Bundled Payment

Definition

Bundled payment, sometimes called episode-based payment, is an approach where one or more provider receives a fixed dollar amount for a set of services for a defined period of time. Bundled payment can be used for acute or episodic care (e.g., URI, pregnancy and delivery), procedures (e.g., knee replacement), or for chronic conditions (e.g., diabetes, hypertension, asthma). Services that are delivered and relevant to the condition (e.g., diabetic retinopathy exams for diabetes) are included in each episode-of-care, but services that are irrelevant (e.g., treatment for a sports injury for a patient with diabetes) are not.

Examples in Use

CMS is the largest payer using bundled payment through its Bundled Payment for Care Improvement (BPCI) program administering 48 episodes to over 400 hospitals and other providers. Three state Medicaid programs (AR, OH, TN) require the use of bundled payments with its providers or by its managed care entities, and several commercial insurers use bundled payments in their fully insured and self-insured lines of business.
Payment Mechanism

Bundled payments are typically administered on a fee-for-service basis with a retrospective reconciliation to an episode budget, although they can be paid prospectively. Budgets are typically built considering historical provider experience and adding a trend factor to account for cost growth. In some cases, budgets can be prospectively or retrospectively risk-adjusted. In New York State, bundled payments administered on a fee-for-service basis will be categorized in VBP Levels 0-2.2

Prospectively administered bundled payments (with financial consequences for quality performance) will be considered VBP Level 3.

Quality Measures

Using quality measures is important in bundled payment arrangements to help ensure that providers are focusing on the outcomes of the individual patient, not just on the cost of care. It can thereby reduce the risk of providers withholding necessary services from the patient in order to maximize financial performance. In some existing bundled payment programs, performance on quality measures positively or negatively adjusts episode budgets.

Risk Models

Most often, providers engaged in bundled payment arrangements share in any savings when costs are below the negotiated bundled payment budget (“shared savings” is VBP Level 1). In some cases, providers are responsible for a percentage of costs above a negotiated bundled payment rate (“shared risk” is VBP Level 2). In the Medicare bundled payment program, CMS automatically retains a small percentage of the negotiated bundled rate as its guaranteed savings.

NY DOH Approach

For the purpose of providing PPS’ with episode analytics, NYDOH has chosen a methodology developed by the Health Care Incentives Improvement Institute (HCI3) which defines all of the services that would typically be provided during an illness, for a particular condition, or a procedure (“typical care”). Separately, the HCI3 methodology defines services relevant to each episode, that if delivered might indicate a complication of care, or medical error has occurred. These are called potentially avoidable complications (“PACs”). Providers will be able to analyze their historical and current data to identify any potentially avoidable complication services and costs that could be a focus of performance improvement. Proportion of PACs per provider may also become a quality measure.

An Example of Services Included in an Asthma Episode

- Initial doctor visit, during which a diagnosis of asthma is given.
- Doctor visit for a broken bone (e.g. a sports injury) unrelated to asthma.
- ER Visits and inpatient admissions related to asthma episode conditions.
- Prescription medicine to treat asthma condition.
- Inpatient admission caused by acute exacerbation.

1. An Example of Services Included in an Asthma Episode
Benefits
Bundled payments help bring increased focus to identifying and refining clinical pathways that produce more effective and efficient care, including through improved coordination of care for a patient across different providers.

Operational Implications
In order to successfully engage in bundled payments, providers need a significant amount of real-time analytical resources to track the cost and occurrence of services relevant to an episode, for services within the responsible provider’s control and for services that occur outside of the provider’s control. In some existing bundled payment arrangements, health plans have assisted providers by offering reports and analytic resources to help providers track all services. In New York, the DOH will be providing some support through reporting to MCOs, PPSs and providers. However data are obtained, providers must be willing to dig in and use the data to manage patients’ episodes of care.

Since providers engaged in bundled payments may not have full control over the set of relevant services provided to a patient, there is a need to develop strong relationships with other providers who support patients during an episode-of-care. For example, a primary care physician who accepts a bundled payment for diabetes might also wish to work closely with other providers who typically provide care to patients with diabetes like ophthalmologists and podiatrists. These relationships may be contractual in which one provider accepts the total episode payment and then pays subcontracted providers for their services (in which case significant resources need to be devoted to the mechanics of payment distribution). Or, the relationship could be informal, yet mutually beneficial, if an MCO separately negotiates contracts with all providers responsible for providing care to one patient during an episode of care and each provider is eligible for a portion of shared savings (and/or risk).

Lastly, providers engaged in bundled payments have most often undergone a process of care redesign before accepting bundled payments in order to increase their potential for success. Such care redesign might involve the development and operationalization of evidence-based clinical pathways and the identification of low-value or wasteful services.

References
1. Adapted from NYDOH Clinical Advisory Group Meeting presentation for Pulmonary Care Episodes. August 26, 2015. www.health.ny.gov/health_care/medicaid/redesign/dsrip/clinical_advisory_group.htm
2. For more information on New York State’s VBP Levels see the CNYCC Issue Brief on Value-Based Payment Reform.
3. There are other publicly available bundled payment methodologies, including those in use in the state Medicaid programs of Arkansas, Ohio and Tennessee. In addition, there are private companies that have developed their own proprietary bundled payment methodologies. www.hci3.org/what_is/prometheus/framework/evidence_informed_case_rates
4. Bundles Payments for Care Improvement