ISSUE BRIEF

Post-Acute Care Bundling: A Common Sense Approach to Payment Reform

The Alliance For Quality Nursing Home Care

Background: To help generate Medicare savings, improve beneficiary care, and better align with broader delivery system reforms under way, Congress should consider a facility-based post-acute care bundled payment program that will meaningfully reform – and rationalize – the current Medicare post-acute care payment system.

A post-acute care payment bundle puts facility-based post-acute care (PAC) providers at risk for patient care 60 days following an acute care discharge and reimburses for nearly all Medicare-covered services the beneficiary receives within that timeframe. Under a post-acute payment bundle that could begin as soon as FY 2015, Medicare would generate savings of $15-20 billion over a 10-year period.

Post-acute Bundled Payment System:

Post-acute bundling will reform Medicare's payment system for skilled nursing facilities (SNFs), inpatient rehabilitation facilities (IRFs), and long-term acute care hospitals (LTCHs). Under a reformed system, facility-based PAC providers will be accountable for most Part A and B covered services for 60 days following admission to the PAC setting. These services include rehospitalization episodes, but exclude physican visits.

Why exclude physician services? A key concept of bundling is maintaining beneficiary choice of provider. Given the number and types of physicians serving beneficiaries, adding physicians to the PAC bundle immediately would create unmanageable risk for bundle holders. Physician services could be phased-in over time as bundle holders become more comfortable with their financial responsibilities and as the bundled payment system becomes more established.

Payments to bundle holders will be based on historical costs associated with patient care for the 60-day timeframe, minus a discount factor to reflect anticipated gains in provider efficiency. For each 60-day episode, the historic costs are calculated to determine a baseline episode price for care in SNFs, IRFs, LTCHs, and hospitals as well as home health, outpatient care, durable medical equipment, Part B drugs, and laboratory services.

All patients, with the exception of end stage renal disease (ESRD) patients, who use facility-based post-acute care as the first site of care within 30 days of the hospital discharge are included in the bundled payments.[1]

While bundling can be implemented immediately, the payment methodology should evolve over time to incorporate new patient assessment data as it becomes available. Currently, the MS-DRG associated with the acute hospital stay is the only common measure to use as the basis for establishing the bundled payment. However, CMS should be directed to implement a common PAC patient assessment instrument during the first year of bundling. Over time, the uniform patient assessment tool data can be used to refine the payment methodology.

Also important to an efficient PAC bundle are the following:

- **Quality measurement, including the development of cross-provider quality metrics:** These are crucial to maintaining high-quality care within the bundling framework, and the Secretary should be directed to develop PAC measures.
- **Risk adjustment:** Even within diagnostic categories, patients can have very different care needs. The payment methodology therefore must take into account patient acuity.
- **Outliers:** Some patients will require unexpectedly and unforeseeably high-cost services over the 60-day period covered by the bundle. An outlier policy will protect against the risk of these patients.
- **Cost-sharing:** Cost sharing requirements will help make providers and beneficiaries more accountable for services provided and received during the 60- day bundle window.
- **Facility criteria:** To help ensure patients are placed in the most appropriate setting of care, the proposal should direct the Secretary to develop facility criteria.

Recommendation:

The Alliance for Quality Nursing Home Care recommends that Congress implement meaningful PAC payment reforms that will increase provider accountability and efficiency, incentivize quality improvements, and generate Medicare savings. The Alliance believes that a post-acute bundled payment system as outlined above is a thoughtful reform that Congress should pursue immediately.

In Context: U.S. SNF Sector Faces $65.6 Billion 10 Year Reductions in Medicare Payments (FY 2012-FY 2021

Productivity Adjustment (ACA-mandated): **$34 Billion**; Forecast Error (Case-Mix) Adjustment: **$16 Billion**; Forecast Error (Market Basket) Adjustment in FY 2011 Rule: **$3 Billion**; Bad Debt (Middle Class Tax Relief & Job Creation Act of 2012): **$3 Billion**; ATRA Medicare Part B Reduction: **$600 Million** (estimated). Sequestration (3/1/13): **$9 Billion** (Source: Avalere Health)

1 Patients who are discharged to home health as the first site of post-acute care are not included in the bundled payments.