

# Bundled Payments

## Educational Briefing for Suppliers and Service Providers

### Executive Summary

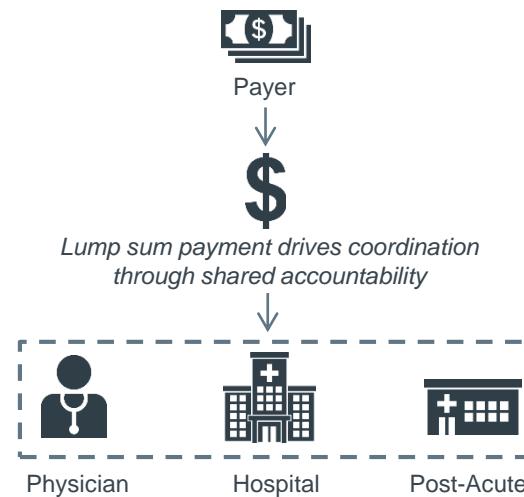
Under a bundled payment model, a payer issues a lump sum, or a “bundled” payment, to providers involved in delivering an episode of care during a specific time period. This bundle may include physicians, hospitals, and post-acute care providers. Because a bundled payment is smaller than the sum of individual payments to providers, providers must reduce input costs and deliver a more efficient episode of care to succeed. The Centers for Medicare and Medicaid Services (CMS) has created a few bundled payment programs for Medicare beneficiaries, but providers can also commercial payers or employers in similar bundled payment programs.

In April 2013, Medicare introduced the Bundled Payment for Care Improvement (BPCI) Initiative, an optional program that aimed to increase coordination among providers treating Medicare beneficiaries. This program set the stage for other similar programs like Medicare’s first mandatory bundled payment program, CJR (Comprehensive Care for Joint Replacement), introduced in 2016. However, in 2017, CMS retired BPCI and made CJR voluntary in some markets. In 2018, CMS replaced BPCI with an updated program called [BPCI Advanced](#).

### Why are bundled payments a key issue for providers?

While most bundled payments programs are optional, providers may choose to participate to take advantage of the potential for gainsharing. With a traditional fee-for-service payment model, each provider is paid separately for the health care services it delivers, which can sometimes lead to fragmented and expensive care. Under bundled payment programs, hospitals, physicians, and post-acute care providers can make a profit if they are able to coordinate with each other to contain the cost of care across the bundled episode. Providers therefore focus on standardizing care practices and selecting high return on investment (ROI) devices to ensure efficiency.

### Bundled payments framework



### How does BPCI Advanced work?

Bundled payments mandate financial and performance accountability over the course of a “clinical episode of care”. A BPCI Advanced Clinical Episode begins at the start of certain inpatient admissions or outpatient procedures. The Clinical Episode length includes the inpatient stay length plus 90 days after discharge, or the outpatient procedure length plus 90 days post-procedure. The Clinical Episode includes all services that fall within this timeframe, with some exclusions.

Over the course of the episode of care, providers that spend more than a designated target amount will receive some form of penalty. However, if the providers are able to coordinate and deliver care at a lower cost than the designated target, they may receive a bonus or share in the savings.

#### Conversation starters with the hospital c-suite

- 1 For what conditions are you currently bundling payments? How do you expect this to change in the future?
- 2 With which other providers are you partnering under bundling agreements?
- 3 How will participating in bundled payment programs impact your device, pharmaceutical, and supply needs?

Source: Advisory Board research and analysis

This report does not constitute professional legal advice. The Advisory Board Company strongly recommends consulting legal counsel before implementing any of the practices contained in this report or making any contractual decisions regarding suppliers and providers.

## How do bundled payments affect providers?

### Clinical

Participants in BPCI Advanced can choose from a number of Clinical Episodes to bundle based on the Model Year. As of Model Year 3, there are 37 Episodes, 33 of which are inpatient and 4 are outpatient. Providers involved in any bundled payment program must deliver high quality care to ensure that the patient doesn't need additional, more costly services over the course of an episode of care. BPCI Advanced participants have shown preference for bundling cardiac and orthopedic services.

### Top Five Clinical Conditions for Bundling Under BPCI Advanced

Percent of BPCI Advanced participants per condition, March 2019-Dec 2023



### Financial

Under BPCI Advanced, providers receive payment as usual under Medicare's fee for service (FFS model). CMS tracks claims, then compares the accumulated FFS costs to the target price for the bundle. CMS determines the target price based on historical claims data, patient characteristics, case-mix index, and regional spending trends. If the providers' FFS costs are over the target price, they repay CMS. If they are under the target price, all providers involved share in the savings.

Under CJR, CMS gives hospitals quality ratings ranging from "Excellent" to "Below Acceptable" based on their HCAHPS scores and patient-reported outcomes. If a hospital hits specific targets for spending reductions, they will then be eligible for reconciliation payments and quality incentive payments depending on their quality ratings. Hospitals rated "Below Average" are not eligible to receive quality incentive payments.

### Operational

In any bundled payment setting, clinicians and administrators must improve communication and coordination to contain the cost of care. As bundling expands from inpatient admissions to full episodes of care, hospitals must increase collaboration among clinicians within the hospital, and with stakeholders beyond the hospital's walls, especially post-acute care facilities. Given this increased number of stakeholders involved in a full episode of care, internal and external partnership management is an operational necessity for success with bundled payments.

## How might bundled payment programs impact provider-supplier sales relationships?

As of 2019, nearly 1,300 hospitals, physicians, and post-acute care providers were [enrolled in BPCI Advanced](#). As different providers coordinate and hold one another accountable for the cost of an episode of care in any bundled payment program, they will expect the same from suppliers. One of the first places hospitals will look for savings is through device selection.

### Act as a partner in cost management

- Suppliers and service firms should position themselves as partners in providers' cost management efforts, and make every attempt to prove their products' cost containment abilities with strong analytic backing.

### Providers will standardize their device selection

- Varying device selection and physician preference items drive up the cost of care. Standardizing product selection allows hospitals to contain costs and maximize their bonuses under bundled payments.

### Providers will consider both the short-term and episodic impact that devices and supplies have on procedures

- Though bundled payment programs focus on reducing input costs, the importance of quality should not be overlooked. Under bundled payment programs, premium devices need to generate premium outcomes that contribute to lower costs across an episode of care.

## Additional Advisory Board research and support is available



If you would like additional information on BPCI Advanced, please read [this expert Q&A](#) or contact your organization's Dedicated Advisor.

Sources: "BPCI Advanced Continues to See Robust Participation, Even as Providers Begin to Take on Risk," Avalere, April 2, 2019; Advisory Board research and analysis.