Bundled Payments and Hidden Costs

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KEYWORDS

• Bundled payment • Episodes of care • Health care reform • Total joint replacement

KEY POINTS

- In a fee-for-service environment, anesthesiologists are paid for the volume of services billed, with little relation to the cost of delivering the services.
- Bundled payments are a set fee for an episode of care, including all anesthesia, pain medicine, and related services for the surgical episode and a period of time thereafter procedure to cover complications and redo procedures.
- When calculating a bundled payment, all the services typically used by a patient must be counted when calculating both the costs and expected payment.

INTRODUCTION

New health care financing models are challenging traditional fee for service. "Medicare is moving toward an episode-based reimbursement system combining hospital and physician payment, which is expected to reduce government outlays."[1] Accountable care organizations are being touted as the new model for payment of medical services. Originally described by Elliot Fisher, MD, MPH, a Dartmouth researcher, the key concepts were the following:

1. Providers should become accountable for the overall quality and cost of care for the populations they serve.
2. Provider incomes must be decoupled from volume and intensity of services performed; pay should reflect better value, improved outcomes, better quality and reduced costs.
3. The accountable care organization should adopt fully transparent and meaningful performance measures on both quality and cost. This is necessary to overcome patient resistance. Also, reliable risk-adjusted measures of overall costs are a required element so as to measure impact of care changes at the local level.

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Abbreviations	
CF	Conversion factor
CMS	Centers for Medicare & Medicaid Services
CPT	Current Procedural Terminology
ICD-9-CM	International Classification of Diseases, 9th Edition, Clinical Modification
ICD-10-CM	International Classification of Diseases, 10th Edition, Clinical Modification
PACU	Postanesthesia care unit
TDABC	Time-driven activity-based costing

Although payment for primary care services is focused on periodic service to keep patients healthy (medical home), it is clear that different payments will be necessary for those providing care when the patients are no longer healthy. In the case of surgical care, much work in recent years has focused on payments surgical episodes. The Centers for Medicare & Medicaid Services (CMS) have done a number of demonstration projects for some cardiovascular and orthopedic procedures. Currently, CMS has ongoing bundled payments for care improvement initiative in which a single, fixed amount is paid and shared by hospitals and physicians who provide the care. Bundled payments for care improvement payment distribution structures can vary based on the model. The Medicare Access and CHIP Reauthorization Act takes this to another level, with all Medicare payment predicated on quality and costs of care. Under the Medicare Access and CHIP Reauthorization Act, considerable pressure is being applied to providers and hospitals to move toward alternative payment models. Key component in alternative payment models are bundled payments, with bonus payments for reducing costs and financial penalties for those who do not.

How can an anesthesia practice determine its costs and the income necessary to cover its services in such a system? It is important to understand our current economic model and how to apply the information from our practices in formulating an episode-based fee. Today, deteriorating payer mix and increased coverage demands without the matching delivery of clinical services have driven down payments and, therefore, income. Anesthesiologists are reasonably concerned about a new payment model that adds more financial risk to their practice.

In this article, we provide background on current billing, cost, and revenue processes and show how to use these data to determine the right bundled payment that the group needs to continue to be successful. The checklist in **Box 1** should guide your development of a bundled payment.

Box 1
Checklist for determining bundled payments

- Which conditions will the bundled payments be applied?
- What services should be included in the bundled payment?
- Which providers are included, and how is their participation determined?
- How should payments be set?
- What is the scope or timeframe of the bundle?
- Can the bundled payment be risk adjusted?
- What data need to be available to monitor and administer the practice's costs and payments?