

## The Eight Basic Payment Methods in Healthcare

Published in *Annals of Internal Medicine*,  
August 18, 2015

### For more information

The full *Annals of Internal Medicine* article is  
available online for a fee at

[annals.org/article.aspx?articleid=2424877](https://annals.org/article.aspx?articleid=2424877).

You may also request a free reprint by emailing  
[andrew.townsend@conduent.com](mailto:andrew.townsend@conduent.com).

Eight basic payment methods are applicable across all types  
of healthcare.

Each method is defined by the unit of payment: 1) per time period, 2) per beneficiary, 3) per recipient, 4) per episode, 5) per day, 6) per service, 7) per dollar of cost, and 8) per dollar of charges. These methods are more specific than common terms such as capitation, fee for service, global payment, and cost reimbursement. They also correspond to the division of financial risk between payer and provider, with each method reflecting a risk factor within the health care spending identity.

Financial risk gradually shifts from being primarily on providers when payment is per time period to being primarily on payers when payment is per dollar of charges.

Method 4 (per episode) marks the line between epidemiologic and treatment risk. The eight methods are typically combined to balance risk and thus balance incentives between payers and providers. This taxonomy makes it easier to understand trends in payment reform, especially the shifting division of financial risk and the movement toward value-based purchasing, and to understand payment reforms such as bundling, accountable care organizations, medical homes and cost sharing. The taxonomy also enables prediction of conflicts between payers and providers. For each unit of payment providers are rewarded for increasing units while decreasing their own cost per unit.

No payment method is neutral on quality because each encourages and discourages the provision of care overall and in particular situations. Many professional norms and business practices have arisen to mitigate undesirable incentives.

Healthcare differs from many other industries in that the unit of payment remains variable and unsettled.