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**Does the Form of Physician Compensation Affect the Quality of Care in Medicaid  
HMOs?**

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**Abstract:**

In the United States a growing fraction of Medicaid participants are enrolled in Health Maintenance Organizations (HMOs). The HMOs contract with physicians to provide health care services to the enrollees. Generally the physicians are compensated either via fee for service (FFS) or capitated arrangements. This paper investigates whether the means by which the physicians are compensated influences the quality of care received by enrollees. Using data for all Medicaid HMO enrollees in a large state, we find that enrollees in HMOs that pay their Primary Care Physicians (PCPs) exclusively via FFS arrangements are more likely to receive services for which the HMO's PCPs receive additional compensation. Further, these enrollees are less likely to receive services for which the HMO's PCPs do not receive additional compensation. These findings suggest that financial incentives may influence the behavior of PCPs in Medicaid HMOs, and thus the health care received by Medicaid participants enrolled in HMOs.