GLOSSARY

Defining the Problem

Cost and Price Transparency

November 2011

Allowed (or Allowable) Amount

The most amount of money that a health plan will pay for a covered good or service. The allowed amount is negotiated between the plan and the provider, reflecting any discount the plan is able to achieve for its members. The allowed amount reflects the "true price" of health care, but allowed amounts usually are considered proprietary information and rarely are released to the public. Often used interchangeably with *cost.*

Example: John has knee replacement surgery at Community General Hospital. The hospital wants to charge $95,000 for the procedure. But John's health plan has negotiated a $20,000 discount for its members with the hospital. Thus, $75,000 becomes the *allowed amount.*

Charge

AF4Q defines charge as the amount of money a provider would seek across the board. This amount often is charged to patients who do not have health insurance; health plans typically negotiate the charge down to the allowable amount on behalf of their members.

Example: If John did not have health insurance, his knee replacement surgery would cost him $95,000. That figure is the *charge*—that is, the amount of money the hospital would charge a paying individual customer.

Claim

A request for payment by a provider; a bill the provider sends to the health plan.

Example: If John did have insurance, the *claim* (based on the charge, before the allowed amount is factored in) is sent by provider to the health plan. The hospital would claim $95,000; however, the ultimate payment is the allowed amount, not the claim.

About Aligning Forces for Quality

Aligning Forces for Quality (AF4Q) is the Robert Wood Johnson Foundation's signature effort to lift the overall quality of health care in targeted communities, as well as reduce racial and ethnic disparities and provide real models for national reform. The Foundation's commitment to improve health care in 16 AF4Q communities is the largest effort of its kind ever undertaken by a U.S. philanthropy. AF4Q asks the people who get care, give care and pay for care to work together to improve the quality and value of care delivered locally. The Center for Health Care Quality in the Department of Health Policy at George Washington University School of Public Health and Health Services serves as the national program office. Learn more about AF4Q at www.forces4quality.org. Learn more about RWJF's efforts to improve quality and equality of care at www.rwjf.org/qualityequality/af4q/.

Claims Database

A database, sometimes created by state mandate, that includes claims data derived from medical, eligibility, provider, pharmacy and or dental files.[1] Many claims databases rely exclusively on administrative claims from commercial insurers (e.g., a private health plan such as BlueCross BlueShield) to create their performance measures. Some cost reporting efforts are based upon *all-payer claims databases*, which include Medicare, Medicaid, and self-pay patients.

Example: If John lives in a state with a publicly reported claims database, the knee replacement surgery would be reported as $95,000, the claim.

Cost

The amount of money actually paid to a health care provider. As a performance measure, cost is a measure of the total health care spending, including total resource use and unit price(s), by payer or consumer, for a health care service or group of health care services associated with a specified patient population, time period, and unit(s) of clinical accountability.[2] This term often can be used interchangeably with *allowed amount*.

Example: See *allowed amount.* The knee replacement surgery's *cost* would be $75,000, not $95,000.

Efficiency

The relationship between a specific product (output) of the health care system and the resources (inputs) used to create the product.[3] Similar to *value.*

Example: Whether he's paying for it out of pocket or through his health plan, John wants the highest quality knee replacement possible. But he doesn't want to pay more than has to for the procedure. Thus, he's seeking the most efficient care possible—the combination of high-quality and low-cost, without waste.

Episode of Care

A grouping of a series of care which quantifies the services (resources used) across multiple settings and providers involved in the diagnosis, management and treatment of specific clinical conditions. Episode-of-care measures can be developed for the full range of acute and chronic conditions, including diabetes, congestive heart failure, acute myocardial infarction, asthma, low back pain and many others. Because episodes of care can be defined more tightly and specifically around aspects of a given clinical condition, it may be easier to determine accountability based on per-episode than on per-capita measurement efforts.[4]

Example: For John's knee replacement, an episode-of-care approach would consider all the office visits and consultations leading up to and following the procedure; the procedure itself; any complications stemming from the treatment; and set one price paid to the provider, thereby rewarding the provider if the procedure is performed in an efficient manner and achieves a good outcome.

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[1] Love D, Custer W, Miller P. *All-Payer Claims Databases: State Initiatives to Improve Health Care Transparency*. Commonwealth Fund pub. 1439, Vol. 99; September 2010.
[2] National Quality Forum (NQF). *Measurement Framework: Evaluating Efficiency Across Patient-Focused Episodes of Care*. Washington, DC: NQF; 2009.
[3] McGlynn E, et al. *Identifying, Categorizing, and Evaluating Health Care Efficiency Measures*. Prepared for Agency for Healthcare Research and Quality by Southern California Evidence-based Practice Center—RAND Corporation, Santa Monica, CA. AHRQ Publication No. 08-0030; April 2008. (This report acknowledged eight different, commonly used definitions for *efficiency* in health care.
[4] Quality Alliance Steering Committee

Pay-for-Performance (P4P)

The general strategy of promoting quality improvement by rewarding providers (meaning individual clinicians or, more commonly, clinics or hospitals) who meet certain performance expectations with respect to health care quality or efficiency.[5]

Example: Under a P4P reimbursement mechanism, John's hospital and doctor would be paid more if the procedure if it went well—that is, if he did not catch an infection in the hospital, if no errors were committed during the procedure, and if the outcome was successful.

Price

The amount paid for a service or product, typically determined via market mechanisms that take into account the supply of and demand for the service or product.[6] AF4Q defines price as the amount a consumer would pay for a service.

Relative Resource Use

A general term for utilization of health care services. The term *resource use measures* broadly captures indicators of the cost and efficiency of providing health care. Health care resource use measures reflect the amount or cost of resources used to create a specific product of the health care system. The specific product could be a visit or procedure, all services related to a health condition, all services during a period of time, or a health outcome.[7] Resource use also applies to a performance measure from the National Committee of Quality Assurance that quantifies how intensively plans and/or providers use resources such as physician visits, hospital stays, and other resources to care for members/patients identified as having one of five chronic diseases; cardiovascular disease, chronic obstructive pulmonary disease, diabetes, hypertension and asthma. When evaluated alongside quality measures, resource use measures make it possible to consider quality and spending simultaneously.[8]

Value

Often loosely defined as quality divided by price. Simply defined, value is the health outcome per dollar of cost expended.[9] The National Quality Forum (NQF) has defined value of care as "a measure of a specified stakeholder's (such as an individual patient's, consumer organization's, payer's, provider's, government's, or society's) preference-weighted assessment of a particular combination of quality and cost of care performance."[10]

Example: Similar to *efficiency,* John's goal as he pays for his knee replacement (whether out of pocket or through a health plan) is to achieve value—that is, to get the highest possible quality at the lowest possible cost.

[5] AHRQ Patient Safety Network glossary. Available online at www.psnet.ahrq.gov/glossary.aspx?indexLetter=P. Last accessed July 2011.
[6] Scanlon D. *Measurement & Reporting of Cost & Efficiency at the Community Level*. Presentation to RWJF Cost Measurement Meeting, Washington, DC. June 8, 2011.
[7] Romano P, Hussey P, Ritley D. *Selecting Quality and Resource Use Measures: A Decision Guide for Community Quality Collaboratives.* Rockville, MD: Agency for Healthcare Research and Quality (AHRQ); AHRQ Publication No. 09(10)-0073; May 2010.
[8] National Committee for Quality Assurance
[9] Porter ME, Teisberg EO. *Redefining Health Care: Creating Value-Based Competition on Results*. Boston, MA: Harvard Business School Publishing; 2006.
[10] NQF. *Measurement Framework: Evaluating Efficiency Across Patient-Focused Episodes of Care*. Washington, DC: NQF; 2009.

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