



IHA Bundled Episode Payment and Gainsharing Demonstration

Project Description

March 14, 2011

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 and Gainsharing Demonstration

The Integrated Healthcare Association (IHA) is implementing a demonstration to test the feasibility of bundling payments to hospitals, surgeons, consulting physicians and ancillary providers, for selected inpatient surgical procedures within the existing California delivery system and regulatory environment. The demonstration 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 demonstration, funded by the Agency for Healthcare Research and Quality, expands a current small pilot that has focused on commercial PPO patients receiving total hip and total knee replacements in Los Angeles and Orange Counties. The demonstration will expand the effort over three years to ten acute conditions and procedures, 20 physician-hospital teams across California, and to HMO, Medicare Advantage and Medi-Cal Managed Care populations. In 2011, IHA will add additional procedures to the original orthopedic work, including: diagnostic cardiac catheterization; cardiac angioplasty with stents; and knee arthroscopy with meniscectomy.

IHA’s role in the project is to develop the coalition of willing hospitals, health plans, and physician groups that participate in each phase of the project, and to facilitate resolution of definitional and operational issues in a collaborative multi-stakeholder forum. 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 or share charge or reimbursement information across competing health plans or providers, and will not publically report identifiable charge or quality metrics.

IHA has secured commitments to participate in the demonstration from several major health plans, physician groups, and hospitals. Initial participants have completed the definitional phase of the pilot and have begun

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

full-scale implementation efforts, with a target live date of first quarter 2011. IHA is actively recruiting additional participants at this time.

The demonstration will include a rigorous evaluation of the impact of bundled episode payment on both clinical quality and healthcare costs in comparison to current payment mechanisms. These evaluations will be carried out independently by the RAND Corporation and by researchers associated with the University of California at San Francisco and Berkeley.

Value to Demonstration Participants

Bundled episode payment and gainsharing 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. IHA's bundled episode payment demonstration 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 demonstration, 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, demonstration 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 gainsharing 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 and Purchasers** 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 demonstration with its stakeholder groups across California and with the health policy community.