

## Executive Briefing

### Reminder: Submit Your LOI for CMMI's Bundled Payment Pilot

The deadlines for submission of Letters of Intent (LOIs) for the Center for Medicare and Medicaid Innovation's (CMMI's) Bundled Payments for Care Improvement initiative are drawing near. Those organizations seeking an effective means to integrate providers, enhance quality and efficiency, and improve service line profitability should take advantage of this opportunity to work with the Centers for Medicare & Medicaid Services (CMS) and establish financial arrangements with physicians that may otherwise be unachievable.

#### What Is the Bundled Payments for Care Improvement Initiative?

CMMI has designed four models for its bundled payment pilot that are distinguished by whether the bundled payments are reconciled retrospectively or paid prospectively and by the definition of the episode of care to be bundled. Models 1 through 3 entail retrospective bundling (i.e., fee-for-service payments are made, but they are later reconciled against the target price). Model 1 defines the episode of care as the acute care hospital stay only, Model 2 defines the episode as the acute care hospital stay plus post-acute care associated with the stay, and Model 3 involves only post-acute care. Model 4 involves a prospective bundled payment that will encompass all services provided for the episode of care by the hospital, physicians, and other providers.

We encourage hospitals and physicians to focus their attention on Models 2 and 4.

Under Model 2, Medicare will continue to pay each provider under the current applicable fee-for-service payment system. After the episode of care concludes, the aggregate Medicare expenditures for the episode of care will be compared to the target price. If the actual expenditures were less than the target price, Medicare will pay the difference to the sponsoring provider. If the actual expenditures were more than the target price, the sponsoring provider will pay the difference to Medicare.

Under Model 4, a prospectively established bundled payment will be paid to the acute care hospital where a Medicare beneficiary is hospitalized. The physicians will be paid by the hospital based on rates negotiated between the hospital and physicians. Model 4 is similar to the current CMS Acute Care Episode (ACE) demonstration but includes more conditions/types of cases, includes readmissions related to the initial hospitalization, changes the components included in the prospectively determined bundled payment, and excludes the beneficiary shared savings component of ACE.

#### Why Should We Participate?

Healthcare providers should pursue participation in CMMI's bundled payment pilot for the following reasons:

- *The Bundled Payment Pilot Will Foster Greater Hospital/Physician Alignment* – It is well recognized that most organizations require much closer alignment among hospital, physician, and post-acute care providers to achieve improved outcomes, reduce costs, and improve the patient experience.
- *The Bundled Payment Pilot Allows Gainsharing* – Cost reduction has taken unprecedented importance to effective management in the new healthcare environment. However, it cannot be fully accomplished until physicians are on board. A major hurdle to engaging physicians in cost-reduction initiatives has been the lack of a financial incentive for the physicians. Gainsharing enables you to provide that missing incentive. Participants in the CMS ACE demonstration have reported significant success in improved efficiencies and supply cost reductions with their gainsharing programs.
- *Bundled Payments Will Improve the Quality of Care for Your Community* – The pilot will require all provider participants to implement quality improvement programs and to report quality metrics to CMS. Private sector bundled payment programs such as Geisinger Health System's ProvenCare program and PROMETHEUS Payment, as well as preliminary findings from the CMS ACE demonstration, indicate that bundled payments facilitate improved outcomes and patient experiences.

- *CMMI Allows You to Design Your Own Model* – You propose the clinical conditions (i.e., MS-DRGs) to be included, the length of time, and the excluded services for an episode of care. This enables you to identify your organization's greatest area of opportunity and to align this initiative with your organization's broader strategic goals and service line planning.
- *Reimbursement Mechanisms Are Changing* – Although there are several proposed models for new value-based payment mechanisms, public and private payors alike are looking to shift performance risk to providers. The sooner providers build the infrastructure and get organized for this new environment, the more likely they are to succeed.
- *Commercialism Is on the Rise* – With high-deductible plans, coinsurance, and quality reporting increasing, the power of the shopping patient should not be underestimated. Healthcare consumers want predictable costs for their surgical procedures (i.e., one price for hospital and professional fees and protection against the risk of complications) and are demanding transparency in quality outcomes.

Many hospitals that ECG supports also plan to benefit from participation in the pilot through access to the data that CMS will provide and involvement in CMS's shared learning network activities.

#### **What Do We Need to Do?**

The LOI is easy to complete, is nonbinding, and allows for changes to be made in the final application. The deadlines for submission of LOIs are as follows:

- October 6, 2011, at 5 p.m. ET for Model 1.
- November 4, 2011, at 5 p.m. ET for Models 2, 3, and 4.

The LOI for Models 2, 3, and 4 should be accompanied by the Research Request Packet and Data Use Agreement to receive historical Medicare claims data that you will use to develop episode definitions when completing your application. Application deadlines are as follows:

- November 18, 2011, at 5 p.m. ET for Model 1.
- March 15, 2012, at 5 p.m. ET for Models 2, 3, and 4.

Once you have submitted your LOI, you should start building the case for why your organization should be selected to participate in the pilot. The Request for Application explains the process that will be used to evaluate and select providers to participate in the pilot.

#### **Where Do We Get More Information?**

CMMI's Web site ([www.innovations.cms.gov](http://www.innovations.cms.gov)) contains all of the information and documents needed for the application process. You may also contact ECG to learn more about the opportunities that the Bundled Payments for Care Improvement initiative provides and to speak with our team that is experienced in designing similar programs and the structures and agreements that support them.

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