

## *Payment Bundle Initiatives Proposed by Senate & CMS*

Several proposals have been recently advanced by legislators to reduce Medicare costs by various methods of bundling payments to hospitals and physicians for services provided over the course of a patient's treatment plan. On April 29, 2009 as part of their "Proposals to Improve Patient Care and Reduce Health Care Costs," the Senate Finance Committee released a plan to use the bundling of payments for inpatient and post-discharge care that the administration plans to use to provide for 16 billion dollars of Medicare spending reductions.<sup>1</sup> Further, the Centers for Medicare and Medicaid Services (CMS) has also created a pilot program to examine the benefits of bundling Part A and Part B Medicare payments.<sup>2</sup>

This Senate Finance Committee's proposal would bundle payments for acute inpatient care and post-acute care occurring or initiating up to 30 days following a patient's discharge, including home health, skilled nursing, rehabilitation, and long-term hospital services. This payment bundling would occur in three stages, the first starting in 2014 (FY 2015) and would include only those conditions accounting for the top 20% of post-acute spending.<sup>3</sup> In 2016 (FY 2017) phase two would begin including the next 30% of conditions that require post-acute spending and in 2018 (FY 2019), the third and final phase would be implemented to include all remaining conditions. This bundled payment would include the inpatient MS-DRG amount plus post-acute care costs for the treatment of patients in that MS-DRG, including any expected or planned readmissions within the 30-day window. Although the hospital would receive the bundled payment even if no post-discharge care was given, the bundled amount will have already been adjusted to "capture savings from the expected efficiencies gained from improving patient care and provider coordination within the bundled payment system."<sup>4</sup>

In addition to the Senate Finance Committee's proposals, the Acute Care Episode Demonstration (ACE) project, expected to launch later in 2009, is a pilot program developed by CMS to provide for greater efficiencies and continuity of care amongst Part A and Part B providers. The three-year program effectively eliminates the Medicare Physician Fee Schedule and provides one, global payment under the Inpatient Prospective Payment System (IPPS). The new, bundled payment will cover both hospital and physician fees for

one "episode of care" for cardiovascular and/or orthopedic procedures. Participating sites (referred to as "Value Based Centers") have met certain volume thresholds; have quality care initiatives in place; and, have competitively bid for their bundled DRG payment. The program also provides for gainsharing arrangements with physicians who meet or exceed quality standards.<sup>5</sup> Further, patients who, "based on quality and cost, choose to receive care from participating demonstration providers," are eligible to receive up to fifty percent [50%] of the savings to Medicare, as long as such payments do not exceed the patient's Part B premium of \$1,157 per year.<sup>6</sup>

Proponents of bundled payments assert that the move towards bundled payments provides a higher coordination and more efficient level of care. However, critics articulate concern as to the level of savings and patient care improvement that a blanket bundling of payments will actually generate. For example, the American Medical Association (AMA) expressed concern that such bundling proposals could result in the withholding or limiting of appropriate post-discharge or inpatient services. The AMA also called for the appropriate distribution of the payments to individual providers, risk-adjustment for patients whose care exceeds the amount accounted for in the bundled payment, and safeguards to ensure that patient care decisions remain in the hands of the individual providers.<sup>7</sup> In a letter to the Senate Finance Committee, the American Hospital Association (AHA) stated that the Administration's approach to bundling payments was "problematic" and would require a "paradigm shift in health service delivery" resulting in the revision or withdrawal of numerous regulations promulgated to manage the current health care delivery and payment system.<sup>8</sup> Finally, the American Association of Medical Colleges (AAMC), which supports the concept of care coordination provided through bundling, criticized Medicare's ACE program for not ensuring that payments are made directly to all parties (i.e., physicians) who provide the services.<sup>9</sup>

While no actual bundling policy has been implemented, recent actions by both the US Senate and CMS have demonstrated that such initiatives on the healthcare horizon and may soon become a part of the healthcare reimbursement environment.

<sup>1</sup> "Administration News – President Obama's Budget Request

*(Continued from previous page)*

- Includes \$828B for HHS” By Kaisernetwork.org. p. 2. May 8, 2009.  
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- 2 “Acute Care Episode Demonstration,” Centers for Medicare and Medicaid Services, March 20, 2009,  
<http://www.cms.hhs.gov/DemoProjectsEvalRpts/downloads/ACEFactSheet.pdf>(Accessed 6/1/09)
- 3 “Transforming the Health Care Delivery System: Proposals to Improve Patient Care and Reduce Health Care Costs” By the Senate Finance Committee. April 29, 2009. p. 14.
- 4 “Transforming the Health Care Delivery System: Proposals to Improve Patient Care and Reduce Health Care Costs” By the Senate Finance Committee. April 29, 2009. p. 15.
- 5 “Acute Care Episode Demonstration: Fact Sheet,” Centers for Medicare and Medicaid Services, p. 1-2,  
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- 6 “Medicare Acute Care Episode Demonstration for Orthopedic and Cardiovascular Surgery,” Centers for Medicare and Medicaid Services, p. 1,  
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- 7 “Statement of the American Medical Association to the Committee on Ways and Means Subcommittee on Health, U. S. House of Representatives.” p. 6. Sept. 11, 2008.
- 8 “Statement of the American Hospital Association to the Senate Finance Committee” p. 7. April 21, 2009.
- 9 “Comments of the American Association of Medical Colleges to the Senate Finance Committee,” May 16, 2009, p. 5,  
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