in use throughout the United States and abroad, as more data reveal opportunities for improvement in quality of care. Due to the early stages of implementation, only a few studies have assessed the impact of performance incentives on quality. Recent CMS studies noted improvements in quality of care in hospitals participating in the Premier Hospital Quality Incentive Demonstration, a Medicare pay-for-performance demonstration project. Because of the absence of definitive data, it is critical that pay-for-performance initiatives include an evaluative component.

2. What States currently have some type of Medicaid Pay-for-Performance program?

California, Iowa, Maryland, Michigan, Nevada, New Jersey, New Mexico, New York, North Carolina, Pennsylvania, Rhode Island, and the District of Columbia are examples of some of the States with pay-for-performance programs. The enclosed chart, developed by the Centers for Health Care Strategies in collaboration with CMS, outlines the types of measures used in the state, the types of incentives used, and additional contact information for each program.

3. Why are States interested in exploring pay-for-performance opportunities?

States are seeking ways to drive meaningful improvements in quality for growing numbers of beneficiaries. States are interested in exploring reform options that provide an opportunity to design flexible programs that control costs and provide value for dollars spent by directing payment toward care that will improve the health status of the citizens within the state. Pay-for-performance is one of several methods that attempt to achieve these goals.

4. Effective quality-based incentive programs are dependent upon the availability of robust performance measures. What efforts are underway by CMS and other organizations in the area of performance measurement?

Performance measurement is critical to assessing improvements in quality and providing information to consumers and purchasers for health care decisions. CMS is actively involved with partner organizations in the development or compilation of measures suitable for both public reporting and pay-for-performance initiatives. CMS works with organizations, such as the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), National Committee for Quality Assurance (NCQA), Hospital Quality Alliance (HQA), Ambulatory Quality Alliance (AQA), National Quality Forum (NQF), medical specialty societies, and many other organizations and government agencies including the Agency for Healthcare Research and Quality (AHRQ) and the Veterans Health Administration (VA), in the development and compilation of measures that have been tested and found to be reliable and valid in assessing quality. CMS continues to explore measures that are relevant to populations served by payors, including Medicaid and SCHIP programs.

5. Can pay-for-performance be accomplished through a Medicaid or SCHIP State Plan or is a demonstration or request for waiver necessary?

The method by which a state may choose to accomplish its quality-based purchasing program can vary greatly because of the variety of approaches available to a state to administer its Medicaid and SCHIP programs. In general, states have broad flexibility, within established Federal regulations, to decide on medically necessary services that will be covered and rates that will be paid to providers or plans. CMS may review these plans through a State plan or a Medicaid demonstration project application or amendment, and through various other mechanisms.

In general, if the pay-for-performance program is a part of a fee-for-service delivery system, a state may include its initiative in its State plan. While the requirements for payment for managed care are somewhat more complicated, CMS will work with states to determine the proper method to implement such an initiative. A waiver under Section 1115, 1915(b) or 1915(c) of the Social Security Act (the Act) may be necessary when the initiative will not be statewide; will impact the amount, duration, and scope of benefits; will affect the comparability of benefits across the eligible population; or will restrict beneficiary choice of provider.

6. Does a State have to concern itself with budget neutrality, cost-effectiveness, etc., in a pay-for-performance program?

Overall budget neutrality or cost-effectiveness is a requirement of pay-for-performance initiatives that are implemented through demonstration programs under section 1115 of the Act, or home and community-based services waivers under section 1915(c) of the Act. Cost-effectiveness must also be a consideration in the case of managed care programs authorized under section 1915(b).

Medicaid service payments are tied to efficiency, economy, and quality of care standards and in some cases are also bound by upper payment limits or actuarial certification of managed care rates, all of which would impact the ability of a state to establish such a payment. In addition, the state's share of Medicaid payments must also be funded with permissible sources. States are encouraged to enter into discussion with CMS early in the process to determine financial considerations of program implementation.

7. What is the rate of Federal match that States receive for incentive or bonus payments?

Generally, Federal financial participation would be available at the statutorily defined Federal medical assistance percentage (based on per capita income statistics in each state, but no less than 50 percent in the case of Medicaid) when the incentive payment is made as a component of the payment for specific covered services. Administrative services associated with quality-based purchasing would generally be available at the 50 percent Federal matching rate for administrative-related payments, except in the case of services related to utilization and quality improvement activities for hospitals and managed care plans and for Medicaid management information systems which may be eligible for an enhanced match.

8. Is it correct that there are potential opportunities for State Medicaid Programs to partner in the CMS Medicare Nursing Home Pay-for-Performance Demonstration?

The CMS is currently in the process of developing a design for a Medicare Nursing Home Pay-for-Performance Demonstration. CMS is also exploring how interested states may implement parallel programs for Medicaid. The State will then have the advantage of testing a program that has the potential of improving quality of care. The State would also have the opportunity to receive technical assistance on program design from national experts in the field and have an opportunity to shape the design prior to any national rollout.

9. Are there currently any States involved with Medicaid Nursing Home pay-for-performance programs?

Iowa currently has a nursing home pay-for-performance program. Kansas, Minnesota, Texas, and Vermont have either studied or tested the concept in their states.

10. How can I find out more information about the CMS Quality Improvement Roadmap and the Medicaid and SCHIP Quality Improvement Strategy?

Information about both the CMS Quality Improvement Roadmap and the Medicaid and SCHIP Quality Improvement Strategy can be found on the CMS Web site at www.cms.hhs.gov.

We are also available to provide technical assistance to states interested in incorporating pay-for-performance quality programs into their Medicaid and SCHIP quality activities. If you have any questions related to Medicaid and SCHIP quality or pay-for-performance, please contact Jean D. Moody-Williams, RN, MPP, Director, Division of Quality, Evaluation and Health Outcomes at 410-786-8110 or jean.moodywilliams@cms.hhs.gov.

Sincerely,



Dennis G. Smith
Director

Enclosure

cc:

CMS Regional Administrators

CMS Associate Regional Administrators
for Medicaid and State Operations

Martha Roherty
Director, Health Policy Unit
American Public Human Services Association

Joy Wilson
Director, Health Committee
National Conference of State Legislatures

Matt Salo
Director of Health Legislation
National Governors Association

Jacalyn Bryan Carden
Director of Policy and Programs
Association of State and Territorial Health Officials

Page 5 – State Health Official

Christie Raniszewski Herrera
Director Health and Human Services Task Force
American Legislative Exchange Council

Lynne Flynn
Director for Health Policy
Council of State Governments

Dr. Charles W. Grim, D.D.S., M.H.S.A.
Director, Indian Health Service

H. Sally Smith
Chairperson, National Indian Health Board

Valerie Davidson
Chairperson, CMS Tribal Technical Advisory Group