

Healthcare Funding News

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From the Editor

Welcome to the Healthcare Funding team's first newsletter of 2016! Looking back, 2015 was a very busy year for the team that included completing several major projects and preparing several forthcoming manuscripts, as well as conducting work informing a variety of provincial and national policy initiatives. Our future newsletters will be timed to summarize the team's most recent research and contributions to Canadian health funding policy.

In this edition of *Healthcare Funding News*, we discuss three recent developments. First, we touch on our research supporting Health Canada's Advisory Panel on Healthcare Innovation, chaired by David Naylor, and summarize related recommendations in the Panel's much-discussed final report. Second, we summarize our newly-published manuscript simulating the hypothetical financial impacts of implementing the Centers for Medicaid and Medicare Services' controversial hospital readmission payment reduction methodology in BC hospitals. Third, we offer a commentary on conclusions made by a recent Australian review of international hospital case mix methodologies on issues associated with Canada's national acute care case mix methodology. We reflect on the fragmented state of provincial activity-based funding methodologies, and suggest some guiding principles for a more cohesive and efficient national approach toward supporting funding reform in Canada.

Finally, we are pleased to announce that we have updated a number of features on our website, which you can explore at healthcarefunding.ca. We are averaging about 50 visitors a day! We also are letting readers know that we are open to suggestions and comments on future newsletter content,

directions of current research or new findings, and general questions pertaining to our areas of expertise. We are expressly interested in determining whether readers would prefer short video clips examining new research results.

Please contact us at editor@healthcarefunding.ca.

HEALTHCARE REFORM

Health Canada's Advisory Panel on Healthcare Innovation: Can Bundled Payments Help Canadian Health Systems?

Early in 2015, the Healthcare Funding team was commissioned by Health Canada's Advisory Panel on Healthcare Innovation—chaired by David Naylor and featuring other Canadian healthcare luminaries—to conduct research synthesizing the international experience and evidence around bundled payment models and to assess the potential opportunities, challenges and considerations for implementing bundled payments in Canadian health systems.

After an extensive review and analysis of international peer reviewed and grey literature, the team concluded that while the research base for bundled payments is still relatively nascent, albeit rapidly emerging, evidence to date from several countries suggests bundled payments can reduce health system costs while maintaining or improving quality of care. There is considerable *prima facie* validity for the potential for bundled payments to help drive

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integration of our fragmented Canadian provincial health systems.

Informed by the team's research, the Panel made several key recommendations in favour of introducing varieties of bundled payment models in Canada, notably:

- *“Supporting the implementation and iterative improvement of integrated healthcare demonstrations and bundled payment models must ... be a high priority”* for federal and provincial governments, which need to *“get moving much faster with funding reforms.”*
- The federal government should help provinces to pilot a variety of bundled payment strategies, including shared funding incentives for hospitals, physicians and community providers and new payment models for primary care groups that offer incentives based on patients' avoidance of hospitalizations.
- The Canadian Institute for Health Information (CIHI) should *“pave the way”* for provinces' bundled payment efforts by *“developing methods to measure multi-sectoral costs of episodes of care.”*

Unfortunately, as reported by several major newspapers, the Panel's recommendations may have proved to be too bold for the tastes of the previous federal government: the release of the Panel's final report was delayed without explanation for several months, followed by a surprise launch with little fanfare. The Healthcare Funding team remains optimistic that the new federal government may yet find value in the thoughtful analysis and recommendations produced by Dr. Naylor and colleagues.

The full report can be accessed at: <http://www.healthy Canadians.gc.ca/publications/health-system-systeme-sante/report-healthcare-innovation-rapport-soins/index-eng.php>

POLICY EVALUATION

Improving Hospital Quality Through Payment Reforms: A Policy Impact Analysis in British Columbia

In the US, the Centers for Medicare and Medicaid Services (CMS) have implemented financial penalties for hospital readmissions. Known as the Hospital Readmission Reduction Program (HRRP), CMS reduces payments to hospitals whose readmission rates exceed complexity-adjusted expected rates. This US policy deserves special attention in provinces for two reasons: the hospital readmission rate in the US has fallen steadily in the years since the introduction of the policy, and Canada's hospitals have relatively high readmission rates.

“Many advanced health systems are using financial incentives to wring more value from their spending—why are provinces not following suit?”

The Healthcare Funding research team recently published a policy evaluation simulating the adoption of the CMS readmission penalty methodology in British Columbian hospitals. Using anonymized hospital data, readmission rates were calculated and excess readmission rates determined for three conditions highlighted by CMS.

“Hospital readmissions are a good place to start—they are markers of poor quality of care, costly to the health care system and many readmissions are avoidable.”

Our analyses found that the impact of the CMS financial penalties on BC's hospitals would be very minor. Moreover, BC's Ministry of Health has not been active using funding as a lever for hospitals to improve their quality or efficiency—this alone makes the policy unlikely to be attractive to BC. The study results point to variable hospital quality for chronic conditions in some BC hospitals, a finding that is likely shared in other provinces. The article

concludes that while Canadian hospital readmissions are unacceptably high, a range of policies and actions should be adopted as opposed to a single “silver bullet” payment solution.

The original article can be accessed at: <http://hmf.sagepub.com/content/29/1/33.abstract>

COMMENTARY

Activity-Based Funding Reform in Canada: Do Provinces Have the Tools They Need?

Over the past several years, at least three Canadian provinces have actively pursued the introduction of activity-based funding reforms for hospitals, which continue to be predominately funded in all provinces by historically driven global budgets. These reforms have been introduced nearly entirely independent of one another, with each province using different classification and pricing methodologies to support their funding policies. For example, Ontario has invested in the development and maintenance of a parallel (although technically very similar) methodology to CIHI's national CMG+ system, while Quebec has opted to procure a commercial system produced outside of Canada. Only BC has gone the route of adopting CIHI's existing CMG+ case mix methodology more or less “as-is”.

Such diversity of activity-based funding methodologies employed within a single country is unusual on the international stage. In Australia, where the federal-state division of health care responsibilities is similar to Canada's federal-provincial arrangement, the federal Commonwealth government oversees a national activity-based funding framework and classification methodology, with individual states operating the same methodology using slightly different policy designs. Moreover, among leading nations in the use of activity-based funding—including considerably more populous countries such as England, Germany and France—the majority employ unified national methodologies to support

funding systems, even if the details of policy implementations differ across sub-national regions.

Perhaps not surprisingly, international funding experts have remarked that the current situation in Canada of provinces independently pursuing their own activity-based funding methodologies is extraordinarily inefficient. Developing, maintaining and updating the complex classification and pricing methodologies required to support these funding systems requires highly specialized expertise that exists in short supply across Canada, let alone within individual provinces. Furthermore, maintaining separate methodologies prevents comparison and benchmarking of costs and performance between provinces and crucially, leaves Ministries of Health to their own devices in carrying out their policies without the opportunity to share lessons or coordinate strategies.

“...the CMG+ system is overly complex, opaque to hospital users, and potentially reduces incentives for efficiency...”

Why have provinces opted to go it alone with activity-based funding? A recent article published in Health Policy, written by internationally recognized case mix expert Terri Jackson and colleagues in Australia, draws attention to some of the potential concerns provincial governments may have had regarding CIHI's national CMG+ case mix methodology. In a comparison of acute inpatient case mix systems in a number of countries, Dr. Jackson and colleagues conclude that CMG+ is “ill-suited to the transparency and resource management objectives of an activity-based funding system.” This conclusion is based on their findings that in comparison with leading international practices, the CMG+ system is overly complex, opaque to hospital users,

and potentially reduces incentives for efficiency and appropriateness due to the nature of its design, which ties additional reimbursement with increasing intensity of services used within the hospital.

Earlier in this newsletter, we noted the recommendations from Health Canada's Advisory Panel on Healthcare Innovation that the federal government (including CIHI) step up to play a larger role in supporting provinces' funding reform efforts, and that provinces begin to pursue more meaningful collaboration in this area. Readers may ask: if the federal government and provinces were to adopt a more efficient, collaborative approach to activity-based funding reform, what would this look like? The recent publications of Dr. Jackson and Dr. Naylor and colleagues provide some potential principles for moving forward here:

- **More streamlined and transparent methodologies.** With over 30,000 final patient groups in CMG+ and an opaque development logic, a simplified approach to defining hospital patient types is needed. Most health systems use less than 1,000 groups—and many publish the algorithms online.
- **Alignment with policy.** The methods used for classifying and weighting different patient groups should reflect provincial policy directions, such as reducing alternate level of care days and avoiding use of potentially inappropriate procedures.
- **Sharing learning.** Despite several provinces now having made significant use of activity-based funding for several years, there is little published information on these experiences (including failures and successes) available, with

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such information exchange typically limited to a small number of specialty conferences. Common forums should be established for provinces to collaborate and share lessons their funding reforms, as well as future reforms: the Innovation Advisory Panel recommended that provinces and the federal government adopt a common direction toward bundled payment models.

We encourage you to read the article by Jackson and colleagues, accessible free of charge at: <http://www.sciencedirect.com/science/article/pii/S0168851015002481>

This newsletter was produced by the editorial team of www.healthcarefunding.ca, a reliable and impartial resource for literature, news, and discussion regarding health care funding policies in Canada and internationally.

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