Episode-based or bundled payments

Episode-based or bundled payments provide a single reimbursement to providers for each clinically defined episode of care, for example coronary bypass surgery. Providers receive an all-encompassing fee that covers the full range of services associated with each clinical episode including inpatient and post-acute care following discharge.[i] Bundling and episode-based payments are often compared to Medicare's system of hospital payments – Medicare severity diagnosis-related group (MS-DRG). Medicare pays hospitals at discharge only for the services provided in the hospital for that clinical episode based on diagnosis. Bundling or episode-based payments would cover inpatient care as does Medicare, but also include pre and post-acute care the patient receives including home health care and rehabilitation. The advantages to this concept are that hospitals would be more involved in coordinating care with post-discharge providers and would have an incentive to ensure that post-acute care is effective.[ii] A drawback is that it gives providers no incentive to avoid the clinical episode by providing patients with preventive care, for example medications and lifestyle counseling to prevent and manage coronary artery disease eliminating the need for surgery. An evaluation of a Medicare demonstration project in the 1990s of bundled payments for coronary artery bypass graft surgery resulted in savings averaging 10% while reducing patient mortality by 8% per year.[iii] It is estimated that bundling payments could provide up to 5.4% savings in health care spending between 2010 and 2019, more than hospital rate regulation, health information technology, or disease management.[iv]

Geisinger Health System, a large Pennsylvania network of hospitals and providers, is paid a risk-based flat rate or bundled payment for a growing number of conditions. The rate covers whatever is needed for each episode of care including pre-operative evaluations and work up, hospital and professional fees, routine discharge care and management of any complications arising within 90 days of surgery. Associated innovations to reduce costs and improve quality made possible by the flat rate pricing included enhanced patient education and creating clinical benchmarks for care integrated into electronic health records. Eighteen months after implementing the new pricing and quality program for coronary artery bypass grafts, average length of stay dropped from 6.2 to 5.7 days, 30-day readmissions dropped by 44%, and complications dropped by 21%.[v] Because of Geisinger's ability to lower health benefit costs, one Pennsylvania community's Board of Education was able to give teachers a $7,000 raise.[vi]

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[i] H. Pham, et. al., Episode-Based Payments: Charting a Course for Health Care Payment Reform, National Institute for Health Care Reform, Center for Studying Health System Change, January 2010.
[ii] Budget Options Volume I: Health Care, Congressional Budget Office, December 2008.
[iii] Medicare Participating Heart Bypass Center Demonstration, Health Care Financing Administration, September 1998.
[iv] Hussey, P., et. al, Controlling US Health Care Spending – Separating Promising from Unpromising Approaches, New Engl J Med, 361:2109-2111, November 26, 2009.
[v] R. Paulus, et. al., Continuous Innovation in Health Care: Implications of the Geisinger Experience, Health Affairs 27:1235-1245, September/October 2008, T. Lee, Pay for Performance, Version 2.0?, New Engl J Med 357:531- 533, Aug 9, 2007, ProvenCare By The Numbers, Geisinger Health System.
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