



CENTER FOR IMPROVING
VALUE IN HEALTH CARE

Alternative Payment Models in Colorado

2018-2020

As health care costs continue to climb in Colorado and across the nation, it is essential to understand what is driving the increases and identify sustainable ways to curb prices. In an effort to capture this information, the Center for Improving Value in Health Care (CIVHC) created the [Affordability Dashboard](#), which provides high-level analyses of several key cost drivers and insights into potential ways to improve the affordability of health care in Colorado. CIVHC is releasing issue briefs to accompany several of these reports to further explore the importance, trends, and opportunities of key health care spending areas. In this issue brief we address how transitioning from fee-for-service to Alternative Payment Models (APMs) can potentially improve quality and cost-efficiency of care in Colorado.

Overview

WHAT ARE ALTERNATIVE PAYMENT MODELS?

As health care costs continue to rise across the country and [in Colorado](#), there is an increased focus among providers, payers, legislators, and others in the health care industry to find solutions that curb rising costs while improving the quality of care and health of Coloradans.

One area of exploration is how health care gets paid for. The traditional **Fee-for-Service (FFS)** payment system, which incentivizes volume of services over quality, does not inherently promote coordinated, value-based care. **Alternative Payment Models**, however, are seen as a way to compensate providers and systems to achieve more efficient, person-centered, cost-effective care.

Adoption of well-designed APMs has [strong potential](#) to drive down costs while improving quality of care – and investment is accelerating nationally. The Health Care Payment Learning and Action Network ([HCP LAN](#)), which provides guidance and tracks the transition to APMs nationally, found in their [2021 report](#) that 41% of health care payments flow through APMs, up 23% from the start of their measurement efforts five years ago.

ALTERNATIVE PAYMENT MODELS

Alternative Payment Models (APMs) are ways of paying providers that encourage higher quality and more coordinated, cost-efficient care. By focusing on value of services over volume, APM models bring more holistic, efficient, person-centered care into focus.

Since inception, CIVHC has been working with partners to support developing new payment models through convening and more recently began collecting and providing APM data through the Colorado All Payer Claims Database (CO APCD). In 2019, CIVHC began collecting APM information from health insurance payers for the first time. The most recent analysis in the [Affordability Dashboard](#) uses 2018-2020 data submitted in annual files in 2021 to provide insights on Colorado's progress towards adopting APMs. The current interactive analysis accompanies a [data file for download](#) and a [detailed methodology](#).

WHY APMS MATTER

Understanding what kinds of APMs are being implemented, how they compare to traditional FFS payments, and which ones are most effective is crucial to lowering health costs and improving care for Coloradans.

Fee for Service (FFS) vs. Alternative Payment Models

| Fee For Service (FFS) | Alternative Payment Models (APMs) |
|--|--|
| <ul style="list-style-type: none"> Volume of services provided is incentivized Providers are paid based only on number of services provided Patient wellness outcomes are not considered a metric for success May lead to excess/unnecessary services to the potential detriment of patient experience | <ul style="list-style-type: none"> Value of services provided is incentivized Providers are held accountable for quality of services provided Payers are rewarded for issuing care based on quality assessments <i>i.e. care that is affordable, cost-effective, coordinated, centered on patient and caregiver needs, etc.</i> Eliminates excess or unnecessary services for patients |

APM Types

The [HCP LAN](#) outlines a national standard classification system for APMs in four stages of implementation. This framework evaluates the level to which models reward the value of services over the volume of services. In 2020, CIVHC updated APM data collection in the [Data Submission Guide](#) (DSG) to fit this categorization under the advisement of the [Primary Care Payment Reform Collaborative](#) led by the Colorado Division of Insurance.

The HCP LAN Alternative Payment Model Categories

| Category 1 | Category 2 | Category 3 | Category 4 |
|---|---|---|--|
| <p>CATEGORY 1 FEE FOR SERVICE NO LINK TO QUALITY & VALUE</p> | <p>CATEGORY 2 FEE FOR SERVICE - LINK TO QUALITY & VALUE</p> | <p>CATEGORY 3 APMs BUILT ON FEE-FOR-SERVICE ARCHITECTURE</p> | <p>CATEGORY 4 POPULATION-BASED PAYMENT</p> |
| | <p>A Foundational Payments for Infrastructure & Operations (e.g., care coordination fees and payments for HIT investments)</p> | <p>A APMs with Shared Savings (e.g., shared savings with upside risk only)</p> | <p>A Condition-Specific Population Based Payment (e.g., per member per month payments, payments for specific services, such as oncology or mental health)</p> |
| | <p>B Pay for Reporting (e.g., bonuses for reporting data or penalties for not reporting data)</p> | <p>B APMs with Shared Savings and Downside Risk (e.g., episode-based payments for procedures and comprehensive payments with upside and downside risk)</p> | <p>B Comprehensive Population-Based Payment (e.g., global budgets or full/percent of premium payments)</p> |
| | <p>C Pay-for-Performance (e.g., bonuses for quality performance)</p> | | <p>C Integrated Finance and Delivery System (e.g., global budgets for full/percent of premium payments in integrated systems)</p> |
| | | <p>3N Risk Based Payments NOT Linked to Quality</p> | <p>4N Capitated Payments NOT Linked to Quality</p> |

This chart is based on the [HCP LAN Framework](#),

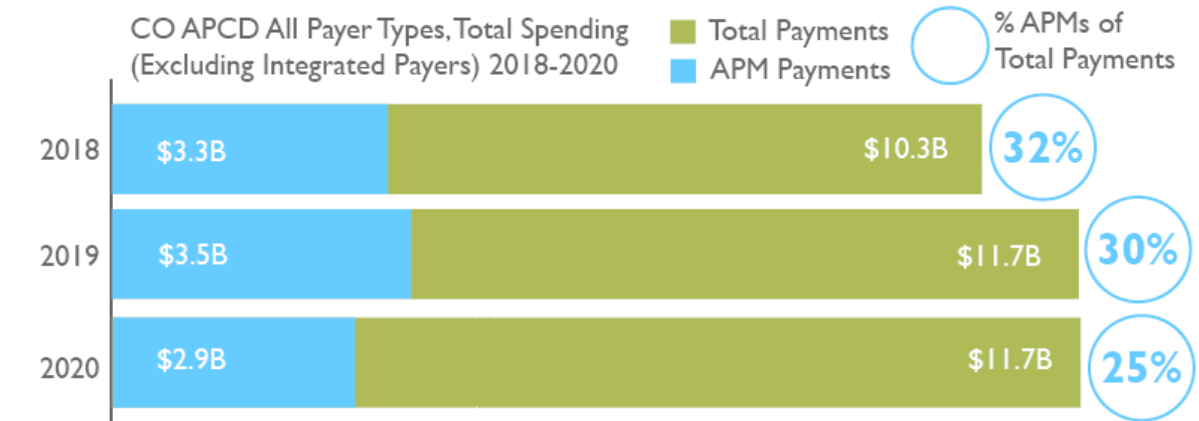
These categories represent various types of APMs with level one being traditional FFS. The broad goal is to use category two to bridge providers into categories three and four. Categories three and four most incentivize decreasing costs and promote quality of care evaluation and are considered the ultimate goal for payers and providers.

Detailed guidelines of this framework are described in detail in HCP LAN's refreshed [2017 APM Framework white paper](#).

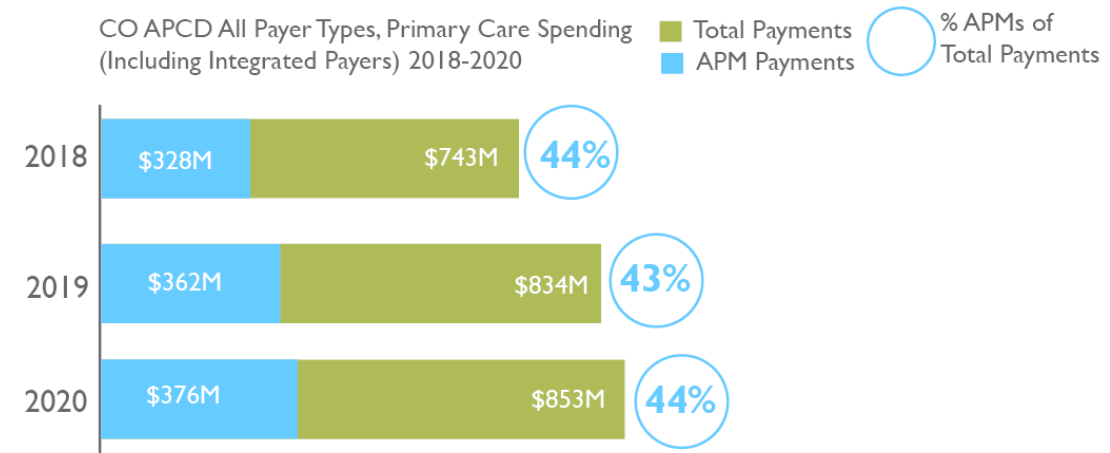
Impact on Colorado

Analysis of the most recent APM data from 2018-2020 shows that, across all payers, APM payments as a percentage of total medical payments, excluding payments by payer-provider systems¹, dropped from 32% to 25%.

APM Payments as a Percent of All Medical Payments is Dropping



APM Payments as a Percent of Primary Care Payments Have Remained Stable



However, APM payments as a percent of all primary care payments, excluding payments by payer-provider systems, remained consistent at 44%.

¹Several Colorado payers are structured as integrated payer-provider systems and have a high portion of APM payments compared to other commercial payers. These payers represent around a quarter of the commercially insured lives in Colorado but drive a large proportion of APM payments overall.

APMS IN COLORADO

In spite of inherent challenges Colorado faces with adopting APMs, our state is well-positioned to continue as a leader in APM adoption given statewide programs and initiatives. Current state efforts to encourage payment reform have identified APMs as a crucial mechanism of larger systemic change with backing at the legislative level.

The CO APCD APM data is supporting new legislative policies aimed at improving care and lowering costs. In 2019, [HB19-1233](#) was established to increase investments in primary care in Colorado to ultimately improve access and lower costs. The bill established the [Colorado Primary Care Payment Reform Collaborative](#) charged with making annual recommendations to increase access to coordinated primary care. To support the development of the Collaborative's recommendations, CIVHC submits an annual progress report on primary care and APM spending to help them understand current health care spending for primary care overall and through APMs.

In 2022, the Colorado General Assembly passed [HB22-1325](#) requiring the DOI and HCPF to develop rules for APMs for primary care in the commercial market. The bill requires CIVHC to work with the DOI to develop and report on quality measures starting in 2024. CIVHC will continue to partner with the Collaborative, DOI, and other organizations to provide insight on APM spending to help determine a pathway to make investments that will improve outcomes and lower costs for Coloradans.

POTENTIAL OF THE DATA

- ➔ **Payers:** Use APM data to identify how they compare to APM adoption overall in the state and what types of APMs are the most prevalent.
- ➔ **Providers:** Understand the types of innovation underway, evaluate their current position, and implement changes that may support long term sustainability under newly adopted models.
- ➔ **Researchers:** Begin engaging with their third-party administrators (TPA) and administrative service organizations (ASO) to understand how they can utilize APMs to drive down costs and improve care.
- ➔ **Policy Makers:** Use this information to track progress on legislation and other initiatives aimed at increasing the adoption rates of APMs in Colorado.

To learn more, visit our [Affordability Dashboard](#), or contact us at info@civhc.org.