Executive summary

How health care providers are paid is one of the key policy levers that countries have to drive health system performance. However, health providers are still paid in traditional ways – through fee-for-service (FFS), capitation, salary, global budgets or more recently diagnosis-related groups (DRGs). These give incentives for undesirable behaviours, for instance over-provision of services or inattention to clinical needs. More should be done to align payer and provider incentives so that payment is based on delivering value to patients.

Countries are stepping up to meet this challenge. Many healthcare providers in OECD countries are successfully delivering greater quality care thanks to innovative reforms to the way in which they are paid. In addition to making better use of traditional payment systems, OECD countries have been experimenting with new ways of paying providers to improve co-ordination, quality, outcomes and efficiency of care. Experiences of 12 countries shows three broad recent trends in payment innovations:

- Add-on payments paid on top of existing payment methods, which are tied to specific expectations of the care provider. Such payments are being used to encourage co-ordination, improve care quality and reward performance.
- Bundled payments for episodes of care or for chronic conditions, which aim to improve care quality and reduce costs.
- Population-based payments in which groups of health providers receive payments on the basis of the population covered, in order to provide most healthcare services for that population, with built-in quality and cost-containment requirements.

These innovative approaches to pay health providers have been successful in improving some aspects of the quality of care, health outcomes and/or reducing the costs of care provision. For example, add-on payments are used in different domains of care – payments for co-ordination are relatively easy to implement while payments to reward achievement are more complex. Bundled payments have improved protocols of care, however tariff setting is more complex and brings an added administrative burden. Population-based payments show slower health spending growth but whether they can contribute to make health systems more performing in the long-run will remain to be seen.

The three different types of innovations examined in this report differ in their complexity and some of them give providers more financial flexibility and autonomy in organising care for their patients. A common feature is that providers have been increasingly willing to accept payment models that entail more financial risk for them, and payers have been more actively engaged in shaping modes of payment in countries where they are allowed to play a more strategic role.

Experience over the last decades has shown that payment systems evolve constantly and providers adapt behaviours over time so that the effectiveness of the incentives declines over time. But even if innovative payments have not systematically proven yet that they add value, they can have positive system-wide effects by inducing better data collection,

clarifying health policy objectives and leading to a more informed dialogue between purchasers and providers.

These payment innovations operate in different health systems and all come with their own specific challenges, but for policy makers, a number of important lessons should be considered:

Use payment systems to drive strategic objectives in health

- Align payment systems with health policy objectives. Payers need to be more innovative and providers should be rewarded for what they deliver – not simply what they can do.
- Encourage further experimentation. Add-on payments, bundled payments and population-based payment show promise, but more needs to be learnt about why some initiatives perform better than others.

Design payment innovations

- Draw on evidence-based guidelines to make tariff setting transparent, which will also encourage adherence to treatment protocols and more standardised care.
- Use clear, scientific-based criteria to identify patient populations for the payment innovation – for example high-risk patients or those with complex needs.
- Encourage quality targets to be based on best practice guidelines defined by institutions in charge of defining good practices for the payment innovation. Use a wide set of quality measures to make care delivery and performance more transparent for payers.
- Build-up IT system capability for data needs, such as measure individual costs items to define bundled tariffs; record payments for billing purposes that are adaptable to alternative modes of payment; integrate data that span across levels of care to inform price setting and identify high-cost patients in more complex payment innovations; record performance measures; and train staff to cope with new IT requirements.

Implement payment innovations

- Target stakeholders from the start and keep them engaged in the payment reform with a focus on building consensus about objectives, reporting and quality requirements, and mitigate concerns relating to exposure to financial risk among providers.
- Strike a balance between better data, data reporting and added administrative burden so as to reduce provider resistance to the change in payment.

Evaluate payment innovations

- Pilot experimentation to adjust incentives to providers and to mitigate possible unintended consequences before scaling up payment reform.
- Evaluate the payment innovation on a systematic basis through independent evaluations and build in systematic monitoring and feedback to providers to strengthen provider support to payment changes and accountability.