Reviewer's report

Title: Design of price incentives for adjunct policy goals in formula funding for hospitals and health services

Version: 1 Date: 5 November 2007

Reviewer: Jennifer Schultz

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General

Duckett presents insight into an important problem—developing optimal incentives to increase quality of care in hospitals and other health services organizations. Duckett provides adequate citations to support arguments and claims.

Major Compulsory Revisions (that the author must respond to before a decision on publication can be reached)

None

Minor Essential Revisions (such as missing labels on figures, or the wrong use of a term, which the author can be trusted to correct)

2. Page 9/10 last sentence pg9 over to pg 10 …:one identifying and agreeing (on) the indicators… missing word “on”?
3. Page 12, 2nd paragraph: delete “have” from second sentence “The psychology…”

Discretionary Revisions (which the author can choose to ignore)

1. Define technical efficiency for non-economists (page 3).
2. Define purchaser (or principal) in first paragraph on page 4. Do you mean patient?
3. You may want to define moral hazard and adverse selection.
4. Table 1: Provide examples of complications which arise during course of tx (medical errors? Or complications due to patient characteristics?) What do you mean when you state “Remove from calculation of DRG casemix payment.”?
5. Table 1: Provide examples of “Appropriateness of care.” How does this differ from adherence to guidelines and clinical indicators?
6. Table 1: Provide examples of “Propensity to admit conditions that exhibit high geographic variation”; why are these discounted payments? Explain.

7. Overall, if hospitals are getting penalized for not performing well, and their revenue is declining as a result, then how will they pay for quality improvement (assuming they make zero profit)?

8. Overall, will awards and penalties be distributed on an annual basis? At time of payment for each procedure? After an annual assessment? What is the timing of reward/penalties? Will these incentives continue indefinitely?

9. Page 9, 2nd paragraph: Regarding competitive arrangements with a bonus pool, small differences in performance may lead to large gains. What magnitude of differences are meaningful?

10. Page 9, last paragraph: Are you advocating for a different incentive program for each hospital based on history, culture, IS, mgmt capacity, etc? If so, is this realistic?

11. Page 10: Incentives apply at the margin, however the marginal costs of improving quality can be very high compared to the marginal benefits. Hospitals may find that it is optimal to NOT improve quality. See: Avery & Schultz. “Regulation, Financial Incentives, and the Production of Quality” American Journal of Medical Quality, Vol. 22, No. 4, Jul/Aug 2007.

12. Page 11, 1st paragraph: Is it more efficient to target incentives at the broadest level (organization) and let the mgmt team decide how to best meet the objectives as they may know what is most efficient rather than have others (outside regulators) decide which part of the organization to target.

13. Page 12: What if hospitals are producing high levels of quality? Do they get bonuses for maintaining the status quo? Are bonus payments based on the amount of improvement (change) or levels?

14. Page 13: If a hospital operates as a monopoly, they may produce less quality because on the margin a small increase in the employment of factors to increase quality is worth less to the monopolist than to a competitive firm. Hence, it matters whether hospitals operate in competitive markets or not as it affects behaviors.

15. Overall, need to address case-mix (types of patients served and payer mix) as it has major implications on how incentives are structured. Types of patients served may be a significant barrier to attain high quality levels, therefore incentives and threshold levels would need to be adjusted based on hospital case-mix and payer mix.

What next?: Accept after discretionary revisions

Level of interest: An article whose findings are important to those with closely related research interests
Quality of written English: Acceptable

Statistical review: No, the manuscript does not need to be seen by a statistician.

Declaration of competing interests:
I declare that I have no competing interests.