



*Washington State*  
Department of Social  
& Health Services

# Designing a System of Skilled Nursing Facility Quality Incentive Payments

# What is pay for performance?

Pay for performance is an emerging movement in health care. Providers under this arrangement are rewarded for meeting pre-established targets for delivery of health care services. This is a fundamental change from fee for service payment.

Also known as “P4P,” value-based purchasing,” or “Quality Incentive Payments” this payment model rewards health care providers for meeting certain performance measures for quality and efficiency. The aging population and rising health care costs have recently brought P4P to the forefront of health policy discussions.

# ESSB 6444 Chapter 37, Laws of 2010

DSHS was directed by the Washington State Legislature and contracted with L&M Policy Research to review pay-for-performance (P4P) strategies other states used in their Medicaid programs and gather stakeholder input on potential quality measures, and conduct quantitative analyses to provide a foundation for the potential implementation of a P4P program in Washington. L&M created a report summarizing the current nursing home P4P experience around the country, obtained input from stakeholders, and quantitative analysis to illustrate the potential impact of alternative approaches to P4P program design.

# Recommendation from the L&M Report

- **Include a range of quality measures in constructing performance scores.**
- **Reward facilities based on composite measure scores.**
- **Blend payment based on both absolute performance and improvement.**
- **Consider rewarding high performance, not penalizing poor performance.**
- **Consider rewarding facilities on the basis of a fixed dollar add-on or bonus rather than as a percentage of the per diem rate.**
- **Risk adjustment of quality measures is essential.**
- **Be as transparent as possible.**
- **Report measures/scores publicly.**
- **Monitor the system for potential unintended consequences.**
- **If possible, use new sources of revenue to fund reward payments.**

# L&M Five Principles

1. Evidence-based treatment and processes
2. Common quality improvement measures
3. Consistent with the standards that have been developed by national quality improvement organizations
4. Benchmarks that are feasible, yet represent real improvements
5. All facilities in Washington are able to receive the incentive payments

## ESSB 5581 Chapter Laws of 2011

- Established a workgroup to design a system for quality incentive payments.
- The workgroup asked DSHS not to proceed at this time to design and implement a specific P4P program. It was the consensus that the December 15, 2011 deadline does not allow adequate time to design the program.
- Unanimously, the workgroup felt that any P4P program must come with new money to fund the system. Given the state's budgetary concerns, the workgroup did not feel there would be new money to fund the system.
- Should there come a time when new funding is available to fund such a program, the workgroup overwhelmingly supported the idea of a trial period of shadow rates to see how such a program would operate before it actually started to pay money.

# ESSB 558 I, Continued

(2) Pursuant to an appropriation by the legislature, for state fiscal year 2013 and each fiscal year thereafter, assessments may be increased to support an additional one percent increase in skilled nursing facility reimbursement rates for facilities that meet the quality incentive benchmarks established under this section.

## Reasons for P4P

- Over the last several sessions, the Legislature has made its interest in P4P very clear. The Legislature sees P4P as a cost-effective way to improve quality of care for nursing facility residents.
- RCW 74.48.090 provides a source of potential funding for a P4P program: for SFY 2013 and each year thereafter, an increase in the nursing facility safety net assessment to fund up to a 1% increase in nursing facility reimbursement rates.
- A relatively simple P4P system can be initiated on a trial basis without incurring a great deal of up-front cost. It would keep the P4P momentum moving forward, rather than letting it stall out and have to be restarted later, if at all.



# Questions?