

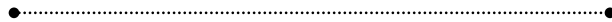
# Health Law Bulletin

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## Feds Unveil Medicare Bundled Payment Pilot Similar to Arkansas Proposal



The federal government unveiled a Medicare bundled payment pilot program this week that is similar to the payment model being promoted by Arkansas officials.

The Department of Health and Human Services (HHS) announced August 23, 2011, that it is seeking proposals from hospitals, doctors, and other providers to participate in the pilot. The Department is offering a choice of four broadly defined models for hospitals, physicians, and other providers caring for patients during acute care hospital stays or post-discharge recovery.

“Patients don’t get care from just one person – it takes a team, and this initiative will help ensure the team is working together,” said HHS Secretary Kathleen Sebelius in a statement. “The Bundled Payments initiative will encourage doctors, nurses and specialists to coordinate care. It is a key part of our efforts to give patients better health, better care, and lower costs.” The pilot is being spearheaded by the HHS Centers for Medicare and Medicaid Services (CMS) and the Centers for Medicare and Medicaid Innovation (CMI), which was created by the Affordable Care Act of 2010.

The pilot is designed to move providers away from fee-for-service. CMS says this approach of paying providers for how much they do rather than how well they do, “lead[s] to fragmented care with minimal coordination across providers and health care settings.” As noted by Kaiser Family Foundation, bundled payments have yet to take off nationally because in most parts of the country hospital and doctors and other providers are not used to working closely together and amicably splitting the same fee.

The initiative appears similar to the bundled payments for episodes of care that Arkansas Governor Mike Beebe has proposed for Medicaid and private payers. However, the federal proposal differs in that it will still pay providers under fee-for-service, with a discount. Then, at the end of the episode, the government will compare the total payments it made to participating providers against a pre-determined target price. Any savings will be shared among providers. In short, providers will have to figure out how to split any savings, but not the base amount they are paid.

The agencies expect providers to propose episodes around such procedures as heart bypass surgery, hip replacement, coronary artery bypass graft (CABG) surgery, cataract, etc. The four models are as follows:

*Retrospective*

**Model 1:** Acute hospital stay only. (Services: hospital only.)

**Model 2:** Acute hospital stay, plus post-acute care for 30 or 90 days after discharge. (Services: inpatient hospital, physician; related post-acute care; related re-admissions; other services defined in the proposal.)

**Model 3:** Post-acute care only, beginning at discharge and continuing for at least 30 days. (Services: related post-acute care; related re-admissions; other services defined in the proposal.)

*Prospective*

**Model 4:** Acute hospital stay only, with a single, prospective payment only. (Services: Inpatient hospital, physician, and related admissions.)

Providers will have the flexibility to determine which clinical condition to cover, the time period for the episode, and which services will be bundled together. They will also name their own target price -- but it must be at a discount off what Medicare would otherwise pay for all the services in the bundle. A fact sheet from CMS says the discounts generally must be at least 2% to 3%, though the post-discharge model has no minimum.

In a departure from some bundled payment models, Medicare will continue to pay providers in the first three models under the original Medicare fee-for-service program, but with a negotiated discount. At the end of the episode, the total payments will be compared with the target price, and providers will split any savings. Under the fourth model, Medicare pays a single, prospective bundled payment to the hospital, which is responsible for paying the physicians and any other providers in the arrangement.

In Model 1, it appears CMS means to pay the hospital, but expects the hospital to enter into a gain-sharing arrangement with physicians. For Models 2 and 3, CMS want the bundles to include hospital services; physician services; post-acute services (by long-term care hospitals, inpatient rehabilitation facilities, skilled nursing facilities, or home health agencies); clinical laboratory services; durable medical equipment; prosthetics, orthotics, and supplies; and Part B drugs. Model 4 is a payment only to the hospital, but covers the services of physician and other practitioners as defined by the hospital.

Medicare is requiring all providers to include a strict quality monitoring program as part of the application. Quality measures, internal monitoring, and quality improvement protocols will be required.

Initial reaction from provider groups was marked by caution. The flexibility and avoidance of one-size-fits-all approach is appealing to many. One concern may be Medicare's requirement that providers accept a discount off Medicare's fee schedule, rather than relying solely on the incentive of shared savings to produce cost efficiency. However, in this model, as opposed to the Medicare Shared Savings Program, any savings are shared solely among the providers, not Medicare, which may be enough to attract more providers. One concern for physicians, home health, and some other providers is that the models are all hospital-driven, something the American Medical Association alluded to in a press statement.

Organizations interested in applying to the Bundled Payments for Care Improvement initiative must submit a Letter of Intent (LOI) no later than September 22, 2011 for Model 1, and November 4, 2011 for Models 2, 3, and 4. For more information about the various models and the initiative itself, go to

<http://www.innovations.cms.gov/areas-of-focus/patient-care-models/bundled-payments-for-care-improvement.html>. To view a fact sheet, visit

<http://www.healthcare.gov/news/factsheets/bundling08232011a.html>