FLORIDA ALLIANCE
FOR HEALTHCARE VALUE
LED BY FLORIDA'S TOP EMPLOYERS SINCE 1984

Now You Know

SIMPLE DEFINITIONS AND EVOLUTION OF TERMINOLOGY

BUNDLES VS EPISODES OF CARE (EOC)

Case-based payment or "case rates" are flat fee payments made to providers. They are usually based on Diagnosis Related Groups (DRG) in the surgical and procedure areas. They cover all costs under the DRG and the timeframe for care is short. The payments are made to one type of provider or place of service and do not include any warranty period or allow for the ability of providers to take on risk.

THE PLAYERS

An employer contracts with a third party company that is offering bundled payments or an EOC program. This company is referred to as "the organization" below. This third party organization is typically NOT the Administrative Service Organization (ASO), Third Party Administrator (TPA), insurance company or benefits company. A term used for this organization can be "convener." The organization will contract with providers and/or ancillary medical services to supply the bundle or EOC.

DEFINITION OF BUNDLED PAYMENTS

Bundled payments, also called typical or traditional bundles, are extremely narrow in scope and timeframe – typically one place of service, one main service. Examples include right hip replacement at an ambulatory surgery center (ASC) or a left knee replacement at the hospital (inpatient). These services usually begin right before surgery and may include a "warranty" post-surgery, but likely do not include follow-up physical therapy. The "bundle" consists of one price for all services received including the pre-op and post-op visits. All expenses related to the procedure during the bundle timeframe and/or any expenses incurred during the warranty period would be included in the bundle price.

TAKING ON RISK ASSOCIATED WITH BUNDLING IN THIS WAY

The bundled price should be thought of as the standard price for a group of medical or surgical services. Sometimes the actual cost of the services provided will differ from the bundled or standard price. Let's assume the provider is paid 100% for their actual costs by the organization, but the employer has contracted with the organization to pay the bundled price. This leaves the organization offering the bundle bearing the risk of cost fluctuations or the difference between the bundled price and the actual cost of the service. In some cases, the actual costs could be higher than the bundled price and, in some cases, the costs could be lower than the bundled price. Therefore, the organization will want to select providers that offer services with actual costs as close to the bundled prices as possible and that have successful outcomes in order to avoid additional costs during the warranty period. Stated another way, the organization will want to narrow the network to mitigate or reduce the risk of cost fluctuations.

UPCOMING IN THE SERIES

Center of Excellence (COE) as an alternative payment model.

Maternity Bundles – an example that can demonstrate the variety of options.

DEFINITION OF WARRANTY

A warranty period is a newer concept. If a complication was to take place it would occur after the procedure within a certain amount of time. Complications could include an infection or other post-operative issue. If the complication requires a hospital admission or a readmission, that would be covered in the warranty related to the bundle. Any additional costs incurred during the warranty period MUST be related to the procedure and not a new medical issue. These additional costs are paid by the organization to the provider only. **The employer should not bear any additional cost.**

DEFINITION OF EPISODE OF CARE PAYMENTS

EOC payments, also called expanded bundles or bundles V2.0, cover longer timeframes and multiple places of service within the bundled payment when compared to traditional bundles. EOCs can cover one-time procedures like a hip replacement, and/or management of chronic conditions like diabetes. Each procedure or chronic condition has a price associated with treatment. If the cost of treatment goes beyond the EOC price, the organization is responsible for the difference. Again, to mitigate the risk, the organization will strive to narrow the network as discussed above.

SUMMARY	BUNDLES	EOC
TIMEFRAME	SHORT	LONG
PLACES OF SERVICES	ONE PLACE	MULTIPLE PLACES
# OF TREATING PROVIDERS	ONE/FEW	MANY
ONE-TIME PROCEDURES	YES	YES
CHRONIC CONDITIONS	NO	YES
RISK FOR PROVIDERS	NONE	YES
WARRANTY	YES	YES

USING A REAL EXAMPLE TO COMPARE A BUNDLED PAYMENT TO AN EOC PAYMENT:

FACTS

Discussion of possible hip replacement: 01/01/2019
Date of hip replacement surgery: 03/01/2019; performed in-patient
6 weeks of physical therapy, 2 times per a week, starting one week post-surgery
3 months post surgery: 06/01/2019

TRADITIONAL BUNDLED PAYMENT

A traditional bundled payment for a hip replacement would include the surgery *(the service)* and cover the follow up care and any complication or readmission *(warranty)* for three months. The bundle would start just prior to the surgery, approximately 2/25/2019 for pre-operative tests and end 06/01/2019. The employer would pay the organization one inclusive bundle price for the pre-operative tests, surgery, follow up care, and any complications or readmissions. In summary, this bundle has five "active" days made up of the following:

- Date of pre-operative tests 2/25/2019 *(1 day)*
- Date of hospital admission 3/1/2019 to day of discharge *(3 additional days)*
- 2-week post follow up appointment *(1 day)*

EPISODES OF CARE PAYMENT

An EOC payment for this hip replacement would start on date of diagnosis, or 1/1/2019, and would include all additional services to achieve the best outcomes. The employer would pay the organization one inclusive EOC price for the entire episode from 01/01/2019 to 06/01/2019. In summary, this EOC has 19 "active" days, which are made up of the following:

- Date of discussion of possible hip replacement, 01/01/2019 *(1 day)*
- Physical therapy evaluation prior to surgery *(1 day)*
- Date of pre-operative tests 02/25/2019 *(1 day)*
- Date of hospital admission 03/01/2019 to day of discharge *(3 days)*
- 2-week post follow up appointment *(1 day)*
- Physical therapy – week #2 thru week #7, 2 times per a week *(12 day)*

NOTE: For both examples, if an additional appointment was needed after the 2-week appointment, that would be covered under the warranty period. No additional costs would be incurred by the employer.

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