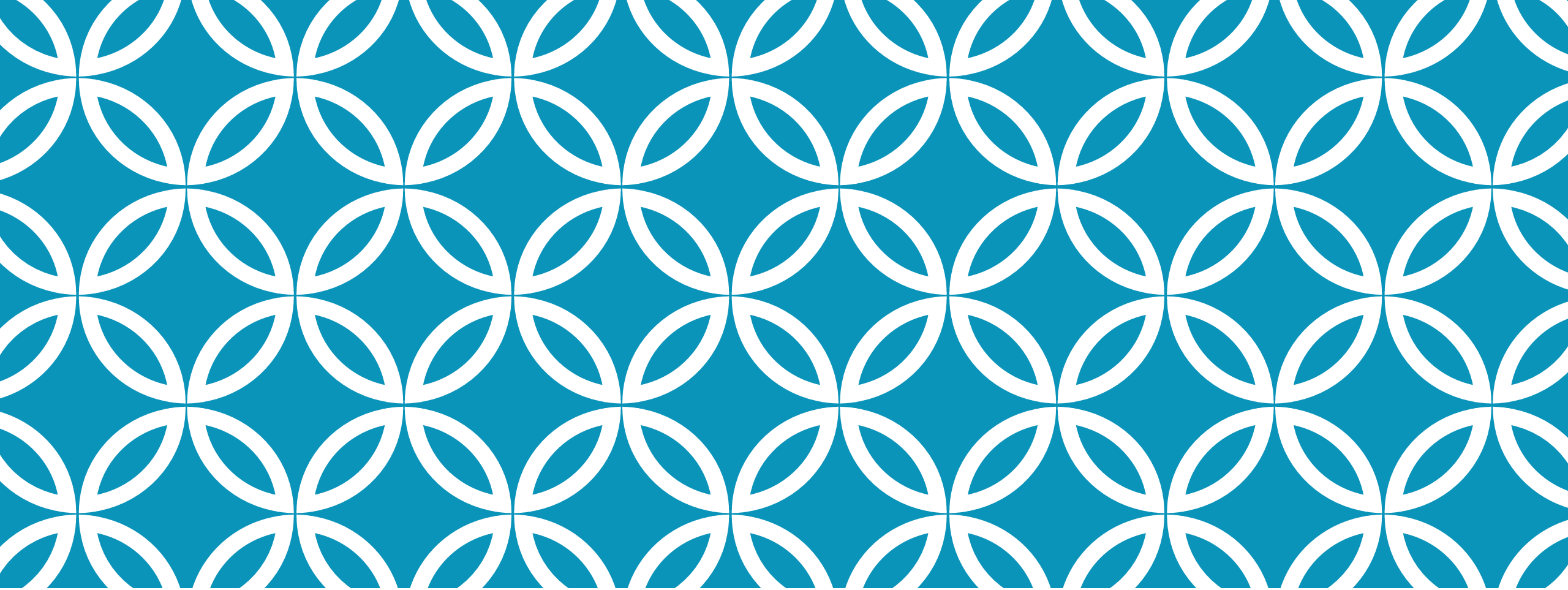

PROVIDER PAYMENT MECHANISMS

Dr Khor Swee Kheng
MD, MRCP, MPH

DEFINITIONS AND REASONS

DEFINITIONS:

- Provider Payment Mechanisms: to decide how much to pay a provider for what service.
- Providers: Hospitals and Physicians (defined as all doctors).

REASONS FOR PAYMENT MECHANISMS:

- Allocation of scarce resources needs a methodology. Otherwise it's a bottomless black hole.
- Principles of equity, justice, efficiency.
- Political and social contract reasons.

GENERAL PRINCIPLES FOR HOSPITALS

- All mechanisms have pro/cons.
- The choice is a political one, depending on the national, political and social context.
- The ideal mechanism is probably a combination to maximize pro and minimize con. But using a pre-specified methodology to increase equity and reduce disagreements.
- For all payment methods: Competition will increase the performance of any payment methods (Barnum 1995).

HOSPITAL PAYMENT MECHANISMS

Main Provider Payment Methods, Definitions, and When the Method May Be Useful

Provider payment method	Definition	When it can be used
Global budget	The allocation of a payment fixed to a health care provider to cover the aggregate costs over a specific period to provide a set of services that have been broadly agreed on. A global budget may be based on inputs or outputs, or a combination of the two. Typically, providers have flexibility to make decisions about how to allocate funds across expenditure categories.	Management capacity of the purchaser and providers is at least moderate, competition among providers is not possible or not an objective, cost control is a top priority.
Line-item budget	The allocation of a fixed amount to a health care provider to cover specific input costs (such as personnel, utilities, medicines, and supplies) for a certain period. Typically, providers have limited flexibility to move funds across line items.	Management capacity of the purchaser and providers is low, cost control is a top priority, although it creates incentives to increase inputs and there are no incentives or mechanisms to improve efficiency.
Capitation	A payment method in which all providers in the payment system are paid, in advance, a predetermined fixed rate to provide a defined set of services for each individual enrolled with the provider for a fixed period. (Also known as per capita payment method.)	Management capacity of the purchaser is moderate to advanced, choice and competition are possible, strengthening primary care and cost control are top priorities, a broader strategy is in place to increase health promotion.
Case-based	Hospitals are paid a fixed amount per admission or discharge depending on the patient and clinical characteristics, which may include department of admission, diagnosis, and other factors.	Management capacity of the purchaser is moderate to advanced, there is excess hospital capacity and/or use, improving efficiency is a priority, cost control is a moderate priority.
Fee-for-service	Providers are paid for each individual service provided. Fees are fixed in advance for each service or group of services.	Increased productivity, service supply, and access are top priorities; there is a need to retain or attract more providers; cost control is a low priority.
Per diem	Hospitals are paid a fixed amount per day for each admitted patient. The per diem rate may vary by department, patient, clinical characteristics, or other factors.	Management capacity of the purchaser and providers is moderate, improving efficiency and increasing bed occupancy are priorities, the purchaser wants to move to output-based payment, cost control is a moderate priority.

Current Malaysian System. Zero-based Budgeting (2018) and Accrual (2019) are new accounting formats.

In some government hospitals now (anecdotally: 59/145 public hospitals).

World Health Organization

GENERAL PRINCIPLES FOR PHYSICIANS

- All mechanisms have pro/cons.
- The choice is a political and professional one, depending on the national, political, economic (public-private dichotomy) and professional bodies and societies.
- In general, Malaysian public sector doctors are paid salaries. Private sector doctors are paid fees-for-service (and capped with PHFSA Fee Schedules).
- The aims for physician payment mechanisms are different from hospital payment mechanisms. On top of efficiency, equity and justice, there are considerations of talent retention, personal motivation, acceptance of risk and incentives to cooperate.

PHYSICIAN PAYMENT MECHANISMS

MECHANISM	DEFINITION	PRO	CON
Salary	A monthly salary. In the Malaysian public sector.	Fewer tests, procedures. and referrals. Increases cooperative behavior.	Longer consultations, fewer patients. Transfers of (moral) responsibility. Low productivity.
Fee for Service (FFS)	Paid for each service (e.g. a consultation, a blood-taking, a surgery). In the Malaysian private sector.	Patient receives optimum number of interventions (i.e. no under-treatment). Allows market forces to determine physician's value. Increases productivity and risk acceptance (e.g. sicker patients).	Over-treatment. Multi-coding or up-coding. Over-referrals. Inflationary. Reduces cooperative behavior.
Pay for Performance (P4P)	Physicians are paid whenever they achieve pre-determined outcomes (e.g. % patients achieving diabetes targets).	Shifts the debate to outcomes, not inputs. Incentivizes results, not cost-savings.	Resistance from physicians. Difficulties in setting and monitoring targets. Physicians will select healthy patients (adverse selection).
Capitation	Paid an up-front fixed amount per patient under their care.	Reduces health expenditure. More predictable planning. Incentivizes physician to care for long-term health of	Under-treatment. Physicians will select healthy patients (adverse selection)

Allard 2011.
Gosden 1999.
Leger 2011.
Normand 1995.
Robinson 2011.

Others not covered: Risk-Sharing. Profit-Sharing in Group Practices.

FINAL THOUGHTS

LIMITATIONS OF THIS TALK

- No discussion on principal-agent problem.
- No discussion on organizational and individual psychology and motivation.
- No discussion on non-price/non-financial incentives for ideal physician behaviour (e.g. titles, clinical protocols, utilization management, audits/monitoring).

HOSPITAL PAYMENT MECHANISMS

- Major Aims: Maximize outcomes, efficiency and equity. Minimize costs.
- Introduce competition between hospitals.

PHYSICIAN PAYMENT MECHANISMS

- Major Aims: Maximize outcomes, equity, productivity, risk acceptance and cooperative behavior. Minimize avoidance of care and over/under-treatment.
- A blended model could work in Malaysia (e.g. salary with P4P for public, capped FFS with P4P for private).