



## Alerts

### HHS Announces Medicare Shift to Value-Based Payments and Promotion of Reform Among All Payers

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*Health Law Alert*

"Moving from volume to value" has become a common refrain, if not a mantra, in the healthcare industry to describe ongoing reform efforts aimed at realigning financial incentives to reward quality and efficiency, rather than the sheer quantity of services performed by health care providers. Why then was [a recent announcement by HHS](#) that Medicare will continue to shift reimbursement from volume to value hailed as "historic," "pivotal," and a "transformative moment"? The news is that for the first time in history, HHS has announced specific goals for the transition of Medicare payments from "fee-for-service" to value-based payment over the next four years. Specifically, HHS announced that over the next two years, 85 percent of Medicare payments will be linked to quality (i.e. "value-based") in some way, and that figure is to be increased to 90 percent by the end of 2018.

For payment to be tied to quality for purposes of these 85/90 percent figures, a portion of the payments must vary based on quality or efficiency of health care delivery. This could include hospital value-based purchasing, the physician value-based modifier, and the readmissions/hospital acquired condition reduction program. Perhaps more notably, however, is that HHS announced that its goal is to have 30 percent of Medicare payments in "alternative payment models" by the end of 2016, and half by the end of 2018. By "alternative payment models," HHS means models in which payment is linked to the effective management of a population or episode of care. Examples include bundled payments, accountable care organizations, and medical homes. Typically, alternative payment models require even more fundamental change to the delivery and payment of medical services than value-based payments that are more closely related to the currently predominant fee-for-service paradigm.

HHS did not make a prediction as to the dollars that would result from achieving its stated goals, nor did the announcement include details such as the criteria against which new value-based payments will be measured. As payment reform efforts to date have revealed, how these goals are met may have a profound impact on health care providers, payers and patients. While the specifics remain to be seen, what is clear is that more change is coming and that, in many cases, this will require healthcare providers to make significant operational changes in a relatively short period of time. It is also clear that these changes will continue to fuel the shift toward value-based purchasing that is already underway in the private sector. In fact, as it announced its goals for transitioning Medicare payments, HHS also announced the creation of a Health Care Payment Learning and Action Network to facilitate greater collaboration between HHS, private payers, large employers, health care providers, health care consumers, and other governmental agencies. According to HHS, the purpose of the Network is to accelerate payment reforms so that they are adopted by such a "critical mass" of payers – public and private – that health care providers will be motivated to make "fundamental changes in their day-to-day operations that improve the quality and reduce the cost of health care."<sup>[2]</sup>

If you would like more information on the recent HHS announcement or would like to discuss how Hinshaw's experience helping health care providers adapt to and thrive in value-based purchasing markets could help your organization, please [contact your regular Hinshaw attorney](#).



[1] HHS Press Office Release: "Better, Smarter, Healthier: In historic announcement, HHS sets clear goals and timeline for shifting Medicare reimbursements from volume to value," January 26, 2015. Available at: [www.hhs.gov/news/press/2015pres/01/20150126a.html](http://www.hhs.gov/news/press/2015pres/01/20150126a.html)

[2] HHS Fact Sheets: "Better Care. Smarter Spending. Healthier People: Paying Providers for Value, Not Volume," January 26, 2015. Available at: [www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2015-Fact-sheets-items/2015-01-26-3.html](http://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2015-Fact-sheets-items/2015-01-26-3.html)