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Bundled Payments

Educational briefing for providers

What are bundled payments?

In traditional fee-for-service, each provider is paid separately for delivering health care services, leading to fragmented and expensive care. Under bundled payment programs, however, all providers involved in a specific care episode receive a single, lump sum payment. Providers will receive bonuses only if they are able to coordinate with each other and improve efficiency to contain costs across the bundled episode. While most national attention is focused on Medicare's bundled payment program, providers are increasingly partnering with commercial payers and employers in bundled payment contracts.

How do bundled payments work?

Under a bundled payment model, a payer issues a lump sum, or "bundled" payment, to the physicians, hospitals, and post-acute care providers involved in delivering an episode of care, such as a knee replacement or congestive heart failure. Bundled payments include cost and performance accountability for care episodes within a specific time frame, ranging from inpatient acute care to 30, 60, or 90 days after discharge.

Bundled payments framework



Because a bundled payment is less than the sum of individual payments to providers along the care continuum, receiving bonuses depends on reducing input costs and delivering a more efficient episode of care. The provider that organized the bundle, often the hospital for inpatient episodes, is also responsible for distributing gainsharing bonuses to the other participating providers based on the terms of their contract.

Bundled Payments

Educational briefing for providers (continued)

Why are bundled payments a key issue for medical groups?

- ▶ **As lower-cost providers, medical groups can help hospitals succeed in bundled payment contracts:** Physician practices are well-positioned to help their acute and post-acute partners reduce episodic costs since they typically deliver higher-quality, lower-cost care. Medical groups who can successfully and consistently do this well stand to benefit from bundled payment contracts.
- ▶ **Physicians have control over utilization decisions that are likely to generate big cost savings:** Post-acute referrals and device selection are two areas ripe for cost cutting under bundled payments—and two areas where physicians have significant influence and discretion.
- ▶ **As more outpatient bundles enter the market, ambulatory providers will be able to exercise more control:** Historically, physician practices have played a smaller role in inpatient bundles, but as payers start to bundle outpatient procedures, medical groups will have more opportunities for ownership.

Sample commercial pregnancy bundle



One upfront fee covers:

- Check-ups
- Prenatal tests
- Hospital stay
- Education
- Labor
- Delivery
- Psychosocial support
- Six weeks of postpartum care

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