

Understanding your Opportunity for Success¹

With the expectation that the Centers for Medicare and Medicaid Services (CMS) will announce its new [bundled payment](#) model in the coming months, bundled payment models have been thrust into the spotlight as a viable opportunity for health systems to participate in value-based reimbursement — an opportunity presenting the question for many of when, rather than if — as the industry [marches steadily](#) in that direction.

Bundled payments, also known as episode payment models (EPMs), are one value-based payment model (others include accountable care organization (ACO) models such as shared savings initiatives, etc.) that have become popular in recent years. However, bundled payments are the fastest growing among them, with McKesson estimating that they will grow an additional [6% over the next five years](#). Indeed, due to their unique ability to help healthcare providers reduce costs, streamline care delivery and improve the quality of care, they are increasingly preferred as an ideal means to deliver value-based care.

What are Bundled Payments?

A bundled payment, generally speaking, is a lump sum that covers the expected costs for a clinically-defined episode of care, often spanning from hospital admission through post-acute care, including readmissions. This method of reimbursement is in stark contrast to the current fee-for-service (FFS) system, where providers along the care continuum are reimbursed individually and not incented to coordinate care. Under bundled payments, a target price is established for the full episode of care, which can last for 30-90 days. With this fixed target price, an episode initiator (within the current Bundled Payments for Care Initiative (BPCI), the episode initiator is typically the hospital) is accountable for the cost and quality of care across the continuum – whether care is provided by hospitals, skilled nursing facilities, home health agencies, etc.

Most bundled payment programs today are retrospective, where all the costs incurred across the continuum are aggregated retrospectively and compared to the target price. If costs fall above the target price, then the bundled payment episode initiator is accountable for the excess. If costs come in lower, then the episode initiator keeps the savings via a payment from CMS. While this may sound daunting, aligning providers in such a way creates an ideal environment for reducing costs while improving quality, and provides a substantial financial incentive for health systems to invest in post-discharge care coordination capabilities.

Why are they Increasingly Favored?

Joint accountability provides strong incentives for providers across specialties and care settings to closely coordinate to streamline and optimize the delivery of care. With bundled

payments, quality is much more important than quantity. Accordingly, providers are prompted to reduce or eliminate duplicative testing and services, identify the highest-performing provider partners, create more seamless transitions to post-acute care, strategize to reduce readmissions, as well as generate stronger financial results for the services delivered.

In practice, this strategy has proved effective. A recent study in JAMA highlighted Baptist Health's success under CMS' Comprehensive Care for Joint Replacement (CJR) model.

Under the model, Baptist Health was able to [reduce spending by over 20%](#) in joint replacement surgery episodes. A different JAMA study found that overall provider participation in BPCI was [associated with costs savings](#) for lower joint replacement episodes.

The coordination of post-acute care, in particular, plays a significant role in achieving savings under bundled payment models. Seeing as the use of post-acute services alone accounts for [73% of the variance](#) in spending between Medicare providers, this should come as no real surprise. As the New England Journal of Medicine [notes](#), hospitals and physicians have little incentive to support robust coordination among post-acute care providers under the current FFS system.

naviHealth has seen the benefits of focusing on post-acute care savings firsthand. Within our partners, 63% of episode costs among BPCI participants are post-discharge. However, with a proper care redesign plan that specifically addresses unnecessary post-acute costs, we have seen an average of over 12% savings from post-acute care across all episodes. Of course, there are many other opportunities to optimize care delivery throughout episodes — opportunities which must be seized under any value-based payment model.

To that point, another virtue of bundled payments is their ability to help health systems lay strong foundations for either concurrent or future value-based payment models. The capabilities required to manage post-acute costs will deliver value across population health reimbursement models such as ACOs, as well as enable health systems to enter into risk-based contracts with commercial payers. Further, it is expected that the next iteration of CMS' bundled payment models will qualify as an Advanced Alternative Payment Model under MACRA, magnifying both their benefit to physicians and relevance to health systems.

Most importantly of course, bundled payments increase both the quality of care and the *value* of this care to patients. Encouraging health systems to provide higher quality, more cost-effective treatment across the care continuum is a win-win for all. "Historically, health systems have not participated in large numbers in voluntary bundled payment models

for a variety of reasons. However, in practical experience, they've provided to be a reliable way to reduce costs and improve care delivery with significant, mutual benefits back to the patient and the health system," notes Brian Fuller, Vice President of Value-Based Care at naviHealth. Though bundled payments are just one means by which health systems may approach value-based care, their demonstrated ability to achieve higher quality care at a lower cost will ensure that they will continue to play an increasingly significant role in the value-based equation.

^[1] *The statements contained in this document are solely those of the authors and do not necessarily reflect the views or policies of CMS. The authors assume responsibility for the accuracy and completeness of the information contained in this document.*