



Centre for
HEALTH SERVICES AND POLICY RESEARCH

What if...

**Financial incentives were better aligned
across hospital and community settings
by combining activity-based funding and
global budgets?**

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Understanding Options to Improve Efficiency in
Healthcare Spending and Healthcare Financing

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Main Issue

- **Currently, funding policies for acute and post-acute care are not aligned to achieve efficient patient flow**
 - e.g., alternative levels of care (ALC) observed across provinces
 - Those patients formally discharged from acute care, but for whom appropriate discharge location is not available
- **Acute hospital care historically funded through global budgets:**
 - Disincentives for discharging patients to post-acute care and increasing volume (i.e., exchanging relatively less expensive patients for relatively more expensive patients)
 - No reward for improving quality or efficiency
- **Post-acute care historically funded through a mix of global budgets + capitation:**
 - Disincentives for PAC facilities to accept more complex patient types
 - No reward for positive outcomes

Proposed Option

Blending activity-based funding (ABF) with global budgets for funding acute and post-acute care (separately) is one funding option under consideration by policy makers

- ABF remunerates facilities based on volume of services + characteristics of the patients
 - Patients assigned to unique groups based on clinical and demographic information
 - Each group is associated with a predetermined funding amount

Evidence

- **ABF generally creates financial incentives that promote volume and efficiency.**

Hospitals

- **ABF associated with:**
 - Higher volumes of care
 - Shorter lengths of stay
 - Lower mortality (perhaps)
 - Increase in overall spending on hospital care (due to higher volume)

Post-Acute Care

- **Rehabilitation:** ABF has reduced episode costs and lowered length of stay
- **Long term care:** Lowered per incident costs and (some evidence) improves performance scores
- **Home care:** No evidence

Transition between facilities

- **No evidence**

Challenges

Hospitals

- ABF initiatives may be moot if no post-acute care location available (e.g., ALC will rise)
- Policy-makers have to be prepared for an increase in costs

Post-Acute Care

- Timely and reliable data in post-acute care is limited (needed for setting prices)
- Some evidence from the US to suggest that public/private facilities react differently to ABF
- Unclear if there is the physical capacity in post-acute care for effective ABF initiative

Transition between facilities

- Implications of introducing ABF on ALC utilization is unknown

Implications for Canada

- **Transition between acute and post-acute facility is a growing issue in Canada**
 - e.g., ALC utilization rising across many provinces
- **This may be exacerbated by ABF initiatives for funding hospital care**
 - A complimentary post-acute care funding initiative is needed
 - But whether or not ABF for post-acute care is an effective funding initiative is unknown
- **Such an initiative should encourage coordinated care and shared accountability for patient outcomes across facilities**



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