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## GET READY FOR VALUE-BASED PURCHASING

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# Get ready for value-based purchasing

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Remember the halcyon days of 2007, when the stock markets reached their peak?

In the midst of the boom, Congress instructed the Centers for Medicare & Medicaid Services to submit recommendations for an initiative called Value-Based Purchasing, or VBP. In November 2007, CMS delivered the outline of a VBP initiative to Congress.

This past November, CMS issued a release delineating the long-awaited VBP proposal for physicians. Since then, CMS – particularly Thomas B. Valuck, MD, medical officer and senior advisor to CMS – has spoken widely about its plans to implement VBP.

**KEY CONSIDERATIONS.** The lynchpin of VBP is “to transform Medicare from a passive payer of claims to an active purchaser of care.” In a nutshell, VBP proposes to link payments to results, including quality, efficiency, patient satisfaction, and other measures. CMS’s November 2007 proposal suggests that hospitals should be rewarded for attainment (i.e., sustained excellence) and improvements from a baseline. For the measures that CMS incorporates into VBP, hospitals will be ranked against national benchmarks.

Every hospital executive knows about present on admission (POA), recovery audit contractors (RAC), hospital acquired conditions (HAC), payment for performance (P4P), HCAHPS, Never Events and Core Measures. Many hospital executives have approached these initiatives as discrete and unrelated. Connecting the dots of these seemingly unrelated initiatives reveals the outline of VBP.

If you ask a hospital CFO to estimate the amount of revenue at risk under POA, RAC, HAC, Never Events and P4P, most of them can get to 5-10 percent of revenue pretty quickly. With the turmoil in the stock markets and relentless cost pressures of clinical personnel and technology, hospitals should have a new urgency to understand where they are in a VBP environment.

**THE GOOD AND THE BAD.** First, the good news – CMS intends to provide incentive payments for attainment and improvement. If your hospital compares favorably against the applicable benchmark for attainment, CMS plans to reward your hospital for sustaining that excellence. At the same time, CMS also proposes to reward your hospital for making improvements against the applicable benchmarks from one year to the next.

The first step to prepare for VBP is to compare your hospital against your peers to assess your performance in quality, efficiency, patient satisfaction and other measures that CMS mandates. The second step is to embrace competitive benchmarking as a key discipline throughout your organization to ensure continual and incremental improvement against your peers.

Now, the bad news. If Congress was contemplating VBP in 2007 when the economy was at its all-time high, then today’s economic woes seem likely to accelerate the concept. A plan unveiled by Sen. Max Baucus (D – Mont.) this past November outlines a path to quality and affordable healthcare, and advocates the implementation of VBP, though a bit more slowly than CMS has proposed. The Baucus plan, which incorporates many of the tenets of President Obama’s plans, is a possible launch pad for reform in the Obama administration.

**ACT NOW!** Value can, and will, be defined for healthcare, and CMS is leading the charge. History suggests that private payers will not be far behind. VBP, in some form, is headed to a hospital near you.

Hospitals have always ultimately adapted to changes in the financing of healthcare, but usually reluctantly and slowly. If you don’t know your hospital’s value proposition today in comparison to its peers, time is not on your side. If you don’t join the discussion on how value should be defined, others will fill that void.

On the other hand, hospitals that embrace benchmarking to understand performance against regional and national benchmarks will be poised to receive higher reimbursement and improved market share in an increasingly competitive healthcare landscape.

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