Health Capital Topics
Volume 10
Issue 10
October 2017
Jessica L. Bailey-Wheaton, Esq., Editor
Todd A. Zigrang MBA, MHA, ASA, FACHE, Publisher

Now You See It, Now You Don't: Bundled Payment Programs Cancelled

On August 15, 2017, the *Centers for Medicare and Medicaid Services* (CMS) proposed changes to their bundled payment models, including the *Comprehensive Care for Joint Replacement* (CJR) Model.[1] These proposed changes include:

(1) Reducing the number of geographic areas with mandatory participation in the CJR model from 67 to 34, with the rest of the geographic areas having voluntary participation.[2] Hospitals within voluntary regions have a one-time opportunity to opt out of the model.[3] The rules also propose that low-volume and rural hospitals located in the 34 mandatory areas may participate on a voluntary basis for CJR programs.[4]

(2) The cancellation of *Episode Payment Models* (EPMs) and the *Cardiac Rehabilitation* (CR) incentive payment model. These programs were originally scheduled to begin January 1, 2018; however, cancelling these models would give CMS more flexibility in developing *alternative payment models* (APM) that promote higher quality and better coordinated care.[5]

The CJR Model is an *alternative payment model* (APM) with the goal of promoting better coordinated and more efficient care for hip and knee replacement surgeries.[6] Hospitals are held financially accountable for CJR episodes of care based on cost and quality metrics established by CMS.[7] Episodes begin upon the admission of a Medicare beneficiary to a hospital, and end 90 days after the beneficiary is discharged.[8] Hip and knee replacements are some of the most common inpatient surgeries, with 400,000 procedures performed in 2014.[9] The total cost for all of these procedures was $7 billion in hospitalizations alone.[10] Although these are high-volume procedures, the cost and quality of these procedures vary widely across providers,[11] e.g., through increased rates of *hospital acquired infections* (HAIs) or poor surgical outcomes at some facilities, which may lead to hospital readmissions. Overall, expenditures by CMS on these procedures range from $16,500 to $33,000, depending on geographic region.[12] CJR payment models were originally created in an attempt to reduce medical outcome variation, and lower overall costs for both CMS and healthcare organizations. EPM and CR models work in a similar fashion to CJR models, but apply to different diagnoses, such as the payment for cardiac and orthopedic-related episodes of care.[13]

It is estimated that approximately 470 acute-care hospitals will continue with the CJR payment model, a decrease from the 800 hospitals that currently participate in the program.[14] This can have a significant impact on the savings that CMS realizes, with savings estimated to be $204 million over the next three years, instead of the $294 million in savings if the program were to continue as is.[15] Further, CMS is expected to realize a loss in savings of approximately $159 million over the next five years with the cancellation of the EPM and CR payment models.[16] There was discussion from CMS regarding the *alteration*, rather than *cancellation*, of these models; however, due to the complex nature of altering the EPM and CR designs, CMS opted to cancel the programs altogether.[17]

Healthcare industry stakeholders have differing opinions about the potential implications of these proposed changes. Some stakeholders, including leaders of Geisinger Health Plan and Novant Health, are doubtful that a voluntary CJR model will sway enough providers to switch from a *fee-for-service* model to a *value-based* model.[18] Making bundled-payment initiatives voluntary may increase the amount of time it takes for the government, and subsequently commercial payors, to adopt VBR models in general, they argue.[19] Conversely, other stakeholders are in favor of the proposed changes by CMS, stating, "*[CMS bundled payment models] are so administratively complex that you end up with more paper cuts than actually driving better outcomes*."[20] Yet other stakeholders assert that CMS should focus on its other *value-based reimbursement* (VBR) initiatives, such as the *Comprehensive Primary Care Plus* (CPC+) model.[21] This model promotes better quality, efficiency and patient access for primary care through public-private partnerships, such as those between physician practices and the government, to provide practices with additional financial resources and flexibility in making investments.[22]

Proposed changes and cancellations for these bundled payment models were made subsequent to the resignation of Patrick Conway, M.D., from his post as director of the CMS' *Center for Medicare and Medicaid Innovation*.[23] Conway was an advocate for mandatory VBR models, arguing that they promoted Medicare savings.[24] Other agency officials during the Trump Administration,

(Continued on next page)

including former HHS Secretary Tom Price and CMS administrator Seema Verma, have stated support for VBR models, such as bundled-payment models; however, they have also expressed concern related to the burden of these programs on providers.[25] In a press release dated August 15, 2017, Verma stated that the proposed changes to the bundled payment models will "*allow[ ] CMS to test and evaluate improvements in care processes that will improve quality, reduce costs, and ease burdens on hospitals*"[26] She went on to explain, "*Stakeholders have asked for more input on the design of these models. These changes make this possible and give CMS maximum flexibility to test other episode-based models that will bring about innovation and provide better care for Medicare beneficiaries.*"[27] Moving forward, CMS plans to decrease the number of large mandatory episode payment models, and increase the number of voluntary initiatives in which healthcare organizations can participate.[28] Whether shifting reimbursement from *volume* to *value* will be most effectively accomplished in smaller increments, rather than with larger, more comprehensive programs, remains to be seen.

1 "CMS proposes changes to the Comprehensive Care for Joint Replacement Model, cancellation of the mandatory Episode Payment Models and Cardiac Rehabilitation Incentive payment model" Center for Medicare & Medicaid Services, August 15, 2017, https://www.cms.gov/Newsroom/MediaReleaseDatabase/Press-releases/2017-Press-releases-items/2017-08-15.html (Accessed 10/3/2017).
2 *Ibid*.
3 "Comprehensive Care for Joint Replacement Model" Center for Medicare & Medicaid Services, September 28, 2017, https://innovation.cms.gov/initiatives/cjr (Accessed 10/3/2017).
4 Center for Medicare & Medicaid Services, "CMS proposes changes to the Comprehensive Care for Joint Replacement Model, cancellation of the mandatory Episode Payment Models and Cardiac Rehabilitation Incentive payment model", August 15, 2017.
5 *Ibid*.
6 Center for Medicare & Medicaid Services, "Comprehensive Care for Joint Replacement Model", September 28, 2017.
7 *Ibid*.
8 *Ibid*.
9 *Ibid*.
10 *Ibid*.
11 *Ibid*.
12 *Ibid*.
13 "Episode Payment Models: General Information" Center for Medicare & Medicaid Services, October, 5, 2017, https://innovation.cms.gov/initiatives/epm (Accessed 10/5/2017).
14 "CMS cancels two mandatory pay models and scales back a third" By Virgil Dickson, Modern Healthcare, August 15, 2017, http://www.modernhealthcare.com/article/20170815/NEWS/170819935 (Accessed 10/5/2017).
15 *Ibid*.
16 *Ibid*.
17 *Ibid*.
18 "Cancellation of bundled-payment models reflects White House's stance on value-based care" By Virgil Dickson, Modern Healthcare, (August 16, 2017), http://www.modernhealthcare.com/article/20170816/NEWS/170819919 (Accessed 10/6/2017).
19 Virgil Dickson, "Cancellation of bundled-payment models reflects White House's stance on value-based care", August 16, 2017.
20 Quoting Elizabeth Kissick, Vice President of Payor Relations and Network Development at the University of Colorado Medicine. *Ibid*.
21 Virgil Dickson, "Cancellation of bundled-payment models reflects White House's stance on value-based care", August 16, 2017.
22 "Comprehensive Primary Care Plus" Centers for Medicare & Medicaid Services, September 8, 2017, https://innovation.cms.gov/initiatives/comprehensive-primary-care-plus (Accessed 10/6/2017).
23 Virgil Dickson, "CMS cancels two mandatory pay models and scales back a third", August 15, 2017.
24 *Ibid*.
25 "MACRA's future seems solid-for now-under the Trump Administration" By Carter Gaddis, Health Data Management, (March 24, 2017), https://www.healthdatamanagement.com/opinion/macra-s-future-seems-solidfor-nowunder-the-trump-administration (Accessed 8/14/2017), p. 2; "Seema Verma, CMS Administrator Nominee, Discusses MACRA, M.D. Burden in First Senate Hearing" By Rajiv Leventhal, Healthcare Informatics, (February 16, 2017), https://www.healthcare-informatics.com/article/payment/seema-verma-cms-administrator-nominee-prioritizes-deregulation-patient-centered-care (Accessed 8/14/2017).
26 Center for Medicare & Medicaid Services, "CMS proposes changes to the Comprehensive Care for Joint Replacement Model, cancellation of the mandatory Episode Payment Models and Cardiac Rehabilitation Incentive payment model", August 15, 2017.
27 *Ibid*.
28 *Ibid*.

 (Continued on next page)

(800)FYI - VALU

Providing Solutions in the Era of Healthcare Reform

Founded in 1993, HCC is a nationally recognized healthcare economic financial consulting firm

- HCC Home
- Firm Profile
- HCC Services
- HCC Experts
- Clients & Projects
- HCC News
- Upcoming Events
- Contact Us
- Email Us

HCC Services

- Valuation Consulting
- Commercial Reasonableness Opinions
- Commercial Payor Reimbursement Benchmarking
- Litigation Support & Expert Witness
- Financial Feasibility Analysis & Modeling
- Intermediary Services
- Certificate of Need
- ACO Value Metrics & Capital Formation
- Strategic Consulting
- Industry Research Services

Robert James Cimasi, MHA, ASA, FRICS, MCBA, CVA, CM&AA, serves as Chief Executive Officer of **HEALTH CAPITAL CONSULTANTS** (HCC), a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Master in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Institution of Chartered Surveyors (FRICS – Royal Institution of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Certified Valuation Analyst (CVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, and is the author of several books, the latest of which include: "*The Adviser's Guide to Healthcare – 2nd Edition*" [2015 – AICPA]; "*Healthcare Valuation: The Financial Appraisal of Enterprises, Assets, and Services*" [2014 – John Wiley & Sons]; "*Accountable Care Organizations: Value Metrics and Capital Formation*" [2013 - Taylor & Francis, a division of CRC Press]; and, "*The U.S. Healthcare Certificate of Need Sourcebook*" [2005 - Beard Books].

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious "*Shannon Pratt Award in Business Valuation*" conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows. In 2011, he was named a Fellow of the Royal Institution of Chartered Surveyors (RICS). In 2016, Mr. Cimasi was named a "*Pioneer of the Profession*" as part of the recognition of the *National Association of Certified Valuators and Analysts* (NACVA) "*Industry Titans*" awards, which distinguishes those whom have had the greatest impact on the valuation profession.

Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the President of **HEALTH CAPITAL CONSULTANTS** (HCC), where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 20 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 1,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of "*The Adviser's Guide to Healthcare – 2nd Edition*" [2015 – AICPA], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Accountant's Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies; Business Appraisal Practice*; and, *NACVA QuickRead*. In addition to his contributions as an author, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); the National Association of Certified Valuators and Analysts (NACVA); Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.

Mr. Zigrang holds a Master of Science in Health Administration (MHA) and a Master of Business Administration (MBA) from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives (FACHE) and holds the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, where he has served as President of the St. Louis Chapter, and is current Chair of the ASA Healthcare Special Interest Group (HSIG).

John R. Chwarzinski, MSF, MAE, is Senior Vice President of **HEALTH CAPITAL CONSULTANTS** (HCC). Mr. Chwarzinski's areas of expertise include advanced statistical analysis, econometric modeling, as well as, economic and financial analysis. Mr. Chwarzinski is the co-author of peer-reviewed and industry articles published in *Business Valuation Review* and *NACVA QuickRead*, and he has spoken before the Virginia Medical Group Management Association (VMGMA) and the Midwest Accountable Care Organization Expo.

Mr. Chwarzinski holds a Master's Degree in Economics from the University of Missouri – St. Louis, as well as, a Master's Degree in Finance from the John M. Olin School of Business at Washington University in St. Louis. He is a member of the St. Louis Chapter of the American Society of Appraisers, as well as a candidate for the Accredited Senior Appraiser designation from the American Society of Appraisers.

Jessica L. Bailey-Wheaton, Esq., is Vice President and General Counsel of **HEALTH CAPITAL CONSULTANTS** (HCC), where she conducts project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions and provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. Ms. Bailey-Wheaton is a member of the Missouri and Illinois Bars and holds a J.D., with a concentration in Health Law, from Saint Louis University School of Law, where she served as Fall Managing Editor for the *Journal of Health Law & Policy*.

Daniel J. Chen, MSF, is a Senior Financial Analyst at **HEALTH CAPITAL CONSULTANTS** (HCC), where he develops fair market value and commercial reasonableness opinions related to healthcare enterprises, assets, and services. In addition he prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams. Mr. Chen has a M.S. in Finance from Washington University St. Louis.

© HEALTH CAPITAL CONSULTANTS