PRACTICAL TIPS FOR I MPLEMENTING BUNDLED PAYMENTS IN YOUR PRACTICE

How to Get Started: Assessing Readiness and Bringing the Stakeholders to the Table

Steven F. Schutzer, M.D.

- Implementing a bundled payment program in your practice is a substantial and resource consuming process.

- As such, before commencing with such an effort, it is important that you begin by investing the necessary due diligence to answer two fundamental questions:
    1. Does my practice have access to the basic prerequisites and elements that will facilitate a conversion to a value based model?
    2. If so, do you then understand (and can you produce) the primary drivers that will motivate the diverse stakeholders to agree to participate?

  For the purpose of this discussion, we begin with three assumptions:

  1. That the definition of a bundled payment is: "A single package price that ***provides a positive margin*** for a comprehensive and specific set of healthcare services delivered to a patient by multiple providers over a full cycle of care."

  2. That a full cycle of care is defined as 30 days preoperatively to 90 days post discharge from the hospital anchor event.

  3. That the overarching goal of this initiative is to create a new paradigm for healthcare delivery focused on providing quality care for these services at a reasonable price point and ***not*** on generating greater revenue, Relative Value Units, or transactional volume.

- Similar assumptions are expected by *consumers* in the general marketplace and are standard throughout the service sector, with one glaring exception: the healthcare industry.

- Our consumers (our patients) deserve and should anticipate that they too are paying a reasonable price for a predictable outcome.

The separate costs associated with each of the individual components necessary to achieve a specific outcome should be opaque to the consumer.

- Principal Stakeholders: Surgeons, anesthesiologists, a hospital partner, the various purchasers of healthcare services, and the post-acute providers.

- Potential purchasers of healthcare services including (1) large self-funded employers, (2) the Payor community, (3) Accountable Care Organizations, (4) the Center for Medicare and Medicaid Services, and (5) some self-pay patients.

- Since the episode of care will extend well beyond the hospitalization, involvement of caregivers that may not be traditionally aligned with your hospital or practice is likely. These are the "post-acute providers" and typically include home care agencies, extended care facilities, and outpatient physical therapists.

- As background then, this helps one understand the complexity of assessing readiness for bundling and the difficulties of bringing these diverse stakeholders to the table.

    - There are two primary challenges, however, that *each stakeholder* will confront.
        1. Identifying individuals with the necessary leadership and skill set is critical. Self-interested naysayers would not likely contribute meaningful input.

        2. Having access to clean, *credible data* to guide the discussions. With the right people at the table, prepared with data, and sharing a common vision, the inevitable outcome is trust. This is, ultimately, the glue that keeps people in their seats.

I. Assessing Readiness – Physicians

- Physician leader with the capacity and skill set to guide the initiative.
    - Does this leader have a strategic vision to create sustainable healthcare value, the ability to communicate this vision effectively, and the tools to execute the plan?

    - Does this physician leader have a collaborative and trusting relationship with their colleagues?

    - Does the physician leader understand the potential obstacles to aligning multi-stakeholder interests?

    - Beyond this, are the physicians in the practice willing to implement consensus based, standardized care plans?

    - Would they be willing to make data-driven decisions, and to be fully transparent with other entities where there may not have been trust in the past?

- These are prime challenges that will demonstrate whether your practice is prepared for this behavioral and cultural transformation.

II. Assessing Readiness – Hospital

- Without a hospital chief executive officer who shares the same vision and values as their physician partners and who is prepared to take certain risks to foster an alignment with these physicians, implementing a bundled payment program has a remote chance of succeeding.

- Senior Hospital Administrators must understand that their own *primary cultural shift* is associated with ceding some level of management and control to the physicians.

- Hospital accounting and financial officers must be flexible and amenable to embracing new approaches and contemporary concepts in cost accounting.

- Once again, trust and transparency are paramount!

- The hospital will have to consider, from the outset, whether there is adequate service line volume to realistically make this a worthwhile venture.

- Finally, does the hospital have a data warehouse for cost and outcomes information or would they be willing to finance the establishment of one (a registry)?

III. Assessing Readiness – Hospital *and* Physicians

- Implementing a bundled payment program by definition demands an understanding and management of risk.

- Therefore, *both* the physician group and the hospital need to candidly discuss their collective risk tolerance.

- Some bundled payment programs have mitigated concerns regarding cost overruns and losses by funding an internal claim reserve (for small over runs) and a purchasing a stop loss policy (for catastrophic losses).

IV. What Are the Critical Data?

1. Cost: Implementing a true value based bundled payment program demands that each stakeholder understand the *actual direct costs* of providing their services. The individual costs are then aggregated, a reasonable margin added, and the bundle is then priced. While some bundles in the market today are determined based on historical Fee-for-Service rates or Relative Value Units, these should not be confused with value-based packages. If a post-acute warranty for complications will be negotiated in the bundle, the added costs of the covered complications and readmissions must also be determined. Although there are various methods of calculating costs, the introduction of Time Driven Activity Based Costing (TDABC) by Professor Robert Kaplan in 2004 has certain appeal (reference[VC1] 1). This methodology includes a time-based algorithm that estimates two variables (1) the unit cost of supplying services and (2) the time required to perform the service. It is a

powerful tool to ferret out waste and excess capacity while identifying opportunities for resource re-allocation and process improvements.

2. Quality and Performance Measures: Typical quality and performance measures would include 30, 60, and 90-day readmission and complication rates, both all-cause and surgical-site related. Length of hospital stay is a common metric that must be followed, as well as discharge disposition to home versus an extended care facility.

3. Functional Outcomes: Generic and disease specific Patient-Reported Outcomes tools (PROs) are rapidly becoming increasingly important metrics in determining the value of a specific bundle. Recall that the value equation as defined by Professor Porter is the ratio of the outcomes that matter to a patient for a specific medical condition over the cost of delivering these outcomes (reference 2, 3)[VC2]. Today, this equation is frequently written with TDABC as the numerator, and PROs as the denominator.

- Each of the stakeholders will need access to legal counsel with experience and expertise in healthcare law to navigate around the various obstacles to integration and alignment. The importance of this resource cannot be underestimated.

V. Bringing the Stakeholder to the Table

- It is important, yet daunting, to recognize that implementing a bundle payment program will only succeed if win-win scenarios are created for all stakeholders. Those entities that can deliver services more efficiently, effectively, and with better outcomes, will prosper. Given this, all stakeholders win. The *primary driver* should be an indisputable interest in healthcare value for our patients by creating a new paradigm for healthcare delivery. Increasing margin, "same-store" growth, and seizing on a strategic or competitive advantage to expand market share, are also primary drivers that should incentivize stakeholders to desire a seat at the table.

- Healthcare value is created by assiduous care re-design and better episode management. One of the unintended consequences of implementing a bundle payment program, therefore, will be a substantial improvement in overall operational efficiency. Regardless of whether or not bundled payment contracts are ever executed, the benefits and spillover effect related to the *process* of implementing bundled payments into the day-to-day operations of the business of each of the stakeholders is irrefutable.

- Creating enduring long-term relationships between diverse healthcare providers is an important secondary driver. Bundling in some cases may prove to be the first step toward an evolution of a broader, larger scale, integrated system. As such, this might provide access to "at risk" dollars and this could be yet another economic driver associated with a long-term strategy. Finally, simply having an understanding of their cost and quality outcomes, all stakeholders will be in a position to more effectively negotiate their traditional fee-for-service contracts.

- One point should be emphasized. In these turbulent times linked with the volume to value transformation, and it's seismic impact on healthcare delivery, it is the *physician* that is the prime alignment vehicle, the driver of value, and the stakeholder most adept at managing risk. Therefore, the *supreme driver* from the physician perspective must be the opportunity to take the leadership position in this transformation, reclaim our role in the business of healthcare, and restore autonomy, mastery, and purpose to our profession. This can only be achieved by leveraging our quality and not practice size.

VI. What are the Obstacles to Implementing Value-Based Contracts?

1. Absence of any one of the readiness criteria shoulder clearly raise a red flag that the entity is not ready to begin negotiating a bundled payment program.

2. Those that have an incapacitating fear of the unknown, and potential unintended consequences, may not wish to participate in the value agenda.

3. We are currently in transition from fee-for-service to value-based healthcare. In each new contract negotiation, stakeholders will tend to view the arrangement from their own perspective, "Am I winning or losing with this contract?" If one is in a losing position, convincing them to execute a value-based contract will be difficult. This is a challenge that ultimately will be overcome as active traditional fee-for-service contracts expire.

4. Negotiating with post-acute providers that are not owned by the entity has proven to be a challenge.

5. There is still some question whether the market is ready and primed to embrace value-based healthcare.

6. In our experience, thus far, the major beneficiaries of our value agenda have been our patients, our hospital (including less profitable services lines), and the payor community. Physicians have not yet received a commensurate share of this value creation.

VIII: What is the Collective Input to Implement a Bundled Payment?

- The process of implementing a bundle payment program requires considerable time – in our own experience, one year. Steadfast physician and hospital leadership is paramount. Patience and discipline, focusing on creation of a new paradigm for healthcare delivery, is essential. Significant costs will be incurred to cover legal fees and administrative expenses. The opportunity costs are also substantial.

Conclusion:

- Entities that have implemented bundled payments have unquestionably demonstrated value creation.

- It is advisable for those interested in doing so to first have a thorough understanding of the key elements of a successful initiative.

- Finally, even if a bundled payment contract is never signed, the substantial downstream impact on your practice simply from the spillover effect of extensive care redesign, will be incalculable and priceless.

References

1. **Time-Driven Activity Based Costing. Robert S. Kaplan and Steven R. Anderson, Harvard Business Review, 2004**
2. **How to solve the cost crisis in healthcare. Kaplan and Porter, Harvard Business Review, Sept 2011**
3. **A strategy for healthcare reform-towards a value-based system. Porter, M.E., July 2009**