RAND CORPORATION

FACT SHEET

The Effects of Alternative Payment Models on Physician Practices: Follow-Up Study

The American Medical Association asked RAND Corporation researchers to examine how alternative payment models (APMs)—payment models other than fee for service—have affected physician practices. Researchers interviewed and surveyed physicians and other staff in 31 practices in six markets, including a variety of practice sizes, specialties, and ownership models. The work was a follow-up to a 2014 study that also examined APMs' effects on physician practices.

Researchers found that these results have persisted since 2014:

- **Practices adopted new capabilities to respond to APMs.** These included behavioral health capabilities, data analytic infrastructure, and information technology.
- **Practices substantially modified APM financial incentives before passing them through to frontline physicians.** Individual physician incentives based on costs of care were rare, even within practices with strong cost-containment incentives from payers.
- **APMs increased the importance of timely, high-quality data** for practices. Problems with data integrity and timeliness limited practices' abilities to respond to APMs.
- **Operational errors in APMs were a source of frustration.** When such errors resulted in nonpayment of earned bonuses, this undermined practices' willingness to participate in APMs, even when offered by different payers.

Researchers also identified new findings regarding APMs:

- **The perceived pace of change in APMs has accelerated.** Sudden or unexpected discontinuations of APMs were particularly challenging for physician practices and other market participants that had made commitments or investments under the assumption that APMs would continue.
- **APMs have become more complex**, due to an expanding number of performance measures and uncertainty concerning performance thresholds for penalties and rewards. Practices reported that understanding complex new payment models often entailed a significant resource investment. Some practices used their knowledge of complex APMs to receive more credit for their preexisting quality without materially changing patient care.
- **Physician practices have become more averse to APM downside financial risk.** Risk aversion was especially prominent among practices that had previously experienced losses in APMs or that were inexperienced in managing risk. Some practices responded to APMs with downside financial risk by offloading this risk to third parties or shifting it back to payers.

Taken together, these findings suggest that physician practice engagement with APMs would be enhanced by simpler APMs (to help practices focus on improving patient care); a more stable, predictable, and gradual pace of change; greater support for new capabilities and timely data; and reexamination of how practices might respond to APMs that involve downside financial risk.

This fact sheet describes work done in RAND Health and documented in *Effects of Health Care Payment Models on Physician Practice in the United States: Follow-Up Study,* by Mark W. Friedberg, Peggy G. Chen, Molly Simmons, Tisamarie Sherry, Peter Mendel, Laura Raaen, Jamie Ryan, Patrick Orr, Carol Vargo, Lindsey Carlasare, Christopher Botts, and Kathleen Blake, RR-2667-AMA, 2018 (available at www.rand.org/t/RR2667). To view this brief online, visit www.rand.org/t/RB10039.

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