



# “Bundling” Payment for Episodes of Hospital Care

Issues and Recommendations for the New Pilot Program in Medicare

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Harriet L. Komisar, Judy Feder, and Paul B. Ginsburg July 2011

# Introduction and summary

At the heart of health reform is the fundamental challenge to simultaneously improve the quality of our health care and lower its costs. And at the heart of meeting that challenge is changing the way we use and pay for care. The Affordable Care Act is replete with measures aimed at this goal—including initiatives to promote prevention and primary care, to reward good (and penalize poor) provider performance, and to combine now-separate payments to doctors, hospitals, and other providers into collective payment arrangements for multiple services, thereby promoting better-coordinated, more “accountable” care.

In the middle of the mix is the requirement that the Department of Health and Human Services launch a pilot project to bundle Medicare payments around hospital “episodes” of care—that is, pay collectively for the services an individual receives during a hospital episode (which includes a period of time after discharge), rather than paying separately for each service delivered by each health care provider at the hospital.<sup>1</sup>

By paying for an episode of care as a whole, bundling offers providers the flexibility and financial incentive to coordinate care within an episode and avoid preventable complications and readmissions. Bundling boasts the potential to benefit:

- Patients through better care
- Health care providers through financial rewards for delivering that care more efficiently
- The Medicare program through lower costs.

Bundling, in short, can be a win-win-win for everyone involved in episodes of care, including taxpayers.

Hospital episode bundling is currently receiving less policy attention than a broader payment reform known as accountable care organizations, which would create new payment incentives for all services a person receives during the year—

that is, pay on a per-person basis rather than on a per-episode basis. But given the urgency as well as the uncertainties of efforts to improve our health care system, few would suggest we put all our eggs in one basket. With its potential to improve patient care by increasing coordination and reducing unnecessary services as well as reducing complications, errors, and hospital readmissions, hospital episode bundling offers a promising opportunity to promote efficient, coordinated care that should be actively pursued.

The goal of this report is to offer guidance on key choices in designing a pilot program to most effectively explore episode bundling to meet health reform's twin goals of better quality care at lower costs. Specifically, an effective bundling pilot program would:

- **Encourage the broadest possible provider participation in nationally scalable payment methods**, with a payment design that sets broad conditions for participation but leaves operational details to participating health care providers and is open to all providers who satisfy the conditions. This new model should build on current payment methods to simplify implementation.
- **Target the pilot program to diagnoses with the greatest potential to improve both quality and efficiency** by focusing on high-volume conditions for which interventions are well established and supported by clinical guidelines, and for which, despite those guidelines, actual treatments (and related costs) vary substantially. As experience develops, bundling can be applied to a broader array of conditions.
- **Design payment methods to promote collaboration among providers, attract participants, and assure quality.** To facilitate collaboration, offer providers the option of either a single bundled payment amount that they would divide among themselves, or an alternative payment method that pays each individual provider involved in the episode an amount that blends existing payment methods with financial incentives based on the combined performance of all providers involved in the episode.
- **Set initial payment levels to reflect the current costs of care, to attract participants**, limiting risks and offering health care providers up-front resources and rewards to efficient delivery. In subsequent years, constrain annual rate increases to yield Medicare savings over the life of the pilot. And to assure quality care and protect patients, vary payments to reflect patients' complexities, tie payments to quality performance, and require public reporting of quality measures.

- **Engage and protect Medicare enrollees by requiring participating providers to inform beneficiaries about the pilot program,** providing patient advocacy support to beneficiaries, and allowing beneficiaries to retain the option of seeking care from nonparticipating providers.

In the pages that follow, we will describe the pilot program mandated by Congress, examine the reasons to develop episode-of-care payments involving hospitalizations, and then explore the best ways we believe this pilot program could be set up and run. We then close the paper with our detailed set of recommendations that we believe can best test the efficacy of episodes of care as a payment model to lower our nation's health care costs while improving the quality of care.

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