

## Pay-For-Performance for Long-Term Care<sup>1</sup>

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### **Abstract**

We examine how pay-for-performance (P4P) affects long term care (LTC), focusing on adult day care services. LTC expenditure is expected to increase dramatically and P4P for LTC could potentially improve welfare. However, little is known about the effects of P4P on LTC. We exploit a natural experiment in Japan, in which a local government introduced an outcome-based bonus payment on top of nationally uniform fee-for-service payments. Using the universe of LTC claims data, we implement a difference-in-difference approach where surrounding prefectures are used as a control. At the population level, we found no evidence that P4P affects LTC outcomes and expenditures. However, at a disaggregated level, P4P had a small positive (negative) effect on the LTC outcome of the users who received care from the providers that were more (less) likely to be eligible for the P4P bonus. Thus, the primary effect of P4P was to change the distribution of outcomes across providers without affecting overall outcomes. We also studied whether providers engage in cream skimming of profitable users, finding evidence that is consistent with this story. Although these results do not necessarily preclude all forms of P4P payments, a successful P4P would need to address these issues.

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