

## Emerging Organizations Series: Bundling

The emerging organizations of healthcare reform focus on lowering costs and improving quality outcomes through service integration. Our Emerging Organizations Series has focused on three anticipated organizations being promoted by the Patient Protection and Affordable Care Act of 2010 (ACA): co-management (Vol. 3 Issue 7); accountable care organizations (ACOs) (Issue 8); and, patient centered medical homes (PCMH) (Issue 9). This last installment in the series focuses on reimbursement related to bundled payments.

Generally, a “*bundled*” payment is a single payment for reimbursement to multiple providers (e.g. both hospitals and physicians) that covers all services involved in a patient’s care.<sup>1</sup> The Centers for Medicare and Medicaid Services (CMS) described the goal of payment bundling as “...*align[ing] the incentives for both hospitals and physicians, leading to better quality and greater efficiency in the care that is delivered.*”<sup>2</sup> Types of bundled payment systems have included (1) diagnosis-related group (DRG) systems, where the insurer reimburses hospitals and physicians for all services that a patient receives in the hospital based on a patient’s specific grouping; and, (2) capitation, a reimbursement system, where providers are paid a set amount up front for each patient they treat (i.e., a “per head” basis).<sup>3</sup> Recently, newer models of bundled payment have gained popularity because they share the financial risk between the payer and provider, as well as allow for a flexible definition regarding the scope of payment.<sup>4</sup> For example, if the cost of care for a certain treatment exceeds the bundled payment provided, healthcare providers absorb the loss; however, if a portion of the bundled payment remains after treatment, providers keep the savings.<sup>5</sup> Significantly, the scope of the various bundled payments models is extreme, from covering a single acute episode (e.g., stenting) to payment for all services involved in managing a patient’s heart disease for an entire year.<sup>6</sup>

The passage of the ACA in March 2010 has ushered in a flood of new changes to the healthcare system; principal

among these changes is the implementation of payment bundling systems.<sup>7</sup> Section 3023 of the ACA calls for CMS to establish national payment bundling programs, with Medicaid’s demonstration program set to roll out by 2012 and a Medicare pilot program slated for 2013.<sup>8</sup> This section also gives the Secretary of the Department of Health and Human Services (HHS) authority to expand the pilot program if, after five years, the Secretary deems the program to be effective.<sup>9</sup> While the payment bundling programs called for in the ACA do not take effect until 2012, the U.S. will get a small sample of nationwide bundling in 2011, when CMS begins providing a single, bundled payment for outpatient dialysis treatment and supplies, related drugs, and clinical tests.<sup>10</sup>

While bundling will likely lower costs and lead to more efficient and high-quality health care, not everyone is optimistic. There is a widespread belief that doctors will be strongly opposed to payment bundling, as many physicians are skeptical of the “*fairness*” of bundled payment distribution by hospitals.<sup>11</sup> Additionally, the Office of Inspector General (OIG) issued a statement in September 2010 warning that if the bundled system is implemented as currently proposed, CMS will ultimately overpay for end-stage renal disease (ESRD) treatments.<sup>12</sup> Currently, CMS is using the producer price index (PPI) to determine the cost of the drugs purchased for its services.<sup>13</sup> The PPI, the OIG stated, does not take into account individual facility costs and will instead serve to increase CMS reimbursements for these drugs.<sup>14</sup> A study conducted by the OIG found that independent dialysis facilities paid far less than the PPI estimated, a disparity which could potentially cost Medicare hundreds of millions of dollars each year.<sup>15</sup>

While there is some debate as to whether provider reimbursement bundling will be effective and accepted by providers, hospitals and Medicare beneficiaries, there appears to be universal agreement that bundled payments will be a key factor in the healthcare industry as the new decade begins and the facets of healthcare reform go into effect.

- <sup>1</sup> “Bundled Payment: AHA Research Synthesis Report,” By American Hospital Association Committee on Research (May 2010), p. 3.
- <sup>2</sup> “Press Release to Announce Sites for the CMS ACE Program” Centers for Medicare and Medicaid Services, January 6, 2009, p. 1.
- <sup>3</sup> “Bundled Payment: AHA Research Synthesis Report,” By American Hospital Association Committee on Research (May 2010), p. 3.
- <sup>4</sup> “Bundled Payment: AHA Research Synthesis Report,” By American Hospital Association Committee on Research (May 2010), p. 3.
- <sup>5</sup> “Bundled Payment: AHA Research Synthesis Report,” By American Hospital Association Committee on Research (May 2010), p. 4.
- <sup>6</sup> “Bundled Payment: AHA Research Synthesis Report,” By American Hospital Association Committee on Research (May 2010), p. 3.
- <sup>7</sup> “Patient Protection and Affordable Care Act”, Pub. L. 111-148, 124 Stat. 119. March 23, 2010.
- <sup>8</sup> “Patient Protection and Affordable Care Act”, Pub. L. 111-148, 124 Stat. 399. March 23, 2010.
- <sup>9</sup> “Patient Protection and Affordable Care Act”, Pub. L. 111-148, 124 Stat. 401. March 23, 2010.
- <sup>10</sup> “The Beginning of Bundling”, Elyas Bakhtiari, HealthLeaders Media, August 2, 2010, <http://www.healthleadersmedia.com/print/FIN-254560/The-Beginning-of-Bundling>, (Accessed 9/16/10).
- <sup>11</sup> “Payment Bundling: Like It Or Not, It’s Coming”, Ken Terry, Physicians Practice, October 1, 2009, <http://www.physicianspractice.com/display/article/1462168/1587350>, (Accessed 9/16/10).
- <sup>12</sup> “End Stage Renal Disease Drugs: Facility Acquisition Costs and Future Medicare Payment Concerns”, Statement by the HHS Office of Inspector General Daniel R. Levinson, September 2010, pages i-iv.
- <sup>13</sup> “End Stage Renal Disease Drugs: Facility Acquisition Costs and Future Medicare Payment Concerns”, Statement by the HHS Office of Inspector General Daniel R. Levinson, September 2010, pages i-iv.
- <sup>14</sup> “End Stage Renal Disease Drugs: Facility Acquisition Costs and Future Medicare Payment Concerns”, Statement by the HHS Office of Inspector General Daniel R. Levinson, September 2010, pages i-iv.
- <sup>15</sup> “End Stage Renal Disease Drugs: Facility Acquisition Costs and Future Medicare Payment Concerns”, Statement by the HHS Office of Inspector General Daniel R. Levinson, September 2010, pages i-iv.



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