Bundled Payments and Employer Direct Contracting
Redefine Benefits Landscape

Employers and their brokers, Third Party Administrators (TPAs) and other intermediaries increasingly recognize the opportunity to contract directly with providers and negotiate payments based upon bundled pricing for a growing number of surgeries, treatments and episodes of care. Some of the largest employers are paving the way: in 2013, Wal-Mart, Lowe’s and other large employers joined the Pacific Business Group on Health (PBGH) Negotiating Alliance (PBGH-NA) to launch a national Employers Centers of Excellence Network (ECEN), which offers no-cost knee and hip-replacement surgeries for employees at four hospital systems in the United States.

The goal of this organization is to ensure that their employees get higher quality care and incur lower costs. ECEN is designed to serve as a model for delivering high quality healthcare with transparent and predictable costs.

With more employers of every size now recognizing the potential for using this strategy, there’s growth opportunity for providers and organizations that are experimenting with private sector bundled payments as a tactic to grow market share. As this industry matures and travel becomes easier, employers will have more options than ever before.

Understanding the Impact of Bundled Payments

Medical travel programs are designed around bundled payments and
the reimbursement of healthcare providers is based on expected costs for clinically defined episodes of care. Providers are paid a single fee for a set of evidenced-based services related to a diagnosis, with payments typically linked to outcomes, as well as other quality measures.²

This strategy incents providers to collaborate in order to ensure the best outcomes, because any additional cost incurred beyond the fixed price comes out of the provider’s pockets. As a result, Geisinger Health System, for example, has seen a 21% reduction in complications, a 25% reduction in surgical infections and a 44% drop in readmissions.³

Testimony to the potential power of this approach is the government’s newly announced commitment to integrated care delivery. The Centers for Medicare and Medicaid Services (CMS) recently announced a proposal, “Comprehensive Care for Joint Replacement Model,” mandating bundled payments for hip and knee replacements in 75 geographic areas.

As a mandatory payment reform, the proposal seeks to shift 50% of Medicare payments to alternate forms like accountable care organizations (ACOs) and bundle payments by 2018. The need for a new payment model for such procedures stems from the huge variation in medical costs. For instance, the price for knee and hip replacements – which are the two fastest-growing medical treatments in the country – can differ by more than $20,000 from one place to another.⁴

This means that Medicare will now pay providers who perform hip and knee replacement surgeries based on their ability to deliver high-quality, low-cost care under a five-year initiative. This model will target Medicare fee-for-service beneficiaries as they transition from surgery through recovery.⁵

As a result, CMS stands to reap a discount on what it currently pays for hip and knee replacements, which would translate to real savings, given that in 2013, Medicare spent more than $7 billion on hospitalizations for hip and knee replacement surgeries alone.

What’s more, the CMS proposal pushes the work of Peer Review Organizations (PROs), a move that will impact the market. PROS are independent groups of physicians who conduct pre-admission, continued stay and service reviews for Medicare. They also review activities and records of a particular healthcare provider, institution or group.

Significantly, when Medicare/CMS – by far the largest payer in the U.S. – enacts this type of regulation, the commercial market tends to quickly follow. It is expected that a bundling model is one that third party administrators (TPAs) and self-insured employers should take into serious consideration.

**Centers of Excellence: Payment Reform Undergoing a Domino Effect**

For the most part, the nation’s TPAs and other stakeholders are deep into the process of finding solutions that not only lower costs, but also ensure quality. While the large employers pioneered the opportunity, more recently, mid-size and smaller employers are now implementing direct contracting arrangements with targeted Centers of Excellence (COEs) with an eye on aggregating their purchasing power through coalitions and other multiple employer welfare arrangements (MEWAs).

Direct contracting, often characterized as “U.S. domestic travel,” is the practice of traveling out of one’s hometown or home state to a care provider or COE located in another part of the country. Some purchasing groups are limiting travel time to under two hours, while others are not setting strict parameters and may even be exploring options for international medical travel.

It’s a trend that has also spawned a new breed of health management. Health Design Plus (HDP; www.hdplus.com), a healthcare management company with experience administering travel surgery programs, enables its clients to control the spiraling costs of healthcare by giving employers access to the country’s top hospitals and doctors – at a predictable cost.

The select hospitals involved in the HDP program had to meet strict benchmarks for positive outcomes, low hospital-acquired infection rates, high patient satisfaction, advanced staff training and skills, thorough patient data capture and other factors. Doctor’s costs, hospital expenses and fees are part of a single, transparent price.⁶

Ruth Coleman, CEO of HDP, anticipates growing interest in the regional model that they rolled out with the nation’s largest retailer – patients traveling for care within a smaller geographic region. The appeal with the regional model is that plan members travel within their own geographic region.

The company also expects to see more regional programs that will go beyond surgical procedures to include programs for conditions that are difficult to manage, such as diabetes. Currently, the company is focused on domestic programs, but anticipates that ongoing trends will gradually make international travel more attractive for employers and plan members.
Transparent Costs, High Quality Care

COEs offer the potential for better outcomes and cost-efficiencies, representing high value for all parties. Wal-Mart, for example, launched a COE travel surgery program for cardiac and spine and suggested that this type of program could have a stronger impact moving the market if multiple employers joined together. Employers want a travel surgery program that offers high quality surgical care at affordable rates, not just an arrangement that provides the “best deal.”

Similarly, in Wisconsin, the not-for-profit, employer-owned cooperative, The Alliance®, has launched a new initiative, QualityPath, which works to identify physicians and hospitals that – when working together – meet proven standards for delivering cost-effective, high quality care.

The cooperative aims to provide access to information and user-friendly tools to enable beneficiaries to “shop” for and schedule common, non-emergency surgical procedures, including:

- Total hip replacements
- Total knee replacements
- Coronary artery bypass grafts

It’s been shown that patients prefer to be included in the shared decision-making process and a number of these programs work to keep patients abreast of potential quality and cost measures, with documentation provided in advanced directives.

Patient Buy-In: Multiple Factors Impact Decision-making

While quality of care has traditionally been the primary deciding factor in choosing a hospital or physician for a specific treatment or procedure, the cost of healthcare has become an increasingly important factor for consideration. As patients have been asked to pay a greater proportion of the cost of their care – through higher co-pays, deductibles and other plan cost-sharing features – they are becoming more comfortable with the notion of leaving home to access better care that is easier on the pocketbook.

Employers are also incenting patients to make the journey: offering full coverage for the procedure, eliminating deductibles and out-of-pocket costs and covering the travel costs of a companion or family member.

Having access to geographically specific healthcare cost information will also be key to empowering patients to make more informed decisions regarding whether to travel for care and how to plan for it financially. But transparency of information on the costs and quality

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of healthcare remains elusive, despite
the efforts of the CMS and private
sector organizations that are starting
to report this information.

In turn, hospitals and providers
increasingly mimic the practices of
successful retailers and are continually
updating their offerings to lure
corporate customers. In their quest
to become recognized COEs, they
seek to attract patients from all
parts of the country and in many
cases from throughout the world.
For the most part, however, these
care providers are unsure about how
to approach corporate audiences,
market their capabilities and leverage
the opportunities that now exist
throughout the country.

Implementation of a medical travel
program is a complex undertaking and
the majority of health systems need
guidance. Achieving clinical excellence is
just one piece of the puzzle and while
most institutions like to point to their
accomplishments in this area, they are
missing many of the components for
truly delivering an excellent, start-to-
finish patient experience.

**Positioned for Success: COEs Strategize to Compete**

Current market forces have
created a perfect storm for the
introduction of new services,
which will work to ensure patient-
centric care that focuses on better
outcomes for every individual.
Innovative services, however, must
never lose sight of the importance
of first meeting patient needs and
expectations and then guiding
employers and care providers to
execute on their commitments to
each and every person.

What is needed is a single
intersection for the healthcare
medical travel industry, parallel to
the “matching” programs for other industries such as dating, leisure travel and
business networking to accomplish these goals:
- Empower employers of all sizes with information and resources to pursue a
  medical travel program that generates the highest quality care at the greatest value
- Position hospitals and care providers to serve employers and their workforces
- Offer Web and event platforms to connect the audiences

Today, the marketplace has forced health systems to compare themselves to
institutions in a five-state radius or on another coast. The need to travel is no
longer a major concern for those seeking the best care at the best price.

As plan members take on a greater share of their own healthcare costs, they
are beginning to distinguish between low prices and high quality. At the same
time, employers are playing a more aggressive role by contracting directly with
healthcare providers and COEs in order to find the best value for their employees
and opting for bundled, fixed price procedures. This has created a new dynamic in
the world of health benefits that plays out as a win-win for all stakeholders.

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intra-state and inbound medical travel.

**Resources**

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