

Payment Matters®

Update on Medicare and Medicaid Payment Issues

[Subscribe](#)

[Payment Group](#)

[Payment Matters Archive](#)

September 28, 2011

www.ober.com

IN THIS ISSUE

[DC Appeals Court Provides Mixed Victory to Provider on DSH Calculation Involving Medicare Part C Days](#)

[CMS Bundled Payment Initiative: An ACO Alternative?](#)

Editors: [Leslie Demaree Goldsmith](#) and [Carel T. Hedlund](#)

CMS Bundled Payment Initiative: An ACO Alternative?

By: [Sarah E. Swank](#)

CMS recently announced that it is seeking applications for a new Bundled Payment for Care Improvement initiative in hopes to gather data and input from well organized health care providers to potentially overhaul the Medicare reimbursement system. Under this program, providers would propose a set price for a single episode of care and then receive a predetermined discount if the target is met along with other requirements set out in the [Application](#) process and described in the [Bundled Payments Request for Application \[PDF\]](#) document. Each participant would be paid on a fee for service basis and then share the savings, if any. If this sounds familiar - it is. These bundled payments seem to share some of the characteristics of an ACO described in proposed regulations from CMS, without the corporate structure and other restraints.

CMS emphasized that these models are broadly defined and give flexibility to providers. This includes providing for a prospective payment in Model 4, which includes only hospital inpatient stays. In that case, a single payment is made and then divided among the physicians and hospital. It appears that CMS may expand the potential models to include up front payments in other care settings. In addition, future models may include the management of chronic care, such as diabetes and asthma, which can tax the health care system.

CMS recently postponed the rather aggressive Model 1 deadline to enter into a letter of intent (LOI) to **October 6, 2011**. Model 2-4 LOI documents are due **November 4, 2011**, along with a data use agreement and research request packet for use of provider claims data in the application process. Final applications are due no later than November 18, 2011 for Model 1 and March 15, 2012 for Models 2-4. In short, the models include the following:

Payment Matters® is not to be construed as legal or financial advice, and the review of this information does not create an attorney-client relationship.

Copyright© 2011, Ober, Kaler, Grimes & Shriver

Payment Matters®

Update on Medicare and Medicaid Payment Issues

[Subscribe](#)

[Payment Group](#)

[Payment Matters Archive](#)

- Model 1: retrospective acute care hospital stays
- Model 2: retrospective acute care stays along with post acute care
- Model 3: retrospective post acute care
- Model 4: prospective acute care hospital stays

CMS provided [Bundled Payment FAQs \[PDF\]](#) which were last updated on September 20, 2011. Check this link regularly for updated FAQs.

Ober|Kaler's Comments

As the industry waits for the final ACO regulations, this new bundled payment appears to mirror two key themes in health care reform: freedom of choice and coordination of care across care settings. CMS maintains its stance that freedom of choice for Medicare beneficiaries must remain when being discharged from the hospital to a nursing home or home health provider. Unfortunately, hospitals wonder how they can improve care beyond the hospital's walls without the post acute care providers having some skin in the game. Perhaps the prospective payment model where payments are made ahead of time and are shared will solve this issue. That being said, independent post acute care providers wonder if hospitals will control the sharing of payments/savings or actually seek to acquire post acute providers to gain this control. Future models may address prospective payments which include post acute care providers, but for now CMS is focused on aligning hospitals and physicians for inpatient stays prior to expanding to the post acute care setting.