

Bundled Payment

December, 2017

Bundled Payment: Powerful Reimbursement Model

Public and private payers are using many new payment models. One of the most significant and rapidly growing is bundled payment.

A bundled payment is a payment that covers all the services a patient receives during a specific episode of care.

- ✓ Payment includes the services of hospitals, physicians, nursing homes, home aides, and others.
- ✓ Episodes of care vary. They might include:
 - Hospital stay
 - Hospital stay, plus the nursing home care
 - Treatment for specific conditions, such as cancer or heart attack, during a set period of time
 - Treatment for other combinations of conditions, providers, or time frames
- ✓ The payment is lower than the amount of the individual services combined.
- ✓ Providers must meet quality standards.
- ✓ The providers themselves—not the payer—assume the financial risk for the cost of the services.

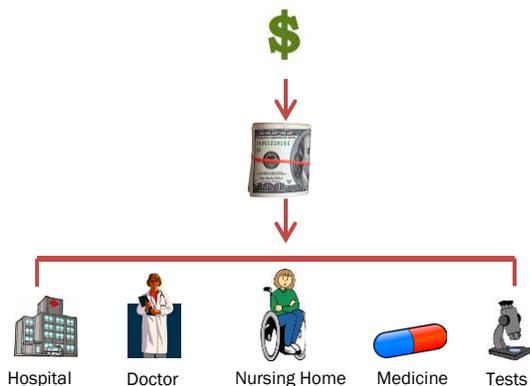
Bundled Payment

One payment, covers all services, shared by all providers, encourages coordination & communication

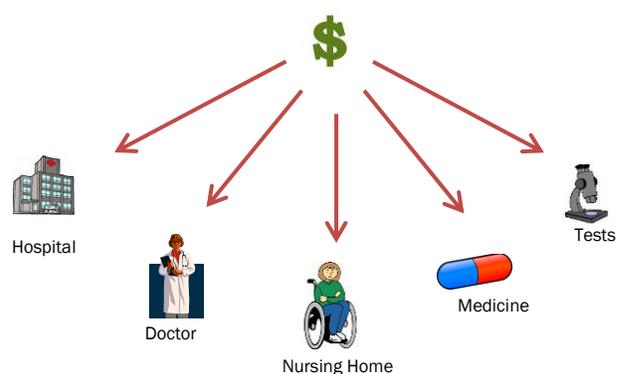
Fee-for-Service

Payments to each provider, for specific services, encourages excess use, fragmentation of care

Bundled Payment



Fee-For-Service Payment



Major Bundled Payment Initiatives

Medicare has several bundled payment initiatives underway.

- ✓ **Cardiac Care:** The Centers for Medicare & Medicaid Services (CMS) canceled this project in November, 2017. It was originally proposed to begin in July, 2017.
 - This demonstration project would have paid hospitals in 98 regions a bundled payment to cover the costs of providing coronary bypass surgery and heart attack care. The payment was intended to cover all hospital care, as well as the costs of any additional treatment within 90 days of discharge, including nursing home, emergency room, and readmissions-related care. Hospitals performing well on quality and cost metrics would have received a higher payment than hospitals that did not. Hospitals that spent above the bundled price would have had to absorb some of the loss. (CMS also would have provided an added incentive payment to encourage use of cardiac rehabilitation services.)

- ✓ **Hip and Knee Replacement:** Known as the Comprehensive Care Joint Initiative, this mandatory program pays hospitals bundled payments for knee and hip replacements. The payment bundles cover the procedure, inpatient stay, and all related costs (including any readmissions) occurring within 90 days of discharge. Hospitals performing well on quality and cost metrics could receive higher payment, and those spending above the set price might have to absorb some losses.
 - Hospitals in 67 geographic areas were originally required to participate, but in November, 2017, CMS decided to reduce the number of mandatory geographic areas to 34. The agency also made participation voluntary for all low volume and rural hospitals participating in the original 67 regions. CMS had intended to extend this program to include payment for surgeries for hip and femur fractures (separate from hip replacements). But like the cardiac care demonstration project noted above, this extension was canceled in November, 2017.
 - CMS considers this model to be an “advanced alternative payment model” (AAPM) under the Medicare Access and CHIP Re-Authorization Act (MACRA); thus, physicians participating in this model can qualify for an added 5% payment incentive in 2019 – 2024.

- ✓ **Bundled Payment Care Initiative:** Begun in 2012, this demonstration project allows providers to choose from four different bundling models. Most providers selected payment bundles that included either the acute care hospital stay, plus post-acute care for up to 90 days, or just the post-acute care itself. The most common conditions covered include hip and knee replacement, congestive heart failure, chronic obstructive pulmonary disease, and coronary artery bypass graft. Some 1,400 providers are participating.

- ✓ **Oncology:** This demonstration project pays physicians a bundled fee that covers all oncology services a patient receives, including hospital, physician, drug, and lab services, during a six-month period.

In all of the above, Medicare pays providers on a fee-for-service basis up front. Then, after the care has been delivered, it reconciles the hospital's actual payments with the bundled payment price.

States are also trying out bundled payments. Arkansas operates a mandatory multipayer demonstration project testing bundled payments for asthma, ADHD, and congestive heart failure, among others.

Commercial payers are active in bundled payment arrangements. Horizon Blue Cross Blue Shield is bundling payments for pregnancies, deliveries, joint replacements, and breast cancer. United Healthcare and many others are bundling payments for oncology. Blue Cross Blue Shield of Massachusetts was the first payer in the country to introduce a bundled payment program with its “Alternative Quality Contract” (AQC) program.

Employers such as Lowe's and Walmart are participating in bundled payments for knee and hip replacement. Pepsi pays for cardiac and complex joint replacement therapy via bundled payment.

Quick-Glance: Medicare Hip/Knee Replacement Bundling Demonstration Project

Mandatory Participation



Hospitals in specific regions required to participate

Medicare Sets Fee



Hospitals are paid via fee-for-service up front, but Medicare reconciles pay later to fit set fee

Fee Shared by all Providers



Hospitals bear all the financial risks. They divide the fee among providers

Care Episode: 90 days+



Includes treatment, hospital stay, & all costs 90 days post-discharge

Must Meet Quality Standards



Medicare will measure complication rates, readmissions, and patient experience

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