

CMS Bundled Payments Initiative: Four Models for Coordinated Care

Several provisions of the Patient Protection and Affordable Care Act (ACA) encourage alignment, collaboration, and communication among providers, such as bundling payments for services provided for a single episode of care. On August 23, 2011, the Centers for Medicare and Medicaid Services (CMS) announced the Bundled Payments for Care Improvement Initiative (Bundled Payments Initiative).¹ The Bundled Payments Initiative includes four approaches to bundled payments. One model includes a single prospective payment for all services provided during an inpatient stay, and three models include a retrospective payment system with a target price for an established episode of care.² The Bundling Payments Initiative is expected to provide better outcomes in environments where physicians and hospitals have already established strong communication and collaboration.³

The Bundled Payments Initiative aims to improve care through a patient-centered approach, emphasizing care coordination and quality.⁴ Though limited evidence-based literature regarding bundled payments currently exists, recent data indicates: (1) bundled payments may reduce spending for an episode of care; (2) some providers are ready to participate in bundled payments program while others have not yet expressed readiness; and, (3) bundled payments can promote quality improvements in care. Each of the four models presented by CMS incentivize coordination of care and lower costs by allowing providers to share in any cost savings achieved based on a historic fee-for-service payment rate and a discounted target price per episode of care.⁵

Each of the four models proposed by the Bundled Payments Initiative has a different definition for a single episode of care, or what the bundled payments will cover. Models One through Three all reimburse retrospectively. Model One sets the episode of care as the patient's inpatient stay at a general acute care hospital, with the discounted payment rate based on the Inpatient Prospective Payment System. Model One pays physicians and hospitals separately, although both may participate in shared gains. Model Two and Model Three bundle physician services, care by post-acute

providers, related readmissions, and any other services proposed in the episode definition (i.e., laboratory services, durable medical equipment, prosthetics, Part B drugs, etc.). Model Two establishes an episode of care that includes the patient's inpatient days as well as post-acute care following discharge. The length of post-acute time covered under the episode of care ranges from 30 days to 90 days, following discharge. Model Three's episode of care begins at discharge and ends 30 days following discharge. Model Four is the only model to use a prospective payment bundling system.⁶

Model Four has a single payment that encompasses all services provided during the inpatient stay, whether performed by the hospital, physician, or other practitioners. Payment is made directly to the hospital, which then pays physicians and practitioners from the bundled payment.⁷ The table below explains and compares some key features of the bundled payments models.

According to a 2008 Medicare Payment Advisory Commission (MedPAC) report, payment systems should encourage collaboration between physicians and hospitals.⁸ Valinda Rutledge, Director of the Patient Care Models Group at the CMS Innovation Center, stated that hospitals and physicians have expressed a desire to work collaboratively but have experienced barriers when previously trying to do so. Dr. Cecil B. Wilson, former American Medical Association (AMA) president, stated: "*We are pleased the initiative provides flexibility and a range of models...This may be an important opportunity to learn how to organize these approaches to improve patient care, quality, cost of care and practice economics.*"⁹ The AMA has encouraged CMS to provide technical assistance and data resources to physicians expressing interest in the initiative.¹⁰

Final applications for the first Bundled Payments Initiative were due on October 21, 2011. For participation in one of the other three initiative models, letters of interest must have been submitted by November 4, 2011, along with any requests for historical Medicare claims data. Final applications must be received on or before March 15, 2012.¹¹ Hundreds of hospitals and physician groups are expected to

Key Features of Bundled Payment Models Compared¹³

	A	B	C	D	E
	Model Feature	Model 1 Inpatient Stay Only	Model 2 Inpatient Stay plus Post-Discharge Services	Model 3 Post-Discharge Services Only	Model 4 Inpatient Stay Only
1	Eligible Awardees	Physician group practices; Acute care hospitals paid under the IPPS; Health systems Physician-hospital organizations; and, Conveners of participating health care providers	Physician group practices; Acute care hospitals paid under the IPPS; Health systems Physician-hospital organizations; Post-acute providers; and, Conveners of participating health care providers	Physician group practices; Acute care hospitals paid under the IPPS; Health systems Long-term care hospitals Inpatient rehabilitation facilities; Skilled nursing facilities; Home health agency; Physician-owned hospital organizations; and, Conveners of participating health care providers	Physician group practices; Acute care hospitals paid under the IPPS; Health systems; Physician-hospital organizations; and, Conveners of participating health care providers
2	Payment of Bundle and Target Price	Discounted IPPS payment; no separate target price	Retrospective comparison of target price and actual FFS payment	Retrospective comparison of target price and actual FFS payment	Prospectively set payment
3	Clinical Conditions Targeted	All MS-DRGs	Applicants to propose based on MS-DRG for inpatient hospital stay	Applicants to propose based on MS-DRG for inpatient hospital stay	Applicants to propose based on MS-DRG for inpatient hospital stay
4	Types of Services Included in Bundle	Inpatient hospital services	Inpatient hospital and physician services; Related post-acute care services; Related readmissions; and, Other services defined in the bundle	Post-acute care services; Related readmissions; and, Other services defined in the bundle	Inpatient hospital and physician services; and, Related admissions
5	Expected Discount Provided to Medicare	To be proposed by applicant CMS requires minimum discounts increasing from 0% in first 6 mos. to 2% in Year 3	To be proposed by applicant; CMS requires minimum discount of 3% for 30-89 days post-discharge episode; 2% for 90 days or longer episode	To be proposed by applicant	To be proposed by applicant; subject to minimum discount of 3%; larger discount for MS-DRGs in ACE Demonstration
6	Payment from CMS to Providers	Acute care hospital: IPPS payment less pre-determined discount; and, Physician: Traditional fee schedule payment (not included in episode or subject to discount)	Traditional fee-for-service payment to all providers and suppliers, subject to reconciliation with predetermined target price	Traditional fee-for-service payment to all providers and suppliers, subject to reconciliation with predetermined target price	Prospectively established and bundled payment to admitting hospital; hospitals distribute payments from bundled payment
7	Quality Measures	All Hospital IQR measures and additional measures to be proposed by applicants	To be proposed by applicants, but CMS will ultimately establish a standardized set of measures that will be aligned to the greatest extent possible with measures in other CMS programs		

participate in one of the four bundling initiatives.¹²

- 1 "Affordable Care Act Initiative to Lower Costs, Help Doctors and Hospitals Coordinate Care," US Department of Health and Human Services, August 23, 2011, <http://www.hhs.gov/news/press/2011pres/08/20110823a.html> (Accessed 10/24/2011); "Bundled Payments for Care Improvement Initiative," Centers for Medicare and Medicaid Services, August 23, 2011.
- 2 "CMS Announces ACA Bundled Payment Demonstration," AHANews, August 23, 2011, http://www.ahanews.com/...p/jsp/display.jsp?dcrpath=AHANEWS/AHANewsNowArticle/data/ann_082311_bundled&domain=AHANEWS (Accessed 10/24/2011); CMI, "Bundled Payments for Care Improvement;" HHS, "Affordable Care Act Initiative to Lower Costs, Help Doctors and Hospitals Coordinate Care," 2011; "Fact Sheet: Bundled Payments for Care Improvement Initiative" Centers for Medicare and Medicaid Services, August 23, 2011.
- 3 "Medicare Unveils Bundled Payment Models to Start in 2012," Charles Fiegl, American Medical News, September 5, 2011, <http://www.ama-assn.org/amednews/2011/09/05/gv110905.htm> (Accessed 10/24/2011).
- 4 CMI, "Bundled Payments for Care Improvement;" HHS, "Affordable Care Act Initiative to Lower Costs, Help Doctors and Hospitals Coordinate Care," 2011; CMS, "Bundled Payments for Care Improvement Initiative," 2011.
- 5 CMS, "Fact Sheet: Bundled Payments for Care Improvement Initiative," 2011, 3.
- 6 Ibid.
- 7 Ibid.
- 8 "Report to the Congress: Reforming the Delivery System" Medicare Payment Advisory Commission, June 2008, p. 84.
- 9 Fiegl, "Medicare Unveils Bundled Payment Models to Start in 2012," 2011.
- 10 Ibid.
- 11 CMS, "Fact Sheet: Bundled Payments for Care Improvement Initiative," 2011, 4.
- 12 Fiegl, "Medicare Unveils Bundled Payment Models to Start in 2012," 2011.
- 13 CMS, "Fact Sheet: Bundled Payments for Care Improvement Initiative," 2011, 5-6.



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