Categorizing Alternative Payment Models

The LAN APM Framework has four broad categories of payment models, and within those categories, several subcategories that further differentiate payment arrangements. Below is a summary of each category and more detailed descriptions of the subcategories, as well as examples of actual payment models, can be found in the larger brief.

Category 1: Fee-for-Service—No Link to Quality and Value

Payment models within Category 1 pay providers to deliver a service without providing any incentive to improve quality or reduce costs. This is considered traditional fee-for-service.

Category 2: Fee-for-Service—Link to Quality and Value

Payment models within Category 2 utilize traditional fee-for-service payment, but provide enhancements or reductions to the payment as a way to create incentives and disincentives for superior performance on quality or completing certain activities that could lead to improved care.

Category 3: APMs Built on Fee-for-Service Architecture

Payment models within Category 3 are still built on the fee-for-service “chassis” as the means to administer payment, but are considered to be more advanced than Category 2 payment models because they utilize potentially more powerful incentives for well-coordinated care. Providers participating in Category 3 payment models are eligible to share in savings they generate with the payer, but may also be at financial risk, should costs exceed a budget.

Category 4: Population-Based Payment

Payment models in Category 4 break free from the fee-for-service chassis and are prospectively paid models—meaning the payer pays providers up front, in a lump sum once, or on a periodic basis. Category 4 encompasses models that focus on all care provided for a certain condition (e.g., cancer) or all care provided by a certain provider type (e.g., primary care or mental health). Quality plays a role in these payment models by adjusting future payments (up or down), or in the form of incentive payments or penalties.
Conclusion

Value-based payment goals and performance requirements are being defined by states across the country. This issue brief provides real-world examples of the complex arrangements that fall within each of the categories. By doing so, it concretizes an abstract framework that is designed to provide a common lexicon for purchasers, payers and providers, but may sometimes be difficult to interpret.