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Foundation Q&A: *Can Socioeconomic Status (SES) Payment Adjustments Improve Hospital Performance?*

Q: Why is a SES payment adjustment necessary with some safety net hospitals performing as well as non-safety net hospitals?

A: The data CMS has used to reach the conclusion that safety net and non-safety net hospitals perform at the same level just doesn't stand up. A recent article in the Journal of Ambulatory Care Management reviewed seven readmission measures across hospitals with both the highest/lowest percentage of Medicaid patients and the highest/lowest percentage of African American patients. Consistently, the top decile always had a higher median than the bottom decile. This consistency in the data is strong evidence that something systematic is exhibited.

Q: Are performance differences due to hospital-level differences in quality or patient-level risk factors?

A: At a minimum, SES patients impact readmissions and both CMS readmission and value based purchasing programs adversely impact hospitals with high proportion of Medicaid patients. Consider the difference between hospitals treating a large homeless population compared with a hospital that has little homelessness. An SES adjustment is needed.

Q: Wouldn't an SES adjustment reduce hospitals' incentive to improve quality measures particularly related to value based purchasing?

A: An adjustment would not change the incentive to improve. In fact, it would likely enhance that incentive considering adjustments would make payments fairer for all hospitals. A hospital subject to penalty would want to improve to reduce the size of penalty and a hospital that avoided a penalty would want to ensure it improved so that it would not be overtaken by improvements in the national performance measures with which it was being compared.

Q: How should policymakers address the concern that risk models should not obscure disparities in care?

A: Such concern assumes that differences in outcomes, for example higher readmissions, are due to disparities in care provided by the hospital. However, studies have shown that patients living in poorer conditions with lack of social support, inability to afford prescription and less ability to comply with discharge instructions are contributing to higher readmission rates. Homelessness, for example, substantially increases the risk for readmission. Good regulation holds

entities accountable for factors they can and should control, not for factors they cannot. To hold a hospital accountable for poorer outcomes that are not associated with the process of care, but due to external conditions outside control of the hospital is bad policy – particularly when the result is to reduce funds a hospital has available to deal with such issues.

Q: Wouldn't an SES adjustment obscure disparities in outcomes?

A: Inclusion of an adjustment for SES does not obscure disparities in outcomes – it would draw attention to it without the need for further study. The fact that SES has statistically significant and substantial effect would be immediately obvious. If no such adjustment is included, the fact that there are differential outcomes becomes apparent only after additional analyses.