

Hospital Value-Based Purchasing

Educational Briefing for Suppliers and Service Providers

Executive summary

The Hospital Value-Based Purchasing (VBP) Program adjusts hospital inpatient Medicare payments based off performance on a set of quality and efficiency measures. It is one of three mandatory pay-for-performance (P4P) programs that the Affordable Care Act introduced and is managed by the Center for Medicare and Medicaid Services (CMS). VBP promotes quality care delivery, positive patient experience, and cost effectiveness by factoring each of these elements into scoring. Like the other P4P programs, low-scoring hospitals see lower reimbursement rates, but VBP is the only program in which high-scoring hospitals see an increase in their Medicare reimbursements, resulting in a net neutral effect on the budget.

Why is the Value-Based Purchasing Program a key issue for providers?

Helping to make up for penalties in other P4P programs

VBP is the only program in which hospitals can earn a bonus payment. Although some policy analysts are critical of the program’s relatively minor financial impact compared to other P4P programs, analysis of annual VBP data indicates that bonuses can be an effective way of offsetting penalties levied in the Readmissions Reduction Program and Hospital-Acquired Conditions (HAC) Reduction Program.

Setting a solid foundation for other risk-based payment initiatives

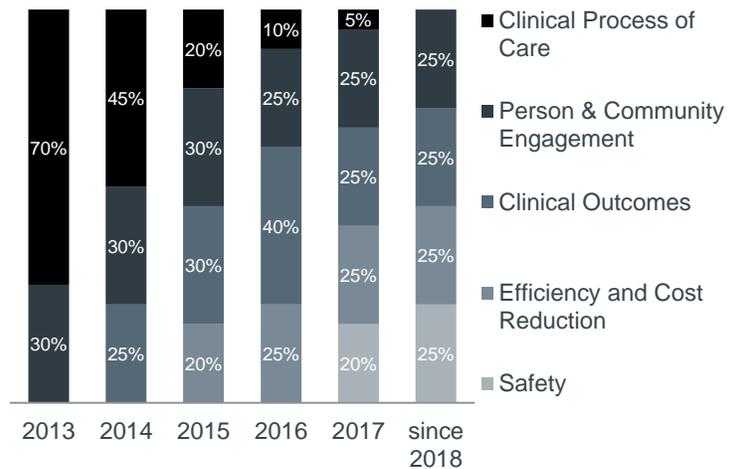
VBP reimbursement impact aside, many of the metrics in the program overlap with other CMS initiatives that reward performance based on quality and cost. For example, VBP measures Medicare spending per beneficiary performance, which also impacts other risk-based payment programs like Medicare Shared Savings. In addition, strong performance on infection measures leads to positive scores for the VBP and HAC Reduction Program. Advisory Board research also indicates that in an emerging retail market, successful hospitals and health systems must offer cost-competitive, high-quality services – both of which VBP directly promotes.

How does Value-Based Purchasing work?

CMS calculates two scores for each measure, once for achievement (comparison to national performance standards) and once for improvement (comparison to a hospital’s historical baseline score). CMS takes the higher of those two figures into account when they measure performance for each measure. In 2020, CMS measured four domains: person and community engagement, clinical outcomes, efficiency and cost reduction, and safety. Performance on each domain is added together to form a hospital’s total performance score (TPS) of between 0 and 100. .

A hospital’s final VBP impact then depends on two figures, the “withhold” and the “incentive payment”. The withhold is a set percentage of a hospital’s Medicare revenue that CMS holds back each year – in 2020 this was 2%. Each hospital has the chance to earn back that reduction through their incentive payment. The incentive payment coincides with a hospital’s TPS such that the higher the TPS, the higher the incentive payment. If the incentive payment is higher than the withhold, a hospital earns a bonus; if the incentive payment is lower than the withhold, a hospital receives a penalty.

VBP domain weights



Conversation starters with the hospital C-suite

- 1 What steps has your institution already taken to improve performance in the VBP program?
- 2 In which VBP domain are you most successful? Which have been the most troublesome?
- 3 As the domain weights of VBP change over time, how have you addressed new benchmarks?

Source: Advisory Board research and analysis.

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How does Value-Based Purchasing affect providers?

Clinical

Under the VBP, CMS measures hospitals on metrics like hospital-associated infections, mortality, surgical complications. From a clinical standpoint, providers must promote care standardization for these conditions to avoid a penalty, or potentially receive a bonus. As domain weighting changes annually, providers need to be flexible in what areas they focus on, and will need to maintain diligent clinical documentation.

Financial

Typically, CMS collects data that contributes to the overall VBP payment determination up to four years ahead. For example, financial impact of VBP in FY 2020 is based of performance from 2015-2018. Therefore, hospitals must be aware how their quality performance today impacts payments in future years and prepare accordingly. As part of this process, hospital administrators will need to track incoming metrics from other quality payment programs so they can be prepared for potential new metrics that CMS might introduced to the program.

Operational

Hospitals need to strongly emphasize patient experience, focus on staff communication, provide clear instructions about medications, ensure a clean and quiet hospital environment, and comprehensively communicate post-discharge care plans. These will help providers improve their relationship with patients and achieve positive scores. Institutions must also find a way to encourage organizational agility and creativity, as staff must be ready to react and alter processes if VBP measures change.



DATA SPOTLIGHT

\$1.9 billion

Estimated total amount available for value-based incentive payments in FY 2020

55%

Percent of hospitals that received a bonus under the VBP program in FY 2020

How might the Value-Based Purchasing Program impact provider-supplier sales relationships?

VBP will play a key role in hospital budget discussions and affect hospital negotiating patterns in the following ways:

Products and services that improve patient experience will become more coveted.

- As Person & Community Engagement makes up 25% of TPS scores, products that help with communication between patients and staff, pain management, or noise reduction are at a premium.

Opportunity exists to add VBP impact to value statement.

- Vendors and service providers that provide case studies or statistics will gain an advantage in the market if they can demonstrate how they are helping hospitals improve their TPS scores.

Providers will look to reduce unnecessary variation in care.

- Many providers look to implement clinical decision support tools that promote standardization of best practices. These will help ensure that they meet clinical outcomes and safety and measures. For example, given a certain diagnosis, electronic medical records could be utilized to confirm that patients receive appropriate care measures.

Additional Advisory Board research and support is available



If you would like more information about Value-Based Purchasing from the hospital perspective, watch our webconference on the [Medicare Hospital Inpatient Pay-for-Performance Update](#). For information on hospital VBP performance, use our 2019 [Hospital Pay-for-Performance File](#).

1) National Health Safety Network: contains a list of conditions whose prevalence is to be penalized under Value-Based Purchasing.