How Bundled Payments Affect Physicians

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What bundled payments are, how they work, and how they might affect your practice.
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Physicians at Nashville's Vanderbilt University Medical Center are encountering a new type of reimbursement model. In January, CMS selected the institution to participate in the Medicare Bundled Payments for Care Improvement initiative, in which participants receive one predetermined payment "bundle" for all the services associated with a particular episode of care, such as a hip or knee replacement. Vanderbilt elected to participate in Model 2 of four payment models in the Medicare initiative — meaning the health system will keep the savings if it manages to keep the costs of a particular episode of care below the predetermined bundled amount, and it will pay the difference if it does not.

Edward Marx, Vanderbilt's director of strategic analytics, says the institution's decision to participate in the initiative was driven, in part, by the fact that it viewed bundled payments as a way to begin transitioning toward broader value-based reimbursement models. "With bundled payments we're not at population health but we're at the step before that," says Marx. "You're taking control of patients for a certain length of time and you're going to manage their condition, or their surgery, or whatever it is, and coordinate all their care."

Vanderbilt is not alone in viewing bundled payments as a way to begin transitioning from traditional fee-for-service reimbursement. More than 450 organizations are participating in the Medicare initiative, and private payers are offering similar programs. But uncertainty remains among physicians regarding what bundling is, how it works, and how it will affect them. To help clear up the confusion, we asked experts to weigh in. Here's how they say bundled payments are developing and how you can navigate the changing landscape.

What it is

The concept of bundled payments may sound familiar. Payment bundling has actually existed for decades. Surgeons, for instance, often receive one payment for surgery, as well as all associated pre- and post-op visits. What's different now is that many of the emerging bundled payment initiatives are broader, says Peter Hussey, a policy researcher at the RAND Corporation, a nonprofit research think tank, and a professor at the Pardee RAND Graduate School. "The way it's changing now is the bundles are getting bigger and they're expanding to include longer periods of time and also multiple providers in a lot of instances, which make them a lot more complex, but also, potentially, can increase coordination across providers over time," says Hussey.

The increasing complexity of bundled payments and the increasing number of payers offering new bundling opportunities makes it difficult to provide a universal definition of a bundled payment. The services included in a bundle, for instance, might vary depending on the participating payer and provider. For instance, bundled payment for a knee replacement might include the inpatient stay; the services provided by the surgeon, anesthesiologist, and other providers; and post-acute care. While another payer might include only a few of those services.

How it works

Often, the bundled payment offered by a payer is a few percentage points smaller than the sum of all the payments if doled out individually, says Rob Lazerow, practice manager for the research and insights division at global consulting firm The Advisory Board Company. "That confers some type of risk or creates some type of risk that someone has to bear," says Lazerow, who is based in Washington, D.C., adding that hospitals often take on that risk to encourage physician involvement in bundled payments — at least at first.

In Vanderbilt's payment model, CMS is paying for services typically bundled together according to the current fee-for-service schedule. After the episode of care is concluded, CMS compares the total amount of payments to the predetermined bundled amount. If the total amount paid to providers exceeds the bundle, providers pay the difference to CMS. Vanderbilt, however, is ensuring that individual providers don't have to worry about that financial risk because it views bundled payments...
as a "learning experience," says Marx. "We own the risk. So if it becomes more expensive, the institution as a whole is going to be the one who is saying, 'Hey, we're footing the bill.'"

**What it means**
Specialists, especially those employed by large health systems, are encountering bundled payments more often than independent primary-care physicians. That's because many of the bundled payment initiatives deal with inpatient procedures. "We're talking about heart surgery, we're talking about hips and knees, I've seen obstetrics in there," says Lazerow. "We're really talking about hospital-based events for the most part where there's a defined start and a defined end." Still, primary-care physicians may encounter bundles if post-discharge care is included, or if a physician is conducting rounds in a hospital and becomes involved in a service associated with a bundle. In addition, as (and if) bundled payments continue to expand to include more inpatient medicine and outpatient procedures, more primary-care physicians could get involved.

Physicians affected by bundled payments should ensure they understand what episodes of care will be bundled, what services are included in the bundle, and what the payment rate will look like, says James Reilly, managing partner at Denver-based healthcare consultancy TRG Health Care Solutions. They should also try to identify opportunities to perform services more efficiently. "There's a great need for communication, definition of best practice and clinical care paths, and reduction in waste and readmissions," says Reilly.

**What the future holds**
The future success of bundled payments as a wide-scale payment model requires standardization around the bundles and their definitions, and continued evidence that bundles work and are manageable, says Lazerow. "I think the provider community is waiting for someone to step forward with the bundled definition, and I think we'll see what happens with the payment for primary-care improvement initiative and whether that ends up offering a gold standard definition."

It's hard to say whether bundled payments improve care quality while reducing costs, says Hussey, adding that results from the early bundled payment programs don't indicate significant positive or negative effects on quality. "I'd say it's sort of a mixed bag on quality, but ... the evidence is pretty consistent in showing that it decreases cost and decreases utilization," he says. "A big caveat is that those early programs were different than the newer programs ... it's a little bit premature to say yet what the effect will be on cost and quality for the newer programs."

**If you are approached**
If you or your practice is approached about participating in a bundled payment plan, consider these important pros and cons:

**Pro/Con: Independence.** For independent practices, participating in bundled payments might lead to reduced autonomy, as it will require you to partner with other organizations in new ways. On the other hand, participating could help you remain independent. "Certainly compared to say, going employed, this could be a situation where you get some of the benefits of that type of arrangement but maintain more of your autonomy," says Hussey.

**Con: Isolation.** If your practice does not participate in bundled payments but another nearby practice does, it could isolate your practice from other bundled payment participants, including larger health systems. "It all depends on how the bundled payment model is designed, and what the purchaser is looking for, but you could see some market share shift at play there," says Hussey. Keep in mind that isolation could also make it harder to participate in other initiatives that require partnerships, such as accountable care organizations.

**Pro: Early Advantage.** While it may be tempting to take a wait-and-see approach to bundled payments, participating early on could help your practice stand apart. "You could learn a lot about how to do it well," says Hussey. "If it does take off, then it would be better to kind of be ahead of the curve."

**Bundled misconceptions**
Participating in a bundled payment initiative is not the same as participating in an accountable care organization (ACO). "ACOs are really managing health risk for a population of beneficiaries, while bundled payments are really managing risk and health for an episode of care," says James Reilly, managing partner at Denver-based healthcare consultancy TRG Health Care Solutions. While some providers participate in both ACOs and bundled payments, many, like Nashville's Vanderbilt University Medical Center, are tackling one at a time. "We're looking at bundled payments as a learning experience for us," says Edward Marx, Vanderbilt's director of strategic analytics. "We said, 'Hey, before going to the end game and forming ACOs, because we think we need to have an intermediate step, let's do bundled payments.'"

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