

Payment Reform: Insights for Payers and Providers on Bundled Payment Models



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In its efforts to improve patient outcomes and reduce costs, the health care industry is transitioning away from traditional fee-for-services payment models and embracing new approaches that emphasize the quality of care rather than the quantity of services provided. These payment reforms are designed to create more value for health care consumers, encourage improved coordination among providers, and reduce overall costs.

The recent passage of health care reform legislation is increasing the pace of these changes with numerous mandates to reform payment practices. Many of these changes are based on successful pilot programs. For example, Medicare has been exploring quality-based reimbursement programs for a number of years through a series of bundled payment demonstration projects. Likewise, commercial payers have adopted quality-based payment methods to reduce costs through reimbursement models that shift a larger percentage of financial risk onto the shoulders of providers. In all of these models, the providers that deliver the most efficient and highest quality care are rewarded with increased profits.

Many of the payment reforms that are taking place focus on the widespread implementation of bundled payments for related episodes of care, as this approach has the potential to benefit all constituents within the health care continuum:

- Payers benefit with an additional cost control that shifts more financial risk to providers and strengthens incentives to improve care quality
- Providers benefit from opportunities to improve profitability and to reduce external review of their clinical decisions
- Patients benefit from higher care quality and efficiency, which increases the value of each care episode
- Employers benefit from the increased value received for their health care expenditures

This white paper explores bundled payment methods, and provides recommendations on how organizations can prepare for these changes.

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Factors Driving Payment Reform	
Health reform	<ul style="list-style-type: none"> • Changes in Medicare reimbursement policy • Development of accountable care organizations (ACOs) • Increasing pressure on health plans and providers • New statutory requirements
Recent developments in federal health policy	<ul style="list-style-type: none"> • Value-based purchasing • Pay for performance • Bundled payment demonstrations • Aggressive fraud and abuse activity
Current economic conditions	<ul style="list-style-type: none"> • High unemployment • Reduction in employer-based insurance offerings • Stagnant employee compensation
Growing portfolio of private-sector initiatives	<ul style="list-style-type: none"> • Bundled payments • Increasing availability of clinical information <ul style="list-style-type: none"> ○ Health information exchanges ○ Electronic medical records

Defining Bundled Payments

The goal of bundled payments is to transform the payer-provider relationship into a partnership that works on behalf of patients, and represents a significant shift in how health care providers are reimbursed for the services they provide. A bundled payment pricing arrangement sets a fixed price – in advance – for a collection of health care services that are related to an episode of care. Bundles are defined in terms of the services included and duration of the bundle, and typically include:

- Professional, facility and ancillary services for specific conditions or procedures
- Post-discharge services, including readmissions

The fixed price may depend on the underlying condition of the patient, and bundled payment pricing does not preclude outlier payments. Examples of bundled payments that are already being used include:

- The Medicare hospital inpatient prospective payment system
- Medicare end-stage renal disease services
- Global surgical case rates
- Contract capitation
- Traditional obstetric pricing
- Medicare home health services

Bundled payments are ideal for episodes of clinical and financial importance. These include chronic conditions, episodes that have significant variations in clinical practice and/or outcomes, as well as conditions that have a history of requiring substantial post-acute care services.

Increased Quality Focus Gives Rise to Bundled Payments

The passage of the Patient Protection and Affordable Care Act (PPACA) in 2010 mandates numerous requirements that link Medicare reimbursement to care quality performance metrics. PPACA also requires the secretary of the Department of Health and Human Services (HHS) to undertake a bundled payment demonstration no later than January 1, 2013. Commercial payers are already anticipating where these demonstrations may go and are exploring their own versions of bundled payment prototypes. The range of private initiatives includes other quality-focused variations, such as medical homes, pay for performance and value-based purchasing.

Bundled Payment Program Benefits

From a payer perspective, bundled payments are a powerful tool to align incentives for all providers who participate in the bundle. This shifting of the financial risk allows payers to link payments to performance metrics that improve care quality. For commercial payers, the resulting reductions in medical spend enhance the value proposition for patients and employers. In addition, commercial payers can implement a bundled payment program relatively quickly by adapting the definitions and pricing models from those being developed by Medicare.

With Medicare and many commercial payers already implementing bundled payment methods, providers need to begin optimizing their organizations immediately to take advantage of the potential cost savings that can be achieved through the new reimbursement model. Bundled payment programs create the financial incentives for

all providers within a network to align and work toward the shared goal of improving care quality and efficiency. Many of the required changes on the provider side are largely operational, ranging from contracting and workflow, to defining and monitoring performance metrics that impact care quality. Furthermore, implementing these changes can help provider organizations gain a better understanding of the shared-risk model that will be used by the ACOs that CMS will implement in the future.

Bundled Payment Challenges

Payers and providers need to consider a number of issues to successfully enter into a bundled payment partnership. Many of these considerations are addressed in the contract. Both payers and providers must define and agree upon the performance measurements that will be used, as well as agree on the conditions and episodes of care that will be reimbursed with bundled payments. Additional issues to address include:

- **How are prices set?** Will they be derived from benchmark data or calibrated to best-practice standards?
- **What is the basis for calculating prices?** Will they be based on a fee-for-service model with/without withhold, gain-sharing arrangements, or a normative bundled rate with performance bonuses?
- **How much risk is to be shared?** What provisions will be for risk-adjustment , potential avoidable complications (PACs), hospital-acquired conditions (HACs), and outliers?
- **Who does the bundling?** Will it be the payer or health plan, or a provider risk-bearing entity?
- **When are payments made and how often?** One-time or periodic?
- **And, to whom?** Individual providers or the risk-bearing entity?
- **How will claims be processed?** Via the adjudication system module or manual processing?
- **How are quality improvements measured?** Who monitors the quality metrics and are they trusted by all parties?

Providers need to consider how they will manage their billing and payment operations and if administering the program will interrupt claims workflow. In addition, providers need to determine if their existing technology solutions can accommodate the processes and decision-support requirements, if they will need to purchase additional systems, or if they will handle the processes manually.

Technology considerations for payers must include an evaluation of existing systems to determine if business rules can be modified to:

- Inspect claims for appropriately bundled services
- Look for claims outside of payment window
- Validate data elements within bundles
- Identify potential duplicate and repeat services

The lack of electronic data interchange (EDI) transaction standards to support bundled payments is another consideration that both payers and providers will need to address. For example, there is no transaction standard for bundled claims that require aggregation options (ANSI X12 837 I and P), nor is there a standard to support bundled payments for aggregated claims (ANSI X12 835).

Providers: Key Components

In addition to determining the specifics of their bundled payment contract, providers need to consider the key components required to implement the new payment method. The following table identifies the components of a bundled payment model from a provider perspective.

Key Components for Provider Bundled Payment Success		
	Description	Requirements
Bundle methodology	Process and technology for creating, modeling and managing bundle definitions	<ul style="list-style-type: none"> • Solution must accommodate different configurations negotiated between payers and providers • Bundle definitions must be flexible (trigger events, time windows, span of services) • Solution must be able to calculate payment amounts for bundles based on historical data
Bundle patient identification and notification	Identifying and validating bundle patients, and notifying program constituents (health plan and providers)	<ul style="list-style-type: none"> • Timely identification of patients meeting bundle criteria to drive appropriate claims workflow • Communication of triggering event via multiple message sources and connection methods (ANSI, HL7, Web service, etc.) • Validation against bundle definition clinical logic and other bundle program criteria • Notification managed across multiple connected systems and constituents, including bundle program providers and payers • Notification via ANSI standard transactions (270/271, 278) where viable, as well as other non-standard messaging
Bundle claims management and billing	Validating and accumulating bundle claims, as well as creating and submitting bundled bills	<ul style="list-style-type: none"> • Identifying and validating bundle claims and services using <ul style="list-style-type: none"> ◦ Bundle patient identifiers from notification process ◦ Bundle definition clinical logic and other program criteria • Releasing non-bundle claims for individual processing • Accumulating bundle claims and applying bundle-specific edits • Evaluating accumulated charges and applying outlier and other negotiated bundled billing policies • Implementing bundle-specific release times for bundled claims • Aggregating bundled claims into a single bundled bill and submitting for bundle payment
Bundled payment distribution	Receiving bundled payments as well as allocating and remitting payments to bundle service providers	<ul style="list-style-type: none"> • Retrieving payment data (835 remits) from payers and logging bundled payments in the payment system • Allocating bundled payments to the various service providers according to negotiated contract terms and bundle rates • Setting timing of bundled payments to all providers and facilities • Implementing bundled payment adjustments (e.g., outliers), as well as other shared saving and/or quality performance payment arrangements • Managing, creating and transmitting remittances (ANSI 835) to multiple service providers
Bundle performance monitoring	Financial and clinical analysis of bundled payments	<ul style="list-style-type: none"> • Financial analysis and reporting <ul style="list-style-type: none"> ◦ Actual cost vs. benchmark standards (risk-adjusted) ◦ Bundle payment distribution among service providers ◦ Bundle contribution margin/profitability ◦ Analytics properly aligned with shared savings and other performance-based payment arrangements • Quality performance of bundled services <ul style="list-style-type: none"> ◦ Assess patients' care relative to evidence-based guidelines ◦ Documented required services are contained in bundle ◦ Reduction in complications, errors and readmissions • Support bundle payment program improvements <ul style="list-style-type: none"> ◦ Refine bundle definitions ◦ Revise included/excluded services

Payers: Key Components

The following table identifies the components of a bundled payment model from a payer perspective.

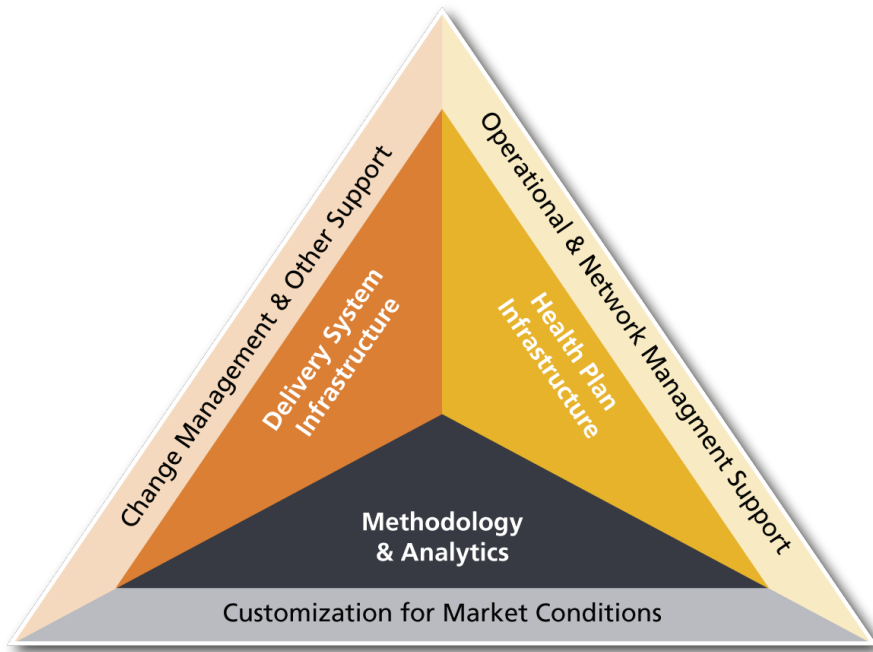
Key Components for Payer Bundled Payment Success		
	Description	Requirements
Defining clinical areas to target	Select conditions and procedures that represent the most immediate opportunity for bundled payment	<ul style="list-style-type: none"> • Select conditions and procedures that are worth doing now, easier to do, and amenable to global payment • Identify opportunities where significant variation or the level of avoidable complications suggests more immediate returns • Focus on conditions with well-defined protocols, potential preventable exacerbations of chronic conditions or substantial use of post-acute care services <ul style="list-style-type: none"> ○ Procedure candidates include hip and knee replacement, cardiovascular surgery, transplant surgery ○ Chronic condition candidates include diabetes, congestive heart failure, chronic renal failure
Infrastructure investments	Transaction systems to consolidate billing, payment management, reporting and analytics, as well as provider communications	<ul style="list-style-type: none"> • Tools to build flexible and meaningful bundled payment designs based on historical claims analysis • Reporting and analytic tools are vital for internal use to measure operational and financial performance, but are also critical to measure provider performance • Providers need feedback on their performance, and electronic delivery of reports is cost-effective and efficient, making a physician portal solution an ideal investment
Flexible designs	Different conditions, markets and delivery systems warrant different approaches	<ul style="list-style-type: none"> • Align methods and payment models with existing delivery systems to promote: <ul style="list-style-type: none"> ○ Physician engagement and leadership ○ Focus on medical cost management ○ Infrastructure deployment ○ Transparency in measuring treatment processes, clinical outcomes and financial performance

Putting Bundled Payments into Practice

The industry's initiative to improve care quality and reduce costs through the use of bundled payments will require unprecedented levels of collaboration among all health care constituents. Providers will require infrastructure enhancements and change management support to accommodate new ways of billing, receiving payment and managing patients. Providers also need to understand that they will increase the amount of risk that they bear under bundled payment arrangements. It is critical for them to assess their own capabilities, requirements and risk tolerances objectively.

Similarly, payers will need operational and network management modifications to handle claims that are part of bundles, mechanisms to share clinical and financial information with constituents, and much more. Payers need to recognize that bundled payments are a tactic, not a goal. They also need to recognize that provider leadership and governance is needed for program success, as is a culture that focuses on delivering high-value health services.

The diagram below represents the vision and integrated solutions that OptumInsight is able to deliver. OptumInsight's experience with both the provider and payer side of the industry – in addition to its knowledge of reimbursement models – makes it uniquely qualified to assist the industry with its payment reform transition.



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