THE ISSUE

Higher prices are often not linked to better care or patient outcomes

- For many health conditions, there is wide variation in the cost of care, and higher prices are not linked to better care or patient outcomes.
- For example, the total cost of a joint replacement could be anywhere between $15,000 and $110,000, without any correlation to quality.
- This reflects the complexity in how care is organized and paid for: The total cost includes not just the surgeon’s fees but also ancillary services, facility charges, pre- and post-operative care, and more.
- As a result, patients experience poor coordination of care, unnecessary duplication of services, and high administrative costs for billing – all contributing to wide variation in the cost and quality of care.

THE SOLUTION

Bundled payments offer a single price for an episode of care

- Bundled payments, or episode-based payments, offer a single price for an episode of care – that is, all the care associated with a single procedure like a joint replacement or a condition like heart failure.
- The episode of care is defined to include pre- and post-operative care, where much of the variation in cost exists.
- A bundled payment rewards better coordinated care throughout the episode, fewer unnecessary or duplicative services, and lower administrative costs.
- Importantly, this also gives physicians the freedom to provide services in ways they think will achieve the best outcomes, regardless of whether the specific service is covered and billable under traditional fee-for-service payment models.

WHAT MAKES BUNDLED PAYMENTS SUCCESSFUL?

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- Bundled payments target individual episodes of care that are known to have a high degree of variability in cost and quality, such as joint replacements and heart failure.
- Bundled payments establish a predetermined price for all care associated with a specific episode of care. This is more effective than an approach that applies a set discount to fee-for-service charges after-the-fact because the predetermined rate can ensure a lower total cost of care and can allow providers to include services that are not typically billable.
- Bundled payments include all pre- and post-care associated with the episode, such as follow-up care after a surgery and unplanned hospital readmissions within a month.
- Bundled payments offer incentives for excellent patient outcomes, not just for containing the cost of care.
- Bundled payments can be designed to reward appropriate care, including payment for evaluative services to determine whether a procedure is necessary.
- Bundled payment programs collect performance information that includes clinical outcomes, patient-reported outcomes, and patient experience of care. Monitoring this information can help ensure patients are getting the care they need.

WHAT HAVE EMPLOYERS DONE?

The Employer Center of Excellence Network

- The Pacific Business Group on Health (PBGH) launched the Employer Centers of Excellence Network (ECEN), which is a program available to large employers who want to provide their employees with high quality surgical care for certain high cost procedures at one predetermined bundled price.
- Current participating employers include Walmart, Lowe’s, McKesson, and JetBlue.
- As of 2017, the program includes hip and knee replacements, spine care, and bariatric surgery provided at carefully selected health care centers.
Hospitals and individually participating physicians are selected after a rigorous evaluation that includes an extensive review of the system’s quality, outcomes, and patient experience data.

- For example, candidate systems must provide information including detailed clinical protocols, surgical-patient selection criteria, clinical registry participation, information on multidisciplinary shared decision-making, as well as institutional and physician-level performance metrics.
- These metrics include length of stay, return to surgery, infection rates, and procedure-specific outcomes such as joint dislocation after hip replacement and nerve-covering tears occurring during spinal surgery.

**WHAT ARE THE RESULTS OF THE ECEN PROGRAM?**

Under the program, bundled payment amounts are on average **10 to 15% less** than costs for the full episode of care under traditional fee-for-service.

- The ECEN program has led to lower patient out-of-pocket costs and excellent patient satisfaction scores.
  - For example, the average Lowe’s associate who has joint replacement surgery performed by one of the participating ECEN systems personally saves approximately $3,300 in co-payments and other fees as compared to those patients who get the same care under traditional insurance.
  - In an analysis of 12 months’ experience, 100% of Lowe’s ECEN joint surgery patients reported that they would refer co-workers or family to the program for a similar surgery. Data from other ECEN participants has shown similarly high employee satisfaction.
- Twelve-months of claims data comparing Lowe’s associates who have surgery with local providers under traditional insurance as compared to those who have surgery as part of the ECEN program produced striking results:
  - 9.1% of patients having joint surgery with local providers needed discharge to a skilled nursing facility after surgery, compared to 0% of those getting care with ECEN.
  - 5.9% of those having lumbar spine surgery with local providers needed skilled nursing care after surgery, while 0% of ECEN patients needed that care.
  - Standard health plan participants had a 6.6% chance of being re-admitted to the hospital within 30 days post joint surgery compared to just 0.4% of ECEN patients.
- Savings from avoiding unnecessary surgery alone was estimated at $1.3 million.
  - For the highest volume spine procedures, 52% of patients recommended for surgery by home providers were found by the ECEN centers of excellence to not be appropriate surgical candidates.
  - More than 90% of those ECEN patients heeded that recommendation and did not go on to have surgery at home through traditional insurance.
- Under the program, bundled payment amounts are 20-35% on average less than costs for the full episode of care under traditional fee-for-service.

**POLICY RECOMMENDATIONS**

- Accelerate the testing and widespread adoption of existing bundled payment pilots through CMMI, new Advanced APM options that meet the Quality Payment Program standards, and collaboration with the private sector
- Align CMS bundled payments with private sector models in the definition of episodes of care and the performance measures used to assess quality and outcomes
- Build on the precedent established by the CMMI Bundled Payments for Care Improvement model and prospectively set prices for additional episodes of care
- Design CMS episode-based bundled payment models to be inclusive of all care related to the index procedure or condition; e.g., include facility costs, professional fees, and drug costs
- Create a dashboard of measures of the most frequent and egregious complications
- Establish a path for adjusting bundled payment amounts based on patient outcomes and patient experience, starting with incentives for voluntary reporting of patient-reported outcome scores and moving to pay-for-performance on patient-reported outcome measures
- Ensure that patients have meaningful and useful quality information and price calculators
- Expand the existing CMMI models by incorporating elements that support and facilitate patient engagement and shared decision-making, such as developing shared care plans or using evidence-based decision aids

For more information, email drivehealth@drivehealth.org or visit www.drivehealth.org.