



Advising the Congress on Medicare issues

A path to bundled payment around a hospitalization

Anne Mutti, Craig Lisk

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Policy path

- Start with select conditions
- First step: Information dissemination
 - CMS could report information confidentially
- Second step: adjust payment based on resource use over an episode of care
 - “Virtual bundling” – adjust payment to hospitals and inpatient physicians based on aggregate use of services over an episode
- Concurrently, create a pilot to test actual bundled payment

Virtual bundling: How it could work

- High and low benchmark spending levels are determined
- CMS takes a withhold from all hospital and physician inpatient services for select conditions
- CMS refunds withhold to all except those with high spending across the episode of care
- Those with low spending who also have high quality have their withhold refunded plus bonus payment

On some of the specifics

- Performance is measured on a hospital level
- The episode could be the stay plus 30 days
- Rewards and penalties are for hospitals and inpatient physicians only
- Setting the penalty benchmark relatively high targets hospitals and physicians with resource use well above the average

Concurrently, create a pilot to test actual bundled payment

- Allows CMS the flexibility to explore
 - How to resolve technical issues related to achieving program savings
 - What span of care the payment would cover
 - Which conditions best suited for bundled payment
 - How to protect against incentives to increase the number of bundles
- Allows those providers most ready to receive bundled payments to start
- Unlike a demo, a pilot allows CMS to expand program nationwide without additional legislation
- Assuring budget neutrality is challenging

Option: Focus on readmissions only

- Alternative to virtual bundling
- Hospitals with high rates of readmissions have their payments penalized
 - Discussed issue in MedPAC's June 2007 report
 - Increasing focus on high readmission rates as a sign of missed opportunity to improve care – Commonwealth Fund, AcademyHealth, media coverage
 - Many, but certainly not all, readmissions are avoidable