

BREAKTHROUGH MAP

BETTING ON BUNDLED PAYMENT

Many are wagering that bundled payments will encourage providers to reduce costs and improve quality. These fixed payments cover the cost of all services given to a patient (for example, physician + hospital + labs) during a medical or surgical event over a specific period of time.

THE GOALS VERSUS THE EVIDENCE

LOWER COSTS, MORE COORDINATED CARE

Successful bundled payment interventions have reduced spending by about 10% relative to fee-for-service payment, according to AHRQ. However, the agency calls the current overall evidence for bundled payment “weak.”^a

Medicare’s Bundled Payment for Care initiative encourages coordination across traditional silos

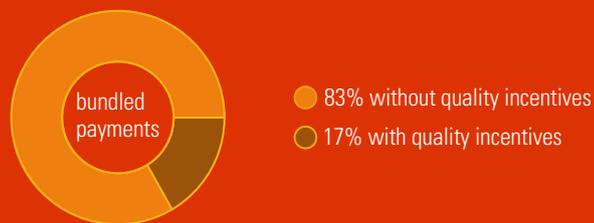


Source: HFMA based on information from Medicare’s Bundled Payments for Care Improvement website, accessed April 2013.

IMPROVED QUALITY

Bundled payment has had inconsistent and generally small effects on quality, says AHRQ.^a Some are trying to change that. The PROMETHEUS Payment® model includes a financial reward for meeting quality targets.

Of all bundled payments reported

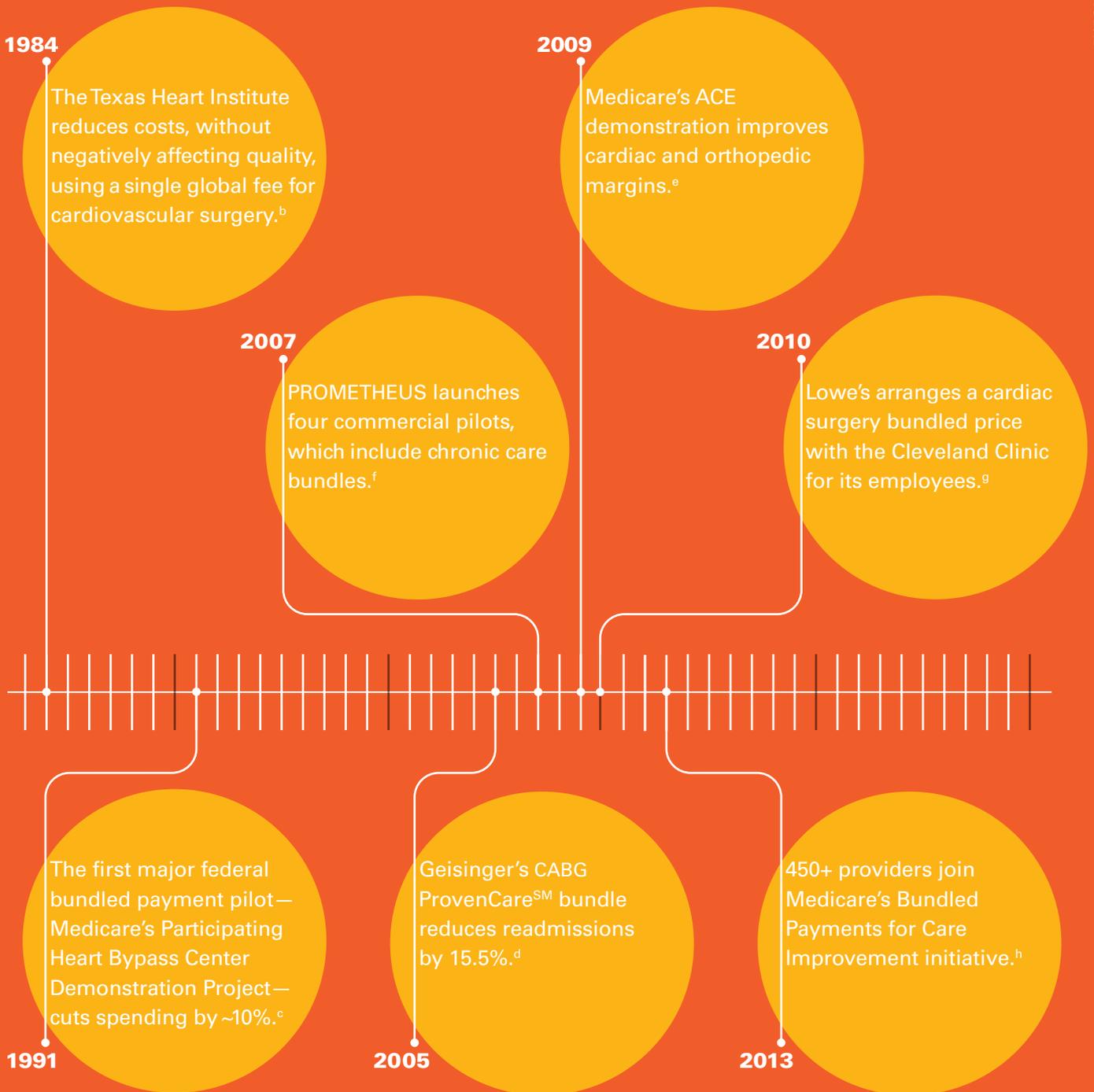


Source: Catalyst for Payment Reform, National Business Coalition on Health, and NORC at the University of Chicago, April 2013. Data from eValue8 data collection.

^a Agency for Healthcare Research and Quality (AHRQ), *Bundled Payment: Effects on Health Care Spending and Quality. Closing the Quality Gap*, August 2012.

A TIMELINE OF BUNDLED PAYMENT

KEY U.S. EVENTS



b Miller, H.D., "From Volume to Value: Better Ways to Pay for Health Care," *Health Affairs*, September/October 2009; see also Edmonds, C., and Hallman, G.L., "CardioVascular Care Providers: A Pioneer in Bundled Services, Shared Risk, and Single Payment," *Texas Heart Institute Journal*, Vol. 22, 1995.

c Congressional Budget Office, *Lessons from Medicare's Demonstration Projects on Disease Management, Care Coordination, and Value-Based Payment*, January 2012.

d Giles, K., "6 Strategies for Building Bundled Payments," *hfm* magazine, November 2011.

e HFMA, *Pursuing Bundled Payments: Lessons from the ACE Demonstration Project*, April 2012.

f *That Was Then, This is Now. The Progression of PROMETHEUS Payment*, Healthcare Incentives Improvement Institute, 2009-2010.

g *Cleveland Clinic and Lowe's Arrange Bundled Price for Heart Surgery*, HFMA's Payment & Reimbursement Forum, February 2011.

h Centers for Medicare & Medicaid Services, *CMS Announces New Initiative to Improve Care and Reduce Costs for Medicare*, January 31, 2013.

A RISKY AFFAIR

PROVIDERS TAKE ON MORE RISK

Bundled payment and other value-based payment models are changing the risk structure.

Bundled payment shifts cost and quality risks to providers



Fee for service = traditional method of paying providers for each service performed; per diem = a set payment for specific services for an inpatient day, regardless of true cost; capitation = specified dollar amount per covered person, usually stated in a monthly amount.

Source: HFMA, *Healthcare Payment Reform: From Principles to Action*.

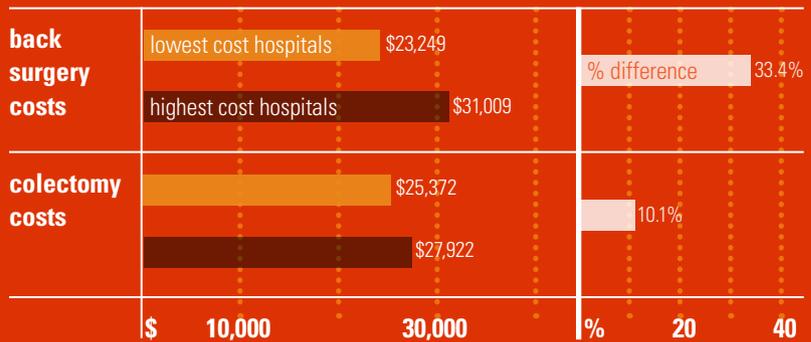
3 RISK STRATEGIES FOR PROVIDERS

PICK THE RIGHT BUNDLE

Bundles should have “enough variation to provide opportunities for cost reduction, but not so much variation as to pose excessive risk to the organization,” advises the AHA.¹

Before picking a bundle, providers should have utmost confidence in the benchmark data, understand what is driving the variation, and determine whether they can reasonably reduce the variation.

Medicare costs vary more for back surgery than colectomies across U.S. hospitals*



*Analysis of complete national Medicare claims data from January 2005 to November 2007, adjusted for illness severity, regional wages, etc.

Source: Miller, D.C., et al, “Large Variations in Medicare Payments for Surgery Highlight Savings Potential from Bundled Payment Programs,” *Health Affairs*, vol. 30, no. 11, November 2011. According to the authors: “Broadly speaking, [the variation] appears to be driven by differences in the use of potentially discretionary physician services and—to a larger extent—postdischarge care.”

PINPOINT OPPORTUNITIES FOR COST REDUCTIONS

Reducing discretionary care and avoidable complications (e.g., unnecessary specialist consultations, preventable readmissions, adverse drug events) will generate higher margins in bundled payment arrangements. So, too, will refining post-acute pathways.

Some post-acute pathways for heart failure patients are more expensive than others*



*Average Medicare payments for 30-day fixed-length episodes for heart failure and shock, 2007-2009.

Source: Data from Dobson & DaVanzo, *Medicare Payment Bundling: Insights into Claims Data and Policy Implications*, 2012.

PRICING THE BUNDLE

Providers should price their bundles after assessing historical costs and competitive prices and adjusting for various risk scenarios.

In PROMETHEUS case rates, a margin for potentially avoidable conditions and profit is allowed.

PROMETHEUS evidence-informed case rates

Allowance for potentially avoidable costs	Based on a negotiated percentage of current potentially avoidable costs
Margin	Currently based at 0-10% of typical
Severity-adjustment allowance	Caused by known patient health status; arrived at through a step-wise multi-variable regression model
Evidence-informed base of covered services (adjusted for local practice patterns)	Core/typical services that are recommended by best practice or evidence, adjusted for "normal" variation reflecting practice patterns

Source: HFMA, *Transitioning to Value: PROMETHEUS Payment Pilot Lessons*, June 2011. The total evidence-informed case rate = type of services x frequency x price per service.