Alaska Healthcare News

akhcnews.com | Articles, Interviews and Statistics for the Healthcare Executive

Bundled Payments: A Meaningful and Middle-Ground Solution

By Barbara Letts
Senior Manager
Moss Adams LLP

By Paul Holden
Senior Manager
Moss Adams LLP

As part of its effort to contain rising health care costs, the government is trying to lessen the wide variance in Medicare spending among hospitals. According to *Kaiser Health News*, some researchers believe these spending discrepancies represent excess medical services and account for as much as a third of the $2.6 trillion in total US health care outlays.

The government hopes bundled payments—a lump sum paid, either prospectively or retrospectively, for a specific set of medical services defined by an episode of care—will increase operational efficiencies and bring health care costs down through standard care protocols, greater coordination, and shared accountability.

In a sense, bundled payments made prospectively are similar to quasi-capitation, because hospitals and physicians are forced to consider and manage the cost of treatment for a specific procedure. Put another way, the doctors and hospitals assume the financial risks for an episode of care, not the payer.

That said, selective bundled payments offer a middle-ground between fee-for-service reimbursement and full capitation. And for provider organizations transforming themselves into accountable care organizations (ACOs), bundled payments could also be an internal means of aligning incentives with physicians under a global payment system. They can also help providers boost operating margins by negotiating better prices for high-cost devices and driving more efficient care coordination.

A number of organizations have already launched bundled payment initiatives. The Integrated Healthcare Association (IHA) in California, for instance, is implementing a pilot program to test the feasibility of bundling payments for selected inpatient surgical procedures to hospitals, surgeons, consulting physicians, and ancillary providers.

Several months ago BlueCross

BlueShield announced that it had reached bundled payment agreements with Vanderbilt University Hospital and three Nashville, Tennessee–area orthopedic groups. The agreements establish a single payment for total knee and hip replacements, including aftercare and rehabilitation.

Finally, the Cleveland Clinic and home-improvement retailer Lowe's have an innovative health care agreement in which doctors at Cleveland perform heart surgeries on Lowe's employees for a bundled payment. The clinic is reportedly discussing a similar agreement with defense contractor Boeing.

Yet despite their promise and potential, bundled payments present challenges. For example, there's a need to define and track a health care episode in order to bundle payments for it. Accurate data is essential to establish baseline costs, set pricing for the bundle, and track ongoing cost savings. And numerous and detailed quality measures must be developed for specific episodes of care.

In addition, strong IT support that focuses on data transparency is critical, as is physician consensus around the treatment protocols. Doctors are key to the success of any bundled payment initiative because they make the decisions that affect the costs of care and the efforts to redesign care delivery.

Lastly, health care organizations understand that there have to be clearly defined, and reimbursed, post-discharge responsibilities. During the post-discharge period, patients are no longer under the constant management of their attending physician and may develop conditions, and seek treatment for those conditions, outside the control of the physicians who were responsible for their inpatient care. Nonetheless, the costs of these post-discharge services are often charged against the bundled payment.

To address these challenges, organizations interested in embracing bundled payments must start out by conducting a readiness assessment that includes people, governance, infrastructure, quality, finance, capacity, and IT. The key questions here are: Is there room for improvement, and where? And can the organization act as a third-party administrator to track and distribute payments?

If the organization is ready to implement bundled payments, it has to be patient. It will probably take six months to a year to get up to speed. During this period a multidisciplinary work group needs to establish parameters that include episode definition, quality measures, and pricing. It also needs to formulate a strategy that encompasses standards of care, cost reduction, gain-sharing opportunities, and appropriate compliance measures. Once the initiative has been implemented, the organization must also continually reassess and audit to make sure the bundled payment program is generating maximum efficiency and full cost savings.

In the end, it's clear that bundled payments can be complicated; but it's also true that for many providers this model offers a meaningful step toward the future of health care.

Barbara Letts and Paul Holden are members of the National Health Care Consulting Practice at Moss Adams: www.mossadams.com/healthcare.

Reprinted with permission from the Alaska Healthcare News. To learn more about the Alaska Healthcare News visit akhcnews.com.