

Creating 'medical homes' involves significant costs, study finds

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Substantial costs are involved with transforming primary care practices into "medical homes," which may pose a financial challenge for small and independent practices wanting to make the shift, according to a new RAND Corporation study.

Examining the experiences of a dozen primary care practices in Pennsylvania that took part in a recent medical home demonstration, researchers found that the greatest transformation [costs](#) involved adding new staff to help better coordinate patients' care.

The study, published online by the *Journal of General Internal Medicine*, is one of the first to assess the costs associated with converting a medical practice to a medical home, an improved model of providing primary care.

"For primary care practices, participating in a medical home demonstration requires substantial investments," said Grand Martsolf, the study's lead author and a policy researcher at RAND, a nonprofit research organization. "These costs of transformation include both one-time startup costs and ongoing, every-year costs."

"While there are financial incentives available to practices that make the shift, such investments might be especially challenging for small practices and those not associated with a larger health network, since they had higher transformation costs per clinician," Martsolf said. "Tailored subsidies from payers could help small and independent

practices make these investments."

Medical homes, which are also known as patient-centered [medical homes](#), are primary care practices designed to provide comprehensive, personalized, team-based care using patient registries, electronic health records and other advanced capabilities. The changes are intended to improve the quality of care and reduce unnecessary medical care.

RAND researchers surveyed [primary care](#) practices that took part in the first three years of the Pennsylvania Chronic Care Initiative, a large multipayer medical home pilot. Leaders from a dozen practices were asked about changes made as a result of the switch and the cost involved.

RAND researchers found that among the practices studied, the median one-time costs of transforming into a medical home were \$30,991 per practice—equal to \$9,814 per clinician and \$8 per patient. In addition, the median ongoing cost associated with a transformation was \$147,573 per practice per year—equal to \$64,768 per clinician and \$30 per patient every year.

The costs varied widely, with start-up costs ranging from \$7,694 to \$117,810 per practice and annual expenses ranging from \$83,829 to \$346,603 per practice. The cost per clinician was highest for small medical practices.

Nearly all of the practices surveyed reported that high-functioning information technology systems were critical to providing patient care, but only four practices made ongoing investments in information technology specifically related to their medical home transformation.

Care management activities, which typically involved hiring one or more care managers to better coordinate patient care, constituted the greatest

share of ongoing costs. Only three of the practices surveyed expanded hours to improve patient access to care.

"Our findings provide one of the best insights to date about the costs associated with medical home transformation," said Martsof. "These findings should help guide policymakers as they look for ways to encourage more medical practices to make this transition."

Provided by RAND Corporation

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