ABSTRACT

Effects of Medicare Reimbursement Policies on the Quality of Hospital Care

Preventable adverse events affect 13.5% of Medicare hospitalizations and cost more than $17 billion annually; similarly, unplanned hospital readmissions affect 20% of Medicare discharges and cost $15 billion annually. To address these, Hospital Value-Based Purchasing (HVBP) and the Hospital Readmissions Reduction Program (HRRP) were launched under the Patient Protection and Affordable Care Act. These pay-for-performance (P4P) policies authorize the Centers for Medicare and Medicaid Services (CMS) to make progressive reductions in Medicare reimbursements based on certain quality measures. Under historical Medicare payment reforms, decreased reimbursements have been associated with operational and staffing reductions, cutbacks in quality initiatives, and an increase in patients discharged in unstable conditions. Emerging literature further suggests teaching and safety-net hospitals are more likely to be penalized under HVBP/HRRP than their counterparts. While these policies have different risk-adjustment methodologies, they both disregard potentially important community characteristics, such as the quality of nursing homes, which can influence the quality of health care. It remains unclear, therefore, if the disproportionately penalized hospitals are truly low-performing, or if these P4P policies are improperly calibrated. The proposed research examines the role of community influences on hospital penalties and the intended and unintended ways hospitals may respond to P4P incentives. Specifically, the plan has three aims: 1) quantify the degree to which hospital and community factors contribute to differential penalties through a multi-level Fairlie decomposition, 2) evaluate the effect of HVBP/HRRP on hospital performance measures, and 3) investigate the possibility of unintended consequences, such as assigning readmitted patients to observation status to avoid being penalized. The last two aims exploit how the discrete sorting threshold of CMS penalty factors in a regression discontinuity design. The use of quasi-experimental methods to address the potentially endogenous relationship between Medicare revenue and hospital performance will provide critical feedback and can inform future P4P policies.