

Physician-Hospital Collaboration Demonstration

I. Introduction

A. Statutory Authority

Section 646 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (Pub. L. 108-173) amends title XVIII (42 U.S.C. 1395 et seq.) of the Social Security Act by establishing the Medicare Health Care Quality (MHCQ) Demonstration Program.

The MHCQ demonstration projects are intended to “...examine health delivery factors that encourage the delivery of improved quality in patient care, including—(1) the provision of incentives to improve the safety of care provided to beneficiaries; (2) the appropriate use of best practice guidelines by providers and services by beneficiaries; (3) reduced scientific uncertainty in the delivery of care through the examination of variations in the utilization and allocation of services, and outcomes measurement and research; (4) encourage shared decision making between providers and patients; (5) the provision of incentives for improving the quality and safety of care and achieving the efficient allocation of resources; (6) the appropriate use of culturally and ethnically sensitive health care delivery; and (7) the financial effects on the health care marketplace of altering the incentives for care delivery and changing the allocation of resources.”

B. Background

The defects and failures in the current health care system, as documented by the Institute of Medicine (IOM) in its report *To Err Is Human* (2000), are pervasive, and their consequences add to the burden of illness borne by Americans and their families. It is not a lack of caring, competent and dedicated professionals that is to blame for this state of affairs, but rather fragmentation that makes continuous care very difficult and a lack of systems designed to protect against the likelihood of human error. In its 2001 report, *Crossing the Quality Chasm*, IOM laid out a strategy for achieving six aims for improvement in quality: safety, timeliness, effectiveness, efficiency, equity, and patient-centeredness.

Since that time there has been increased attention by both public and private payers as well as by health care providers on what changes are needed to foster the delivery of consistently high-quality care. Public and private payers have begun to move toward quality measurement and public reporting of performance by health plans, hospitals, nursing homes, home health agencies, and physician practices.

However, the lack of alignment of incentives across different providers in the health care delivery system is often cited as a continuing obstacle to achieving optimal results in terms of quality and outcomes. Various methods have been proposed to realign incentives. A number of Medicare initiatives are either underway or under development for hospitals, physicians, nursing homes and home health agencies to tie payment to performance on a broad array of quality measures, including pay-for-performance

programs and shared-savings models. The MHCQ demonstration explicitly addresses this issue by providing the opportunity to identify, test, and evaluate aligning health care providers' compensation models with quality improvement goals for the Medicare population.

In particular, section 646 of the MMA creates an opportunity to implement a demonstration that addresses gaps in care quality and efficiency by combining system redesign – improvements in clinical and non-clinical processes and structures within systems and organizations – with payment changes that alter the financial incentives and disincentives faced by providers. The MHCQ demonstration will test major changes to improve quality of care while increasing efficiency across a delivery system. Broadly stated, the goals of the MHCQ demonstration are to:

- Improve quality of care and patient safety;
- Enhance quality of care by increasing efficiency; and
- Reduce scientific uncertainty and the unwarranted variation in medical practice that results in both lower quality and higher costs.

The Centers for Medicare & Medicaid Services (CMS) expects to test a wide range of reform initiatives under the MHCQ demonstration. We issued a solicitation in September 2005 under which proposals were requested in two cycles. The first cycle of proposals were due in January 2006, the second in September 2006.

Reflecting feedback from potential participants on these proposals, we began to look at opportunities within section 646 as an opportunity for the Medicare program to support more quality-focused redesign projects that would enable incentives in practice settings to become contributing elements for overall delivery system redesign. Without this coordination of incentives, it is more difficult to establish the resources and networks needed for broader redesign.

Therefore, because many physician groups were interested in restructuring delivery and care processes but did not have the resources to develop and propose their payment methodologies working alone, we issued an announcement in March 2006 that physician groups interested in applying for the MHCQ demonstration could submit proposals using the payment methodology and design parameters from the Physician Group Practice demonstration.

Similarly, we also believe there is significant potential for improving the quality of inpatient care to contribute to overall delivery system redesign. Many hospitals have argued that moving toward delivery system redesign requires aligning the incentives between hospitals and physicians. Indeed, we have heard from many hospitals that they could achieve significant improvements in patient safety, quality and efficiency within their systems without requiring changes to Medicare payment, but noting that the

inability to share the resulting savings with their physicians limited the hospital medical staff's willingness to participate in such initiatives. Gainsharing, an arrangement between a hospital and physicians under which the hospital provides remuneration to physicians that represent a share of the savings achieved due to collaborative efforts between the hospital and physician to improve utilization of inpatient hospital resources would overcome this obstacle. Moreover, gainsharing explicitly alters "the incentives for care delivery and changing the allocation of resources" by providing "incentives for improving the quality and safety of care and achieving the efficient allocation of resources" as contemplated by sections 1866C (b)(7) and (5), respectively, as added by section 646.

Therefore, we have decided to use our authority under section 646 of the MMA to implement a 3-year demonstration that will test gainsharing models involving physicians and collaborations among hospitals working with physicians in a single geographic area to improve quality and efficiency. Gainsharing will be tested and evaluated as a provider payment model aimed at aligning physician incentives with hospital incentives by allowing physicians to share in the savings generated by adoption of structural and process changes necessary to improve the quality of inpatient hospital care. This demonstration is expected to begin next year (2007).

In contrast to traditional models of gainsharing, this approach must be of sufficient size (across single or multiple organizations) and involve long-term follow-up to assure both documented improvements in quality and reductions in the overall costs of care. CMS is particularly interested in demonstration designs that track patients well beyond a hospital episode, to determine the impact of hospital-physician collaborations on preventing short- and longer-term complications, duplication of services, coordination of care across settings, and other quality improvements that hold great promise for eliminating preventable complications and unnecessary costs.

C. Eligible Organizations

As stipulated in the legislation, health care groups that are eligible to apply for the MHCQ demonstration are defined as:

- Physician groups;
- Integrated delivery systems (IDSs); or
- An organization representing a coalition of physician groups or integrated delivery systems.

Under the statute, 1866C(a)(2)(B), a hospital may be included in a health care group, if it is affiliated with the group under an arrangement structured so that it may participate in this demonstration.

Health Care Groups may apply to participate in this demonstration. Whether an applicant applies as a physician group or an IDS, its proposal must include documentary evidence of support by both the hospital administration and the medical staff group serving the hospital.

In the interest of simplifying the implementation and evaluation of this demonstration, and to provide greater confidence that the longer-term improvements in quality and cost can be documented with statistical significance CMS anticipates awarding a limited number of projects. We will give preference to projects developed and implemented by a consortium of health care groups and their affiliated hospitals. Each health care group consortium may be comprised of physician groups and up to 12 affiliated hospitals in a single geographically contiguous area (e.g., state, metropolitan area), in which there is standardization of the quality improvement/gainsharing activity to be undertaken, quality measures to be monitored, internal cost measurement methodology, and gainsharing payment methodology. No more than 72 hospitals across all projects may be included in the demonstration. If necessary to permit all hospitals owned or managed by a single hospital system within the geographic area to participate in the demonstration, CMS would consider permitting a consortium to include more than 12 hospitals. The entity serving as the consortium will also serve as an intermediary between CMS and consortium members during the implementation and operation of the demonstration.

Additional eligibility requirements

All affiliate hospitals must comply with all CMS hospital quality improvement program requirements and must have submitted HQA quality performance data throughout 2005 to be eligible for participation in the demonstration. Additionally, participating health care groups will be required to have affiliated hospitals continue submitting HQA performance data throughout the demonstration period.

All applicants must show evidence that an internal quality committee comprised of hospital and physician representatives exists. This committee will be required to monitor the demonstration project, to focus on how the demonstration will improve quality of care and assure that physicians who are not actively participating in the quality improvement initiatives on which the demonstration is based within the organization are not eligible for incentive payments.

All applicants must notify CMS if they currently participate in any other Medicare Demonstration. CMS does not wish to confound testing of the gainsharing arrangements with the effects of other CMS Medicare demonstrations that examine systems to improve clinical quality of care for beneficiaries. If an applicant already participates in another CMS Medicare demonstration, its application must address how the impacts of the gainsharing can be measured relative to other initiatives.

II. Medicare Health Care Quality Physician Hospital Collaboration Demonstration

A. Purpose

The demonstration will determine if gainsharing effectively aligns incentives between hospitals and physicians to improve quality and efficiency of care.

B. Principles

CMS intends to implement a limited number of projects, which would generally be expected to include multiple health care groups and their affiliated hospitals within a geographic area (contiguous counties within a single state, or metropolitan area if area crosses state boundaries). We will give preference to projects developed and implemented by a consortium of health care groups and their affiliated hospitals. No more than 72 hospitals across all projects may be included in the demonstration.

- We are particularly interested in proposals that foster partnerships between hospitals and physicians to enhance the overall quality and efficiency of care provided to patients over an episode of illness; hospital-physician collaboration may be extremely important to achieve overall improvements in long-term outcomes and costs.
- CMS will ensure that total costs to Medicare will not rise as a result of the demonstration, that is, the demonstration will be budget neutral or produce savings for the Medicare program. Organizations may not operate projects that save internal costs by shifting patient care to pre-admission or post-acute services, thus increasing total episode costs; indeed, successful proposals should describe how they will estimate impact on total episode costs, with preference given to proposals that are likely to lead to the most significant quality improvements and cost reductions at the overall episode level. Participating organizations must assume financial risk for any increased cost to Medicare for episodes of care as compared with a baseline year.
- Safeguards to ensure that the quality of care to beneficiaries is improved during the demonstration are required:

There will be ongoing measurement and monitoring of hospital quality during the demonstration.

To be eligible to participate in the demonstration, hospitals must comply with all CMS hospital quality improvement program requirements, and must report HQA performance data.

The demonstration will require each site to have a committee of hospital administrators, physicians or other appropriate practitioners develop and monitor the demonstration and oversee progress to assure quality. The committee membership must include at least one independent patient advocate or consumer representative who participates in both the development and the operation of the demonstration.

Physicians who fail to adequately meet quality performance targets will not be eligible for gainsharing incentives.

- Incentive payments to physicians will be restricted. Payment to physicians and others must be made in such a manner as to assure a reasonable balance between incentives and the demonstration objectives.

The incentive payments to individual physicians are limited to 25 percent of the amount that is normally paid to physicians for cases in the gainsharing demonstration.

Incentive payments must not be based on the volume or value of referrals or business otherwise generated between the hospital and physicians. Payments based on achieved savings are permitted.

Payments must be linked to improved quality and efficiency.

Gainsharing must be a transparent arrangement that clearly and separately identifies the actions that are expected to result in cost savings.

The gainsharing incentive system must be implemented in a manner that is uniform across physicians and can be reviewed and audited.

- We view physician participation as a critical element key to the success of this demonstration.

CMS intends to implement projects that demonstrate widespread endorsement of the physician staff and physician community for the demonstration.

Physicians must voluntarily join the demonstration. There may be no negative consequences to any physician who chooses not to participate.

- Projects must be replicable. The project must be operated in such a manner that the findings of the implementation and evaluation could be applied to the Medicare program if desired.

- We are seeking to operate this demonstration to test a variety of gainsharing models at a variety of geographic locations.
- For all projects, we will require that gainsharing be based on net savings, that is, reductions in overall patient care costs attributable to the gainsharing activity offset by any corresponding increases in costs associated with the same patients.
- CMS intends to implement projects that demonstrate that the sponsoring organization has the capacity to ensure care will be coordinated and tracked across the entire episode of care. The evaluation will consider the demonstration's broader and longer-term impacts on quality beyond the inpatient stay and over entire episodes of care throughout the course of the demonstration.
- There will be an independent evaluation of the demonstration; participating demonstration sites must fully provide information to the evaluator on the operation of the demonstration. Data provided will include but not be limited to data on internal costs, incentive payments, quality indicators, and participating physician identifiers.
- CMS does not intend to provide grants for development, implementation or operation of the demonstration. To the extent feasible, CMS will provide data to assist hospitals with estimating total Medicare payments for inpatients and gainsharing payment limits for physicians. Additionally, CMS may provide other quality improvement data that may become available through other collaborative projects and initiatives in the community.

III. Conditions of Participation

CMS proposes the following conditions of participation, but will work with each demonstration participant to ensure that the basic principles of the proposed gainsharing model meet CMS requirements.

A. Gainsharing and Quality Improvement

Projects must provide rationale on how quality and efficiency of care will improve within each category of care around which gainsharing may occur, and explain why the particular area of care is a good candidate to test gainsharing arrangements:

Projects must include a detailed explanation of:

- The proposed clinical process of care interventions designed to promote improved quality and how that intervention will lead to more efficient use of resources.
- The patient population targeted by the proposed intervention.

- The physicians and hospital department(s) that will be subject to the intervention.
- Details of how physicians participating in the intervention can directly affect use of hospital resources required to treat the targeted population.
- The timing and periodicity of incentive payment determinations and the timing and method of distribution of savings to participating physicians.
- How financial gains to the hospital are measured.
- What proportion of those gains to the hospital are shared with physicians.
- How the portion of the gains shared with physicians are allocated among physicians, specifically, how quality, patient safety, and internal efficiency measures influence that allocation.

B. Gainsharing – Physician Incentive Payment Methodology

Proposed demonstration projects must provide a sound plan for sharing of gains between the hospital and physicians or physician groups. This arrangement will consist of the hospital providing gainsharing payments to the physician(s) that represents solely a share of the savings incurred directly as a result of collaborative efforts between the hospital and the physician(s) to improve quality and efficiency. Section 1866C(e) of the Social Security Act, as added by section 646 of the MMA, states that the Secretary may waive such requirements of the titles XI and XVIII as may be necessary to carry out the purposes of the 646 demonstration project. Sections 1128A (physician inducement, payments to induce limitations of services), 1128B (illegal remuneration), or 1877 (physician financial relationships) of the Act may be waived, as necessary, to permit a gainsharing payment to a physician under and in accordance with this project. Entities will remain subject to these laws in all other aspects of their operations and in any instance in which they operated outside the parameters of an approved demonstration project.

Gainsharing arrangements and physician payments must nonetheless meet the following criteria:

- Payment must not induce a physician to reduce or limit services that are medically necessary to a patient entitled to benefits under the Medicare program.
- Payments must not be based on the volume or value of referrals or business otherwise generated between the hospital and physician.
- Payments must be linked to actions that improve overall quality and efficiency and result in cost savings for the episode of care; a hospital-only focus is not allowed.

- Gainsharing payments to physicians may not exceed 25% of the amount Medicare payment that is normally made to physicians for cases included in the gainsharing demonstration.

C. Patient Notification

The proposed demonstration project must include a notification process to inform patients of the hospital's participation in the demonstration project. The notification process must be clearly documented.

D. Monitoring of Quality and Efficiency/Performance Standards

The proposed demonstration must provide measures to ensure that the quality and efficiency of care provided to patients who are treated in a demonstration hospital is continuously monitored, measured, evaluated, and documented to ensure that quality is maintained or improved. Improvement in quality and efficiency must be achieved to justify all physician gainsharing payments. Quality and efficiency will be monitored for interrelated purposes; to ensure patient care is not compromised, and to guarantee financial incentives are tied to improved hospital operational and financial performance.

The demonstration project must support improved hospital quality and efficiency. Hospitals that participate in the demonstration will be required to continue to submit quality performance data. CMS' Hospital Compare began with a "starter set" of 10 process measures for acute myocardial infarction (AMI), heart failure, and community-acquired pneumonia. The measure set has been expanded subsequently to 21 measures, and Hospital-CAHPS (HCAHPS) patients' perspectives on care measures will be added in 2007. For fiscal years (FYs) 2005 and 2006 CMS' Reporting Hospital Quality Data for Annual Payment Update (RHQDAPU) program provides a financial incentive for all prospective payment system (PPS) hospitals to submit data on the 10-measure starter set. For FY 2007, hospitals must submit data on an expanded set of measures in order to receive a higher annual payment update. For detailed information on the HQA hospital quality measure, refer to the following website:
<http://www.cms.hhs.gov/HospitalQualityInits>.

Projects will be expected to propose other measures that may be appropriate to measure and monitor improvements in hospital quality and efficiency specific to gainsharing activities they propose to undertake. These additional measures might be drawn from among the following sources: HQA measures; National Quality Forum- (NQF-) endorsed measures; HCAHPS patients' perspectives on care measures; Agency for Health Care Research and Quality hospital-level patient safety indicators; 30-day and longer-term mortality and complication measures; other CMS quality measures; and other evidence-based quality measures developed by the relevant medical specialty society or a consensus of the peer-reviewed literature.

Additionally, if the proposed gainsharing model targets specific populations, departments or areas within the hospital that currently are not measured and monitored, the organization must develop and demonstrate the ability to measure, monitor, and report on quality, and efficiency relative to those specific interventions. Applicants shall propose a set of hospital-level and physician-level quality, patient safety, efficiency, and outcome measures that will be the basis for determining how savings from providing more efficient hospital care under the proposed intervention will be shared with physicians who assist in generating that savings.

Hospitals will be required to provide baseline historical data. All data submitted will be subject to validation and audit by CMS or CMS contractors.

E. Referral Limitations

The demonstration must not be structured in a manner that rewards physicians participating in the project on the basis of the volume or value of referrals to the hospital by the physician or business generated between the hospital and physician. Payments may not be based on referrals. Physician incentive payments must be tied to improvements in quality.

Arrangements that encourage physicians to send healthier patients to hospitals offering gainsharing while sending sicker, more costly patients to other neighboring hospitals will not be allowed. Physicians will be expected to maintain referral practices that are conducive to maintaining quality of care, across the spectrum of mild to severe cases, within both participating and neighboring hospitals.

F. Program Monitoring

CMS will conduct ongoing program monitoring throughout the period of program operations. Organizations will be required to comply with CMS requests, including submitting program monitoring data and operational metrics, and hosting site visits. Program monitoring includes performance monitoring on clinical quality, beneficiary and provider satisfaction, savings targets, and operational metrics. Organizations will be expected to provide CMS with ongoing monitoring information by tracking various measures of program performance and operational metrics, including data on cost savings and incentive payments.

G. Independent Formal Evaluation

CMS will contract with an independent evaluator to conduct the formal evaluation of program results. Participating hospitals will be required to cooperate with the independent evaluator to track and provide agreed upon performance data, such as clinical quality performance and financial data, as needed for the evaluation.

IV. Requirements for Submission

A. Selection Process

A CMS review panel will evaluate all submitted applications based upon the application criteria listed in this section of the solicitation and will recommend applicants to be considered for the demonstration awards. CMS may conduct site visits to selected applicants based upon the review panel recommendations.

B. Application Requirements

Applicants must submit their applications in the standard format outlined in CMS' Medicare Waiver Demonstration Application in order to be considered for review by the technical review panel. Applications not received in this format will not be considered for review. Applications should refer to "646 Gainsharing Demonstration" and be mailed or delivered to the following address:

Department of Health and Human Services,
Centers for Medicare & Medicaid
Attention: Lisa Waters, Project Officer
Office of Research, Development and Information
MDPG/DPPD
Mail Stop: C4-17-27
7500 Security Boulevard
Baltimore, Maryland 21244

For further information on application submission requirements contact: Lisa Waters at (410) 786-6615 or Gainsharing@cms.hhs.gov.

The Medicare Waiver Demonstration application is on CMS's Website at http://www.cms.hhs.gov/DemoProjectsEvalRpts/downloads/PHCD_646_Application.pdf

Applications will be considered timely if they are received no later than 5 p.m., Eastern Standard Time on **January 9, 2007**. Only applications that are considered "timely" will be reviewed and considered by the technical review panel. Applications must be typed for clarity and must not exceed **40** double-spaced pages, exclusive of the cover letter, executive summary, resumes, forms, and supporting documentation. An unbound original and two copies, plus an electronic copy or CD-ROM must be submitted. Applicants may, but are not required to, submit a total of 10 copies to assure that each reviewer receives an application in the manner intended by the applicant (for example, collated, tabulated, color copies). Hard copies and electronic copies must be identical. Applicants must designate one copy as the official proposal.

Each applicant, and affiliate hospital must provide (1) a letter signed by the chief executive officer or other authorized executive staff administrator or other senior official committing the hospital to participate in the gainsharing project described in the proposal, and (2) a letter from the chief of the medical staff endorsing the proposal and showing evidence of widespread physician support of the project from the hospital's medical staff.

At a minimum, applicants should ensure that their applications and supplemental materials include the information requested below by section of the application:

1. Cover Letter
2. Application Form
3. Executive Summary – Applicants should submit an Executive Summary that provides a summary of the key elements of the proposal (not to exceed 4 pages)
4. Description of the Proposed Gainsharing Demonstration Design

Applicants should describe the proposed program and how the proposed gainsharing arrangements will improve quality of care, and produce savings for the hospital, and achieve budget or savings for the Medicare program. Applicants should:

- Show how their proposed program meets the design and conditions of participation as stated in this solicitation.
- Describe and identify what actions will result in improved quality/efficiency which lead to cost savings to establish accountability.
- Describe how internal hospital costs and savings will be measured.
- Describe how the proposed gainsharing system will assure improved overall quality of care, and improve hospital efficiency.
- Describe how the proposed gainsharing system will produce overall savings to the Medicare program or at a minimum, be budget neutral. The proposed gainsharing system must not increase total costs to Medicare.
- Explain how the proposed design provides important policy insights for achieving the goal of system wide health care improvement and will assist CMS in testing the effects of gainsharing arrangements on hospitals, physicians, and health care delivery systems.

- Describe which areas of inpatient care and patient follow-up will be the focus of the project and why these areas were selected.
- Describe the gainsharing arrangements that will exist between the hospitals and physicians. Provide clear rationale of how gains will be shared.
- Describe how financial incentives will align with improved quality outcomes and how performance payments will be distributed.
- Show widespread physician support for the proposal, and explain physician recruitment strategies.
- Explain how the hospital plans to notify beneficiaries of participation in the project.
- Describe how data will be managed and analyzed, providing a detailed description of the analysis that will be conducted and the statistical power for documenting overall, longer-term quality improvement and cost savings at the level of an episode of care.

5. Organizational Structure and Capabilities

The proposal should describe how the applicant will organize and manage the project, describe the sequence of tasks and timeframes slated for completion of critical milestones, and describe management controls and coordination mechanisms that will be utilized to ensure the timely and successful conduct of this project. Potential problems that may be incurred in the process of implementing the project should also be addressed. The proposal should address each of the following:

- Indicate the organization's capacity to effectively conduct this project, and state availability and access to resources and facilities, including staff, consultants, computer systems, and technical equipment.
- Identify key personnel and describe the functions and duties of each. Include a brief description of relevant training, experience, publications, and availability of key personnel for the duration of the project.
- Demonstrate widespread support by all physicians and other caregivers as applicable.
- Describe the formal relationship between the hospital, related organizations, and physician partners including documentation of agreement to participate by all parties involved.

- Describe the governing body that will oversee the operation of the demonstration, and provide detail on how the oversight will be conducted.

6. Quality and Efficiency Improvement/Process and Outcome Improvement

Applicants must define the structure of quality indicators they are proposing to employ in the demonstration and provide a detailed description of how these indicators will be used to improve the overall quality and efficiency of care to beneficiaries, and describe the processes for evaluating and monitoring performance (including sample reports).

Applicants also should describe what role the health information systems of the participating institutions and groups will play in measuring improvements in quality and provide a detailed description of the organization's process for monitoring and managing their quality assurance programs, including the structure and operation of relevant oversight boards and committees. Finally, applicants should describe all goals they intend to achieve under this demonstration and link quality improvement to specific gainsharing arrangements as applicable.

The applicant should develop and maintain tracking systems to monitor the collection of data and savings experienced. At a minimum the proposal should:

- Describe the processes and systems utilized to monitor clinical, financial, and operational performance.
- Describe what quality measures will be utilized for the project.
- Identify key metrics collected;
- Describe how the organization will use this information to continuously monitor and improve demonstration design, resolve deficiencies, and guarantee physician and beneficiary satisfaction.
- Describe what process improvements the organization has made over the past 12 months as part of continuous quality improvement related to providers, patients, and training and information systems.

7. Demonstration Implementation Plan

An applicant should provide a detailed implementation plan that includes the following elements:

- A detailed schedule with timeframes for all essential tasks.
- Descriptions of modifications to protocols, services, outreach and education initiatives, timelines, etc. if any.

- Identify the person who will be the liaison, project manager, to CMS for the Gainsharing demonstration. Applicants must describe plans to report demonstration progress to the CMS project officer. All reports must be in a format approved by the project officer.

8. Supplemental Materials

The applicant may submit staff resumes, component participation agreements or other supporting materials relevant to the application proposal.

V. Evaluation Criteria

Technical review panels will assess and score (using a scale of 100 total points possible) applicants' responsiveness using the following evaluation criteria.

A. Proposed Gainsharing Demonstration Design (40 points)

The proposal provides clear and convincing evidence that the demonstration proposed will test and evaluate methodologies and arrangements between hospitals and physicians designed to govern the utilization of inpatient hospital resources and physician work to improve quality of care and develop improved operational and financial hospital performance. In addition, the applicant describes how the proposed model will integrate gainsharing arrangements to:

- Improve overall quality for an episode of care;
- Increase the effectiveness of care provided;
- Improve timeliness in the delivery of care;
- Ensure care is equitable and culturally and ethnically appropriate;
- Improve the financial operation of the organization; and
- Reduce Medicare inpatient hospital payments so as to yield costs savings to Medicare or achieve budget neutrality.

The gainsharing arrangement must clearly state how physician incentive payments will be linked to improvements in quality and overall efficiency. CMS will assess proposed interventions based on the degree to which:

- The size, timing, and focus of the financial rewards are likely to gain the attention of physicians whose behavior they are intended to change;

- Potential financial rewards to individual providers are large enough to promote compliance with quality-improvement and cost-efficient practices;
- Physicians consider the data upon which the incentives are based as valid;
- Financial incentives are combined with non-financial incentives (e.g., internal or external public reporting of data) to enhance performance;
- Financial incentives are consistent with other hospital objectives (e.g., to increase physician use of particular electronic health record functions);
- The payment model is practical, rational, and administrable; and
- No rewards result if individual or group physician goals are only partially achieved.
- The demonstration is designed to be budget neutral or yield savings to the Medicare program.

B. Organizational Structure and Capabilities (20 points)

The proposal must demonstrate the following:

- The organizational structure is in place to successfully implement and operate the proposed program;
- The organization has sufficient staff, systems, and other resources to organize, plan, implement, and evaluate all of the proposed clinical and financial components of the program;
- The organization has convened an oversight committee to effectively manage the demonstration to ensure all operational requirements are met. This committee is comprised of hospital administrators, physicians, and consumer advocates, such as a patient ombudsman or hospital ethicist.
- The organization has effective processes in place to monitor use of appropriate health services and control costs to achieve demonstration objectives;
- The organization has effective health information systems that will assist in improving efficiency and quality of care;
- The organization's leadership has demonstrated the ability to influence and direct clinical practice to improve quality, efficiency, processes, and outcomes;
- Administrative arrangements are in place to distribute financial incentives to physicians;

- The organization has widespread physician endorsement and support for the project; and
- The organization is financially solvent and has the ability to compensate Medicare in the event that project fails to achieve budget neutrality.

C. Quality Improvement/Process and Outcome Improvement (20 points)

- The demonstration project's quality assurance program establishes system-wide performance standards for quality of care and services, cost effectiveness, and process and outcome improvements.
- The hospital currently shows evidence of providing quality services. It currently participates in quality measurement and quality improvement programs.
- The quality and efficiency initiatives, both hospital-wide and those targeted for gainsharing, are clearly defined with dedicated personnel responsible for implementing, monitoring, and integrating changes.
- Relevant process and outcome measures are reported and monitored.
- The hospital quality improvement committee comprised of hospital administrators and physicians exist to oversee the ongoing quality assurance program and the proposed demonstration.

D. Implementation Plan (20 points)

- The organization has clearly defined an implementation plan that includes measurable goals and objectives to improve quality of care and overall hospital efficiency.
- The organization is committed to sharing information with CMS and other entities, such as the demonstration evaluation and monitoring contractors.
- The organization has established processes to identify and resolve potential problems that may arise in the process of implementing such a demonstration project.

VI. Final Selection

The CMS Administrator will make the final selection of participants from among the most highly qualified candidates. Sites will be selected based on statutory requirements and the factors described in this solicitation including organizational structure,

operational feasibility, soundness of and diversity in demonstration design, and geographic location. Awardees will be subject to CMS demonstration terms and conditions. Under no circumstances will candidates be selected if the organization is unable to demonstrate that its proposal will produce improved overall quality care and delivery of health care services to Medicare beneficiaries.