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Effects of Episode-Based Payment on Health Care Spending and Utilization: Evidence from Perinatal Care in Arkansas*

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Abstract

We study how physicians respond to financial incentives imposed by episode-based payment (EBP), which encourages lower spending and improved quality for an entire episode of care. Specifically, we study the impact of the Arkansas Health Care Payment Improvement Initiative, a multi-payer program that requires providers to enter into EBP arrangements for perinatal care, covering the majority of births in the state. Unlike fee-for-service reimbursement, EBP holds physicians responsible for all care within a discrete episode, rewarding physicians for efficient use of their own services and for efficient management of other health care inputs. In a difference-in-differences analysis of commercial claims, we find that perinatal spending in Arkansas decreased by 3.8% overall under EBP, compared to surrounding states. The decrease was driven by reduced spending on non-physician health care inputs, specifically the prices paid for inpatient facility care. We additionally find a limited improvement in quality of care under EBP.

Key Words: Physician payment methods; Bundled payment; Incentive contracts; Physician productivity; Perinatal care

JEL Codes: I1, I11

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