Pay-for-performance programs: 4 key factors to consider

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While physicians may question the benefits of performance-based payment models, government and private insurers are shifting toward them. With the right approach, these new models can be viewed as opportunities for physicians to be rewarded for increasing quality while decreasing unnecessary costs.

An AMA resource, “Evaluating pay-for-performance contracts,” provides insights and strategies to help make this happen.

There is a critical need for this advice. Nearly 40 percent of physicians participating in a 2016 AMA survey that they participated in pay-for-performance programs. Those programs accounted for 6.5 percent of practice revenue.

“Pay-for-performance is just one approach, often the first step, on a spectrum of payment approaches, ranging from pay-for-performance to more risk-based contracting,” said Carol Vargo, AMA director of physician practice sustainability. “Physicians should think about what models and contracts would work best for their practice when engaging with payers.”

Physicians have a choice of whether to approach pay for performance “as an adversarial conversation or as an opportunity,” Vargo said. She noted that physicians are likely to already be doing the types of quality-improvement and cost-reduction initiatives their pay-for-performance contracts would call for. If their contract is structured properly, it can go a long way toward physicians being fairly compensated for their efforts.

The AMA pay-for-performance resource concludes by noting that “the payer wants you to succeed.” It also encourages practices to engage patients to ensure they understand the program’s goals and help physicians understand the drivers of patients’ satisfaction.
Vargo explained that there needs to be recognition that the burdens associated with operationalizing pay-for-performance into practice workflow can be a pitfall of the payment model.

“This burden can be potentially avoided or reduced by knowing what to advocate for your practice in discussions with payers upfront,” she said.

The AMA resource outlines four key factors for physicians to consider that will help them spot potential trouble zones, while offering strategies on being rewarded for the quality care they provide.

**Recitals set the stage for the contract.** They clearly state how the intent of both parties is to improve care and lower costs. Depending on the jurisdiction, however, they may not be contractually binding, so key substantive provisions should be included in the body of the agreement and not just the recitals.

**Three- or five-year terms are common in pay-for-performance contracts.** It takes time for the healthy behaviors of newly engaged patients to have an impact on outcome measures. Physicians are warned, however, that the significant bonuses they receive for measures related to “tackling the low-hanging fruit” in the beginning of the contract may be difficult to duplicate in later years.

Contracts may include an automatic renewal clause. These clauses can reduce administrative burden by allowing a successful arrangement to continue without requiring negotiation. Language should be added stating how the contract will automatically renew for another year unless either party gives written notice of their intent to terminate the agreement 90 days prior to the end of the term.

**Circumstances for how a party can terminate the contract must be clearly stated.** These include terminating with and without cause and by mutual agreement. The contract should stipulate that termination without cause requires 60 days’ notice and 30 days for cause. It warns against viewing easy dissolution of the agreement as a positive contract provision.

“If you can terminate the agreement quickly and without a good reason, it is likely the payer has or expects the same latitude,” the AMA resource states.

**Determining contractual engagement.** There needs to be ongoing dialogue to ensure the agreement is working. Some payers set up formal meetings. Others appoint a staff member to regularly communicate with physicians.

Physicians need to consider whether they want to be contractually bound to attend regular meetings or conference calls. While this can add to administrative burden, expressing a willingness to collaborate to foster productivity or to develop and test new performance measures “can set the right tone for the agreement.”

URL: https://www.ama-assn.org/practice-management/payment-delivery-models/pay-performance-programs-4-key-factors-consider

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