Payment model considerations

Episode-based payment initiatives

In an attempt to coordinate care across different settings and generate cost savings, Centers for Medicare and Medicaid (CMS) has expanded its existing use of bundled payment programs with the goal of shifting 50% of traditional Medicare payments into alternative payment models by 2018. Under a bundled payment system, reimbursement for providers is subject to a spending target for all services provided during an episode of care over a defined time period. The current fee-for-service payment system is volume based, with each provider receiving a separate payment for a procedure or service. The main shortcomings of this model include the overuse of services that have better reimbursement rates and the uncoordinated delivery of care across different hospital and post-acute settings.

The shift to bundled payments started in 1983 with the introduction of the inpatient prospective payment system (IPPS). Under IPPS, hospitals are reimbursed at a fixed rate per inpatient stay rather than basing reimbursements on reported hospital costs. While initially this system did not impact other providers, officials subsequently launched various demonstration programs and introduced physician services and post-acute providers into the bundling of payments.

There are currently two programs (Figure 23) in place that are focused on expanding the use of bundled payments: Bundled Payment for Care Improvement (BPCI) and Comprehensive Care for Joint Replacement (CJR).

Figure 23: Summary of provisions

	BPCI	CJR
Start date	October 2015	April 2016
Participation	Voluntary	Mandatory
Geography	National	67 MSAs
Duration	3 years	5 years
Clinical episodes	48 episode types	Total hip & knee replacement
Episode length	30/60/90 days	90 days
Number of participants:		
Hospitals	415	800
Physician groups	305	N/A
Skilled nursing facilities	723	N/A

Source: Deutsche Bank, American Hospital Association, CMS

While the various pilot programs have produced some positive results, it is still too early to evaluate the overall impact this shift will have on the healthcare sector. In our view, these developments can result in potential upside for hospital operators that are able to efficiently adapt to new payment models and achieve cost savings, while less capable providers will face downside risk from increasing reimbursement pressures.

Site-neutral payments

Under the current Medicare policy, patients with similar conditions may be treated at different costs based on the site of care. In a 2013 report to Congress, Medicare Payment Advisory Commission (MedPAC) proposed a site-neutral system of payments that would reduce the reimbursement rate for outpatient procedures to that of a physician's office rate. In its report MedPAC provided an example where an echocardiogram performed at a hospital