

# Bundled Payment

Potential Recommendation for the Colorado Commission on Affordable Health Care

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Bundled payment is a model that provides a single payment to a provider or a group of providers for all health care services associated with a defined episode of care. The episode may be for a specific condition (diabetes, for example), event (heart attack) or medical procedure (hip replacement).

## Potential Recommendation

**State employees:** Pilot a bundled payment methodology for hip and knee replacements, back surgery and congestive heart failure. Provider and enrollee participation would be voluntary.

**Pre-Medicare state retirees:** Continue bundled payment methodology for hip and knee replacements. Pilot bundled payments for back surgery and congestive heart failure. Provider and enrollee participation would continue to be voluntary.

## Original Commission Recommendation

“Adoption of bundled methodologies as appropriate for all payers including the state’s employees’ purchase of certain procedures and conditions.”

## Evidence Basis

A number of small pilots have shown that bundled payments can reduce expenditures. However, effects on quality have been inconclusive but generally small. Episodic bundles are most successful for conditions that have an easily identifiable start and end, such as hip and knee replacements, or for a set time period for chronic conditions such as congestive heart failure. RAND’s modeling of bundled payments for a wide variety of conditions, events and procedures predicted savings of 7 to 35 percent per episode.<sup>1</sup> Congestive heart failure was predicted to save the most per episode at 35 percent compared to baseline. A review of empirical studies conducted on actual bundled payments finds that savings from transitioning to bundles from fee-for-service resulted in spending decreases of 10 percent or less for the bundled episode.<sup>2</sup> Evidence on quality improvements for bundled payment is mixed.

Geisinger Health System found reduced readmissions and a shorter average stay associated with its bundle of coronary artery bypass graft surgery.<sup>3</sup>

## State Example

The Arkansas Health Care Payment Improvement Initiative is furthest along with bundling in general, currently bundling for Medicaid and commercial payers. Beginning in 2011, Arkansas began bundling five episodes and conditions: total hip and knee replacement, perinatal care, ambulatory urinary tract infections, Attention Deficit Hyperactivity Disorder and heart failure. The first round of results show improved quality and reduced spending. By the end of year two, 88 percent of providers involved were able to lower their costs per episode relative to a determined level. This allowed them to share with payers in the \$2 million savings that was generated.

In 2016, Colorado PERA began an optional bundled payment strategy for hip and knee replacements among pre-retirees in PERA’s self-insured product. Beneficiaries who elect to participate have no cost sharing. Those who don’t have average cost sharing of \$6,600. The average price of bundled joint replacements has been halved.

## Cost Savings

RAND’s modeling of 10 different procedures and conditions predicts total savings of 5.87 percent across the health care sector over 10 years. Research to date estimates savings of up to 10 percent for a particular condition when transition from fee-for-service to bundling.

## Notes

- [http://www.rand.org/content/dam/rand/pubs/technical\\_reports/2009/RAND\\_TR733.pdf](http://www.rand.org/content/dam/rand/pubs/technical_reports/2009/RAND_TR733.pdf)
- [http://www.effectivehealthcare.ahrq.gov/ehc/products/324/1235/EvidenceReport208\\_CQGBundledPayment\\_FinalReport\\_20120823.pdf](http://www.effectivehealthcare.ahrq.gov/ehc/products/324/1235/EvidenceReport208_CQGBundledPayment_FinalReport_20120823.pdf)
- <http://healthaffairs.org/blog/2014/07/02/the-payment-reform-landscape-bundled-payment/>