ORTHOPAEDIC BUNDLED PAYMENT INITIATIVES:
RISKS & RETURNS

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Sponsored by:
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• **PART I:** Basics About Bundles

• **PART II:** Gainsharing: Potential Payoff from Bundles

• **PART III:** Keys to Success: Early Lessons Learned
  – BCBST Initiative Update

• **CLOSING COMMENTS**

• **Q&A**
PART I: BASICS ABOUT BUNDLES
CMS Defines bundled Payment:

“There are a number of contexts in which Medicare uses the term “bundled payment” but it generally means that rather than paying separately for each item or service, a single payment is made for a defined group of services. The bundled payment may cover services furnished by a single entity (hospital or other provider) or it may be used to pay for items and services furnished by several providers in multiple care delivery settings.

The bundled payment may cover services furnished by a single entity (hospital or other provider). In this context, bundled payment refers to a single negotiated episode payment of a predetermined amount for all services (physician, hospital, and other provider services) furnished during an episode of care. This could be paid prospectively or retroactively. For example, Medicare and the awardee would agree to a bundled payment target price for acute care hospital services for an inpatient stay plus professional services and post-acute care related to the principal reason for the hospitalization, rather than paying separately for each physician visit and procedure provided during the episode.”

Source: Center for Medicare, May 2011 & Medicaid Services Innovation, Bundled Payment for Care Improvement Initiative, June 26, 2012
BCBS Tennessee:

“BlueCross’ bundled payments will provide a set payment amount for the entire episode of care for total knee and hip replacements, including the surgery (hospital and physician), post care and physical therapy.”

Source: “Blue Cross Announces Bundled Payment Agreements with Leading Orthopedic Groups in Tennessee”

Anthem BCBS Wisconsin:

"Think of a bundled payment like a restaurant offering a complete meal for $20 deal," said John Foley, regional vice president of Provider Engagement and Contracting for Anthem Blue Cross and Blue Shield in Wisconsin. "You know if you choose that option that you will get a great experience that includes an appetizer, entrée and dessert, and you know what it's going to cost before the bill hits your table. That's a bundled payment.”

Source:"In Health Care, A La Carte on Way Out?", Anthem BCBS Press Release, June 27, 2012
## BASICS ABOUT BUNDLES

### ACE ORTHOPAEDIC EXAMPLES

<table>
<thead>
<tr>
<th>MS-DRG</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>461</td>
<td>Bilateral or multiple major joint procedures of lower extremity w/ MCC</td>
</tr>
<tr>
<td>462</td>
<td>Bilateral or multiple major joint procedures of lower extremity w/o MCC</td>
</tr>
<tr>
<td>466</td>
<td>Revision of hip or knee replacement w/ MCC</td>
</tr>
<tr>
<td>467</td>
<td>Revision of hip or knee replacement w/ CC</td>
</tr>
<tr>
<td>468</td>
<td>Revision of hip or knee replacement w/o CC/MCC</td>
</tr>
<tr>
<td>469</td>
<td>Major joint replacement</td>
</tr>
<tr>
<td>470</td>
<td>Major joint replacement</td>
</tr>
<tr>
<td>488</td>
<td>Knee procedures w/o primary diagnosis of infection w/ CC/MCC</td>
</tr>
<tr>
<td>489</td>
<td>Knee procedures w/o primary diagnosis of infection w/o CC/MCC</td>
</tr>
</tbody>
</table>

Episode price includes hospital and all physician services provided during inpatient episode

Source: Acute Care Episode Demonstration, HFMA Virtual Conference and Career Fair 2010
BASICS ABOUT BUNDLES

KEY COMPONENTS OF EPISODE PRICING

• All hospital services (Medicare part A) provided during stay are included
• Physician services (Medicare part B) for
  – Surgeon
  – Anesthesiologist
  – Cardiologist
  – Radiologist
  – Consults
• Bundle period is defined as 30, 60, or 90 days
• Days of inclusion:
  – Pre op day, (all preadmission lab work completed prior to admission)
  – In Hospital Stay (number of days based on historical and current practices)
  – Post op follow up
Managing Episodes of Care Example: Knee Replacement

64 y/o female: knee replacement
“Payers will need to accelerate the use of alternative payment methods. As soon as possible, both public and private payers should adopt the bundles for 37 cardiac and orthopedic procedures used in the Medicare Acute Care Episode (ACE) Program. The bundles will also need to include rehabilitation and post-acute care for 90 days after discharge. Within 5 years, Medicare should make bundled payments for at least two chronic conditions….Within 10 years, Medicare and Medicaid should base at least 75% of payments in every region on alternatives to fee-for-service payment”.

Source: NEJM Sounding Board, August 18, 2012
BASICS ABOUT BUNDLES

3-Phase Contracting Process

Initial Steps
- Establish Organizational and Physician Leadership Commitment
- Assess Organizational Structure and Governance
- Obtain and Analyze Price and Cost Data

Plan Creation
- Data Sharing Arrangements
- Quality and Other Performance Measures
- Care Redesign
- Gainsharing

Contracting
- Retain Competent Counsel
- Assess Legal and Regulatory Landscape
- Draft and Execute Contract

Source: Contracting for Bundled Payment, Prepared for Centers for Medicare & Medicaid Services, MITRE Corporation, December 16, 2011, p. 8
Plan System and Data Synergy

Source: Contracting for Bundled Payment, Prepared for Centers for Medicare & Medicaid Services, MITRE Corporation, December 16, 2011, p. 13
PART II:

GAINSHARING: POTENTIAL PAYOFF FROM BUNDLED PAYMENTS
GAINSHARING FROM BUNDLES

WHY ARE PAYORS MOVING TO BUNDLED PAYMENTS?

Payor

- Hospital
- Surgeon
- Radiologist
- Anesthesiologist
- Consulting MDs
GAINSHARING FROM BUNDLES

DEFINING A BUNDLED PAYMENT

Part A + Part B = Bundled Payment
DEFINITIONS

GAIN-SHARING FROM BUNDLES

THE POWER OF ORTHOPEDIC PHYSICIANS

Part B
MDs, 12% of reimbursement

Part A Hospital, 85% of reimbursement

Orthopedic Surgeon Controls More than 90% of costs in hospital.
GAINSHARING FROM BUNDLES


- Patients Received Highest Quality
- Large Savings to Medicare
- Hospital Profits Increased
- Physician Fees Increased
<table>
<thead>
<tr>
<th>Starting point based on DRG and RBRVS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable costs for 1991</td>
</tr>
<tr>
<td>Savings to be split 75-25</td>
</tr>
<tr>
<td>Hand shake, no written contract</td>
</tr>
</tbody>
</table>
DEFINITIONS

GAINSHARING FROM BUNDLES

PART A

SURGEON REIMBURSEMENT

$3,281
$3,365
$3,856
$4,211
$4,604
$4,752

$3,281
$3,307
$3,201
$3,201
$3,201
$3,201

1991
1992
1993
1994
1995
1996

Under Demo

Outside Demo

19
GAINSHARING FROM BUNDLES

ANESTHESIOLOGIST REIMBURSEMENT

Under Demo
Outside Demo


$1,127 $1,028 $1,007 $1,007 $1,044 $1,074

$1,161 $929 $875 $870 $828 $820

$600 $700 $800 $900 $1,000 $1,100 $1,200
GAINSHARING FROM BUNDLES

BUNDLED PAYEMENT WITH GAINSHARING

CMS ACE Project:
- Bundled Payments & Gainsharing
- Orthopedic & Cardiac Procedures

PROJECT GOAL
- Quality of care
- Gainsharing up to 25% of professional fees
## GAINSHARING FROM BUNDLES

**CMS MOVING TO BUNDLED PAYMENTS WITH 50% GAINSHARING**

<table>
<thead>
<tr>
<th>Payment of Bundle</th>
<th>Acute Care Stay Only</th>
<th>Acute plus Post Acute</th>
<th>Post Acute Only</th>
<th>Chronic Care</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retrospective</strong> Traditional: payment with retrospective adjustment based on target</td>
<td>Model 1 (Gainsharing Only)</td>
<td>Model 2</td>
<td>Model 3</td>
<td>Model 7</td>
</tr>
<tr>
<td><strong>Prospective:</strong> Single payment for episode in lieu of FFS</td>
<td>Model 4</td>
<td>Model 5</td>
<td>Model 6</td>
<td>Model 8</td>
</tr>
</tbody>
</table>
DEFINITIONS

GAINSHARING FROM BUNDLES

ACE (MEDICARE) GAINSHARING EXAMPLE

Before ACE
- Surgeon = $1,200 (80%) + $300 (20% co-pay) = $1500

With ACE
- Surgeon = $1,500 + up to $375 (25% more for savings)

New CMS Bundled Payment Project
- Surgeon = $1,500 + up to $750 (50% gainsharing added to professional fee)
PART III:
KEYS TO SUCCESS: EARLY LESSONS LEARNED
Lesson # 1: Obtain hospital/physician buy-in and alignment:

• Risks and returns (gainshares) are usually aligned
• Speed and frequency of gainshare payments help overcome barriers
• Spill-over benefits are a major benefit to hospitals
Spillover effects happen when physicians change practice patterns for patients covered under bundled payment contracts and they extend these practices and produce similar results—lower costs and better quality—for other patients reimbursed prospectively.

Source: Spillover benefits: The true driver of bundled payment profitability The Advisory Board Company, June 25, 2012
Lesson # 2: Decide on episode partners based on content and length:

- Both hospitals and physicians are required in bundled payments
- Other bundled elements include imaging, lab, pharmacy and rehab
- Providers required for post-acute recovery are cost critical
Post-acute care accounts for 35% of episode cost in a joint replacement.

Lesson # 3: Recognize The Importance of Implant Costs

- Bundled payments yield the same revenue to providers regardless of implant costs
- Medical devices can represent up to 80% of episode costs
- Physicians governing structure should define cost/quality metrics
- Surgeons develop strategy to lower costs of implants
Lesson # 4: Determine Bundled Payment Criteria

• Determine which patients are eligible for bundles based on medical criteria
• Assess episode management requirements based on provider mix and relationships
• Provide care coordination across the full episode to:
  – Ensure continuity of care across settings
  – Reduce unnecessary duplications of services
  – Reduce preventable medical errors

Lesson # 5: Recognize bundled payments are the future in orthopaedics:

- CMS’ goal is to have the 20% of Medicare services that account for 80% of program post-acute spending to be in the form of bundled payments by 2015.

- “You don’t want to lose 3% (Medicare discount) or more of a significant product line, so make sure you aren’t doing something too experimental. At the same time, you are putting your head in the sand if you do nothing and delay the inevitability of bundled payments for an episode of care”. (Mark Bogen, CFO and Sr. VP of Finance, South Nassau Communities Hospital, Oceanside, NY)

Source: Becker’s Hospital Review, July 12, 2012

- “BlueCross Announces Bundled Payment Agreements with Leading Orthopedic Groups in Tennessee Medical practices across the state to provide treatment under new payment method for total knee and hip replacements”

BCBST Total Knee & Hip Bundled Payment Initiative: 3 Phases

**Phase I**
- Inclusive participation
- Provider co-governance
- Comprehensive clinical scoping

**Phase II**
- Flexible upside
- IT co-leadership
- Once bundle & payment methodology is defined, invitations extended to 4-12 other orthopedic practices

**Phase III**
- All willing practices with sufficient case volume and willing hospital partners invited to join

- Outcomes Measurements
  - Increased efficiency (e.g. reduce the total cost of episode)
  - Improved patient health & clinical outcomes (e.g. functionality, return to activity)
  - Improve patient safety and reduce potentially avoidable complications
  - Improve patient experience

Initial focus: Total Knee & Hip replacements and elective arthroscopies
Likely 3 days leading up to and 90 days after total knee & hip replacement
BCBST Bundled Payment Orthopedic Partners

**Phase I:** Select orthopedic groups with sufficient volume of cases of total knee, total hip and non-emergent arthroscopies

- **Tennessee Orthopedic Alliance**
  - Potential Hospitals: Baptist/St. Thomas, HCA - Centennial
- **Vanderbilt Medical Group**
  - Potential Hospital: VU Medical Center, Williamson County
- **Knoxville Orthopedic Clinic**
  - Potential Hospital: Covenant Health, Tennova Health

**Phase I partner practices**

**Campbell Clinic**
- Potential Hospitals: Baptist Hospital, Methodist, Lebonheur

**Phase II:** Formal invitation to be extended in late 2012 to other orthopedic practices to solicit expanded participation during Phase II
Quick Summary

Next bundled payment educational step:

TOS Annual Conference
September 27-29, 2012
(Ross Bridge Resort, Birmingham, AL)

- How to Get Paid in 2013 (And What to do Now)
- Panel Discussion (BCBST BP Participants)
- Bundled Payment Options (A Deeper Dive into Bundled Payments)

Q & A
For more information about Reliance Consulting Group, visit:

www.RelianceCG.com

Or

Contact Dr. Schmitt directly: jschmitt@reliancecg.com
Slides from today’s presentation will be available on our website:

www.RelianceCG.com

Thank you for joining us for this presentation