IHA Bundled Episode of Care Pilot
Project Description
June 17, 2010

Introduction

There is growing interest in the health care industry and health policy world in the concept of paying for medical treatment on the basis of the “episode of care” rather than the individual test, procedure, or visit (fee-for-service) or the population-based continuum of care (capitation). Establishing a single budget or fee for care that involves multiple providers (and provider types) may redress quality and efficiency problems that are rewarded by current payment systems, which increase reimbursement with increased volumes of services. Pricing mechanisms that bundle and fix the price of the components of a complex episode of care also represent a critical first step in providing consumers with transparent price and quality metrics, tools needed to make an informed, value-based selection of a provider team.

The potential of episode payment to achieve both quality and cost improvements was initially shown in the early 1990s by Medicare’s Coronary Artery Bypass Graft Demonstration project. During its five-year run, this demonstration saved Medicare $42 million on coronary bypass patients treated in the demonstration hospitals, an average discount of roughly 10% from expected spending, including a 90-day post-discharge period.[1]

Overview—IHA Bundled Episode Payment Pilot

The Integrated Healthcare Association (IHA) is implementing a pilot to test the feasibility of bundling payments to hospitals, surgeons, consulting physicians and ancillary providers, for selected inpatient surgical procedures. The pilot will cover commercial populations within the existing California delivery system and regulatory environment. The pilot expects to:

1. Encourage financial alignment that will support delivery system and process re-engineering to improve patient care quality and efficiency.
2. Allow for shared savings among health plans, providers, employers, and patients to the extent bundled reimbursement improves quality and efficiency.
3. Develop and test solutions to bundled payment implementation issues.

The pilot will focus initially on commercial PPO patient populations in Los Angeles and Orange Counties, but IHA intends to expand the pilot to HMO populations and to service areas across California in later phases. Pilot participants explicitly intend to pay for the procedures on an actual vs. virtually-bundled basis; therefore, they must commit to building the administrative and contracting infrastructure to bill for services on a bundled basis and to disperse payments among participating providers.

IHA’s role in the project is to develop a coalition of willing hospitals, health plans, and physician groups that participate in each phase of the project. IHA will develop the framework for episode payment (episode definition, data analysis methodology, and standard quality measures) and support collaborative resolution of operational issues. Decisions will be made by consensus where possible; however, IHA will make the final proposal on cross-sector issues. Final parameters, including episode price, will be incorporated into existing contracts between health plans and providers. IHA will not intervene in price negotiations, nor attempt to identify or set a market price for the bundles. IHA does not intend to aggregate data across health plans, share charge or reimbursement information across competing health plans or providers, or publically report identifiable charge or quality metrics.

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[1] Health Care Financing Administration. *Medicare Participating Heart Bypass Center Demonstration, Extramural Research Report.* September 1998.

IHA has secured commitments to participate in the pilot from major health plans, physician groups, and hospitals, including Aetna, Blue Shield, CIGNA, HealthNet, Monarch Health, Cedars-Sinai, Hoag Hospital, Saddleback Memorial, Tenet-California, and UCLA Health System. Project workgroups have finished the definitional phase of the project (episode definition, contracting model, and data analysis plan), and are now beginning full-scale implementation efforts, with a target of going live with episode payment beginning in late Summer 2010.

Value to Pilot Participants

Bundled episode payments align financial incentives for all providers involved in treating a patient over a discrete episode of care. These aligned incentives may improve care quality while also contributing to more efficient care management and improved affordability. The Integrated Healthcare Association's bundled episode payment pilot will test the feasibility of this reformed payment structure within the constraints of the California regulatory environment and the existing delivery system. By participating in the pilot, all stakeholders—IHA, hospitals, physicians, and health plans—gain a unique opportunity to build financial alignment and infrastructure in a collaborative, low-risk, environment.

Over time, pilot participants commit to sharing savings realized via higher-quality, more-efficient care in the form of negotiated rates for episodes that are lower than they would have been in the absence of the bundled payment approach. Ultimately, these savings will flow through to consumers in more affordable health insurance products.

1. **Patients** gain the ability to compare and contrast physician-hospital teams, prices, and their cost-sharing obligations, for a consistently-defined package of treatment services.
2. **Physicians** remain in control of the treatment plan, and of decisions about length of stay and the use of consultants and ancillary services. Additionally, they may increase revenue through shared savings arrangements with the hospitals while also benefiting from new opportunities to collaborate on quality and service enhancements such as implementation of evidence-based care pathways.
3. **Medical Groups** benefit from the opportunity to work effectively with physicians and hospitals to develop new gain-sharing and revenue opportunities.
4. **Hospitals** will develop stronger partnerships with individual physicians and medical groups and develop the contracting and operational infrastructure needed to manage episode-based payment mechanisms. Some of the strategies being tested in this project such as clinical pathways, aligned financial incentives with physicians, joint vendor negotiations with implant vendors, and joint physician-hospital contracting with health plans will prepare the hospital to more effectively compete under Medicare's expected expansion of the bundled payment approach. Optimizing clinical and administrative processes for the commercial population may ultimately reduce costs and improve margins for all patients, including those currently reimbursed by Medicare on a DRG-basis.
5. **Health Plans** can share in quality and efficiency improvements realized by the physician and hospital alignment through rate negotiations and pass these savings on to their customers and members. "Warranties" for the quality of treatment offered by the contracting provider groups place new incentives for providers to reduce avoidable complications and prevent certain readmissions. Including implants or other devices in the bundled episode rate provides incentives for providers to help control these rapidly increasing costs.
6. **IHA** will benefit from demonstrating whether bundled payment can successfully operate within the California market, and by sharing outcomes and experience from the pilot with its stakeholder groups across California and with the health policy community.