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**Integrated Healthcare Association Launches Value Based Pay for Performance
As It Marks 10 Years of P4P Leadership in Partnership with
California Health Plans and Physician Organizations**

OAKLAND, Calif., September 16, 2011 – Reflecting the importance of measuring and rewarding both quality and cost-efficiency, the Integrated Healthcare Association (IHA), now in its 10th year of physician organization measurement and reporting, is taking another leap forward in its efforts to assure physician accountability with the introduction of “Value Based Pay for Performance.”

“We have made tremendous progress in establishing a strong culture of quality in California over the past 10 years. But the fact remains that healthcare premiums have risen considerably since Pay for Performance was launched in 2001,” said Tom Williams, executive director of IHA. “The rising cost of healthcare is unsustainable and so we are taking the next logical step toward measuring and rewarding provider accountability.”

Value Based Pay for Performance (P4P) is a quality-adjusted shared savings incentive program based on performance on both cost and quality of care. The cornerstone of Value Based P4P is a new Total Cost of Care measure that will capture the total cost of care delivered to managed care consumers.

The Total Cost of Care formula includes all provider payments for health care: professional services, pharmacy, hospital, and ancillary care. Based on these payments (with a variety of technical adjustments), a risk-adjusted total cost of care per-member per-year, both by plan and overall for each physician organization, is calculated.

“Measuring total cost of care alongside quality gives everyone a better understanding of the value of care and is a basis for comparing physician organizations. This is how we move toward greater accountability without compromising quality,” said IHA board member David Joyner, senior vice president, Large Group and Specialty Benefits, Blue Shield of California.

Total Cost of Care builds upon six Appropriate Resource Use (ARU) measures¹ that were added to P4P’s measures in 2009. There are now 85 P4P measures, including those for ARU. ARU measures were IHA’s first effort to move beyond quality and examine the efficient use of resources in its analysis of physician organization performance. ARU measures have provided greater understanding of the underlying drivers of physician organizations’ total costs of care.

IHA and its P4P stakeholders, with analytical support from the RAND Corporation, are developing the Value Based P4P incentive methodology, which combines cost and quality performance, as a new way for physician organizations to be rewarded for delivering value. The Robert Wood Johnson Foundation sponsored this work.

The new Value Based P4P design calls for the Total Cost of Care measure to be built into the incentive payments that health plans make to physician organizations under P4P beginning in 2013. Incentive payments have amounted to \$365 million from 2004 through 2010 and are projected to reach \$400 million after 2011 payments.

“Cost and quality must be integrated in order to address the affordability issue in these harsh economic times,” said Steve McDermott, chief executive officer, Hill Physicians Medical Group. “True value is a measure of both quality and cost-effectiveness.”

“Purchasers are demanding more moderate premium increases and health plans have insisted that P4P incorporate measures and payment incentives that reward cost efficiency,” said Bart Asner, M.D., chairman of the IHA board of directors and chief executive officer, Monarch HealthCare. “Physicians must know they are being held accountable for decisions

¹ Inpatient Acute Care Discharges; Inpatient Bed Days; Inpatient Readmission Within 30 days; Emergency Department Visits; Outpatient Procedures Utilization; Generic Prescribing.

that are both medically appropriate and consistent with appropriate use of expensive healthcare resources.”

“Building on the foundation of our P4P program, Value Based P4P merges quality and cost measures for a more comprehensive view of performance,” said Williams. “Carefully constructed, the results will enable physician organizations to differentiate themselves and for health plans to make value based contracting decisions that benefit consumers and reward high-performing providers.”

About the Integrated Healthcare Association

The Integrated Healthcare Association (IHA) is a not-for-profit multi-stakeholder leadership group that promotes quality improvement, accountability and affordability of health care in California. IHA administers regional and statewide programs, serves as an incubator for pilot programs and projects, and actively convenes all healthcare parties for cross sector collaboration on health care topics. IHA principal projects include the California pay for performance program (the largest private physician incentive program in the U.S.), the measurement and reward of efficiency in health care, value based purchasing of medical devices, health care affordability, bundled episode of care payments, and accountable care organizations. Over 200 physician organizations participate in California’s P4P program and deliver care to approximately 10 million enrollees covered by eight participating commercial health plans. For more information, please visit: www.IHA.org.

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