Understanding Bundled Payments
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WEDI Strategic National Implementation Process (SNIP)
Payment Models Workgroup
Bundled Payments Taskforce

Bundled Payments Issue Brief

Workgroup for Electronic Data Interchange
1984 Isaac Newton Square, Suite 304, Reston, VA. 20190
T: 202-618-8792/F: 202-684-7794
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I. Introduction

Use of Bundled Payments for reimbursement of medical care is gaining momentum in both the public and private sectors. In January 2013, the Centers for Medicare and Medicaid Innovation launched a Bundled Payment for Care Improvement demonstration for 48 episodes. In July 2014, CMS announced it will add roughly 4,100 more providers to about 2,400 already participating in the demonstration. Several states have launched bundled payments as well. Arkansas, for example, has implemented bundled payments for a number of episodes with Medicaid and Commercial Payers. Tennessee and Ohio have also launched similar programs. In the private sector, a growing number of payers are implementing bundled payment programs. Horizon Blue Cross Blue Shield of New Jersey started its pilot back in 2010 with hip and knee replacement procedures. Seeing enough success in the program, they are expanding the bundled payments to additional orthopedic episodes, as well as obstetrics, colonoscopy, and oncology, going from less than 100 episodes in 2010 to over 8,000 in 2014. Geisinger Health System has had a long and successful history with bundled payments for cardiology surgeries and has recently launched bundled payments for several orthopedic procedures as well.

Because of this momentum, it is increasingly important for all stakeholders to gain a better understanding of bundled payments. The issue brief defines bundled payments and provides an understanding of the types of bundled payments.

II. Definition

Bundled Payment is an emerging payment model of value based reimbursement. In this model, Providers may be compensated based upon an agreed reimbursement rate for an episode of care. The episode definition for each area of care sets forth criteria on what medical services are included in the episode and the duration of the episode. Under the two principle approaches currently emerging in the industry, payment for these included services may be changed in two different ways.

A. Retrospective Payment Model

In retrospective episode of care payment programs, providers continue to receive fee-for-service payments for the medical services included in the episode as they submit claims. At some point after the care included in the episode of care is completed, reconciliation is done between the actual cost of the episode and the budgeted cost. The difference between budget and actual may result in an additional payment between the payer and the contracting provider. Since this true-up payment occurs after the episode ends, this is known as retrospective episode of care.

The majority of participants in the CMS Bundled Payment for Care Improvement initiative involve retrospective payment arrangements where actual expenditures are reconciled against a target price for an episode of care. Arkansas, Tennessee, New Mexico, and Ohio have also implemented retrospective episode of care programs.
B. Prospective Payment Model

A prospective episode of care payment program actually changes current fee-for-service payments. In this program, providers do not receive fee for service payments for submitted claims for medical services included in the episode. Instead, a lump sum payment for the agreed reimbursement amount for the episode is paid to the contracted provider when the payer receives a specific claim for the episode of care. The agreed reimbursement amount is a multi-provider global case rate that typically spans multiple services from multiple providers over multiple dates of service. The lump sum payment for this case rate is then distributed by the contracting provider among the other providers involved in the episode. As providers continue to generate claims for the included services, the payer does not pay these claims.

In addition to the CMS Acute Care Episode demonstration project, commercial payers are piloting prospective episode of care programs, where a lump sum payment is made to a provider for the entire episode of care.

C. Bundled Payment

The term bundled payment is sometimes used to refer to only prospective episode of care, but more often has been used generically with either prospective or retrospective approaches of episode of care payment.

III. Stakeholder Benefits

Based upon early CMS projects\(^1\),\(^2\) and published information from major blues plans\(^3\),\(^4\), bundled payments for episode of care programs are proving to be beneficial to all impacted stakeholders. Health Systems, Physicians, and Post Acute Providers have aligned incentives and can provide more coordinated care. Patients benefit from improved quality and better outcomes, coordination of their care throughout the episode, and simplified billing. Finally, Commercial and Government Payers, ACOs, and Employers benefit from better quality care for their members for a lower cost.

IV. Information Technology Implications

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Both prospective and retrospective models of episode of care payment programs create many new technology requirements and can have significant impact on IT operations. Since many programs are new or in a pilot phase, the industry has not addressed the full impact of these new requirements. As programs scale in volume and complexity, new technology will need to be adopted and impacts mitigated. Future WEDI briefs will directly address these projected needs.

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