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.”

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

Of all bundled payments reported
83% without quality incentives
17% with quality incentives

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

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A TIMELINE OF BUNDLED PAYMENT

KEY U.S. EVENTS

1984
The Texas Heart Institute reduces costs, without negatively affecting quality, using a single global fee for cardiovascular surgery.  

2009
Medicare’s ACE demonstration improves cardiac and orthopedic margins.

2007
PROMETHEUS launches four commercial pilots, which include chronic care bundles.

2010
Lowe’s arranges a cardiac surgery bundled price with the Cleveland Clinic for its employees.

1991
The first major federal bundled payment pilot—Medicare’s Participating Heart Bypass Center Demonstration Project—cuts spending by -10%.

2005
Geisinger’s CABG ProvenCareSM bundle reduces readmissions by 15.5%.

2013
450+ providers join Medicare’s Bundled Payments for Care Improvement initiative.

REFERENCES


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


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

<table>
<thead>
<tr>
<th>Providers</th>
<th>Payers</th>
<th>Consumers</th>
<th>Employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>lowest financial risk</td>
<td>highest financial risk</td>
<td>risk of overtreatment</td>
<td>risk of high costs from inefficiency</td>
</tr>
<tr>
<td>highest financial risk</td>
<td>lowest financial risk</td>
<td>risk of undertreatment</td>
<td>risk of high costs from undertreatment</td>
</tr>
</tbody>
</table>

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*

<table>
<thead>
<tr>
<th>back surgery costs</th>
<th>colectomy costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>lowest cost hospitals</td>
<td>$23,249</td>
</tr>
<tr>
<td>highest cost hospitals</td>
<td>$31,009</td>
</tr>
<tr>
<td>% difference</td>
<td>33.4%</td>
</tr>
</tbody>
</table>

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


1 American Hospital Association, Moving Towards Bundled Payment, 2013.
**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.

<table>
<thead>
<tr>
<th>Pathway Description</th>
<th>Average Medicare Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital to community to hospital</td>
<td>$19,244</td>
</tr>
<tr>
<td>Hospital to skilled nursing facility</td>
<td>$17,497</td>
</tr>
<tr>
<td>Hospital to skilled nursing facility to community</td>
<td>$16,058</td>
</tr>
<tr>
<td>Hospital to hospice</td>
<td>$11,002</td>
</tr>
<tr>
<td>Hospital to community to home health to community</td>
<td>$10,760</td>
</tr>
<tr>
<td>Hospital to home health to community</td>
<td>$10,550</td>
</tr>
<tr>
<td>Hospital to community</td>
<td>$9,853</td>
</tr>
</tbody>
</table>

*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.*

**PRICE 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**

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

*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.*

For more on bundled payment and other value-based payment approaches, visit hfma.org/leadership, Summer 2013 issue.