Group Medicare Insights: Industry news and trends

Fee-for-service vs. value-based care:

Comparing health outcomes, patient and physician experiences, and other key metrics

Adoption of a value-based care framework has grown over the past several years, with more providers, hospitals, payers, plan sponsors, and patients showing a preference for this healthcare delivery model over a traditional fee-for-service model. The move toward value-based care is expected to continue: according to a report by McKinsey & Company, growth in the value-based care market could lead to a valuation of $1 trillion in enterprise value, up from $500 billion today[1].

In a value-based care system, providers are rewarded for helping patients improve their health while reducing the incidence of chronic disease. The result is improvements in the quality of care and patient health outcomes, along with better cost control. The benefits of this model extend to patients, physicians, the healthcare system, and society as a whole. Many Medicare Advantage plans adhere to a value-based care framework, with 70 percent of individual Medicare Advantage members aligned to value-based providers in 2023[2].

In contrast, Original Medicare is based on a fee-for-service model, in which providers are reimbursed according to the amount of healthcare services they deliver or procedures they perform. This is tied to a lower quality of care, worse patient outcomes, and higher healthcare expenditures.

This chart compares fee-for-service (FFS) and value-based care (VBC) models by examining several key metrics.

Key metric	Value-based care model	Fee-for-service model
Patient health outcomes	**Better patient outcomes** • 70% fewer 30-day all-cause hospital readmissions • 24% fewer preventable inpatient admissions • 59% fewer preventable acute hospitalizations • 21% lower rates of high-risk medication use	**Worse patient outcomes** • 3.6 times higher rates of 30-day readmissions compared to value-based care model • 1.6 times higher rates of potentially avoidable hospitalizations
Patient experience	**Patient-centered care model leads to greater patient satisfaction** • More time spent with primary care provider (PCP) with longer appointment times • More preventive screenings (between 3% and 11% higher compared to FFS) • Emphasis on improving health with lifestyle changes and taking preventive measures • Patients contacted and seen quickly after hospital discharge—goal is to minimize risk of readmission	**Potentially worse patient experience, less time spent with PCP** • Emphasis on procedures and treatments (due to clinician compensation structure) • Fewer interactions with primary care provider (75% of non-value-based care patients saw their PCP at least once in 2022 vs. 85% of value-based care patients)

Fee-for-service vs. value-based care

Key metric	Value-based care model	Fee-for-service model
Care coordination and quality of care	**Integrated model with PCP coordinating care** • Greater collaboration across specialists • Improved transitions of care • Focus on disease prevention and holistic management of chronic conditions	**Fragmented delivery of care** • Absence of active care management, care coordination, and communication among providers • Lack of coordination may have negative consequences for beneficiaries, such as potential for harmful drug interactions
Healthcare utilization	**Lower utilization driven by fewer inpatient visits** • One year after enrolling, MA members in VBC plans have 17% lower utilization relative to FFS members • Lower acute care utilization relative to FFS: 51% reduction in inpatient stays and 22% reduction in emergency doctor visits[3]	**Higher utilization** • No incentive to avoid hospitalization • Inpatient care appears to be a main driver for higher utilization rate • Beneficiaries who enroll at age 65 have 35% higher utilization in the two years following enrollment[4]

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Key metric	Value-based care model	Fee-for-service model
Healthcare expenditure	**Lower healthcare expenditures and total cost of care** • Overall healthcare costs (in terms of total health expenditures) are 12% lower under VBC compared to FFS • Less money spent on hospitalizations, medical emergencies, and helping patients manage chronic diseases • Focus on preventive care means fewer medical tests and procedures • Lower out-of-pocket expenses (yearly limit on payment for out-of-pocket services)	**Greater healthcare expenditures and total cost of care** • Greater reliance on costly inpatient and emergency doctor care • Lack of emphasis on preventive care linked to more tests and procedures • No yearly limit on out-of-pocket expenses
Physician experience	**Model incentivizes care teams working together** • More time for patient engagement and providing quality care when focus is on value instead of volume • Greater PCP focus on disease prevention • Prevention-based care means less time spent on chronic disease management • More rewarding for physicians, who can spend more time engaging with patients, including complex care patients	**Quantitatively driven: Focus on number of patients and procedures** • Physicians are incentivized to provide more treatment because payment is based on quantity—rather than quality—of care

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Key metric	Value-based care model	Fee-for-service model
Physician compensation structure	**Compensation linked to patient outcomes and clinician performance** • Incentive to keep patients healthy, and to keep medical conditions under control • Allows physicians to practice patient-centered care	**Compensation tied to number of patients seen and procedures performed** • Incentive to provide care only when patients are sick—lack of preventive care • Lack of alignment between quality of care, patient outcomes, and physician compensation

1. "Investing in the new era of value-based care," McKinsey & Company, last accessed Aug. 16, 2024, https://www.mckinsey.com/industries/healthcare/our-insights/investing-in-the-new-era-of-value-based-care
2. Humana 2023 Value-based Care Report, last accessed Aug. 16, 2024, https://provider.humana.com/value-based-care/value-based-care-report
3. Humana 2023 Value-based Care Report, last accessed Aug. 16, 2024, https://docushare-web.apps.external.pioneer.humana.com/Marketing/docushare-app?-file=5413213
4. "Harvard-Inovalon Medicare Study: Utlization and Efficiency Under Medicare Advantage vs. Medicare Fee-for-Service," Inovalon, last accessed Aug. 16, 2024, https://www.inovalon.com/wp-content/uploads/2023/11/PAY-23-1601-Insights-Harvard-Campaign-Whitepaper_FINAL.pdf

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