Much attention is now focused on bundled payment as a promising mechanism of healthcare reform. Early signs point to the potential of this initiative to reduce fragmentation in healthcare delivery, while improving quality and addressing spiraling costs. Bundled payment requires the involved parties to agree on a defined package of care and services for a particular condition; this treatment episode is then paid in a single payment that is apportioned among multiple providers (both professionals and facilities) across many settings. This bundled payment—or "episode-based payment"—is currently the subject of ongoing pilot projects across the United States.

Payer and provider organizations can learn from these experiments as they shape their own programs and then bring them to scale.

Successful Experiments

One of the earliest experiments in bundled payment began with a Medicare pilot program in the early 1990s for a handful of surgical procedures. Within the next decade, global payments became more widely used for certain procedures; obstetrics may be the best-known, with a single payment for prenatal and postdelivery professional services and often a separate diagnosis-related group payment to the hospital for facility services.

Episode-based payment expands the scope of global payment into a single payment shared by multiple providers as a means to encourage care coordination. Several successful experiments have been seen primarily in staff models or integrated healthcare settings.

**Geisinger’s ProvenCare.** The most notable example is the ProvenCare program at Geisinger Health System in Pennsylvania, which accepts a single payment for several procedures, including elective coronary artery bypass graft (CABG), percutaneous transluminal coronary angioplasty, total hip replacement, cataract surgery, and low back pain treatment. Using evidence-based medicine and other input from professional associations, Geisinger defined critical patient care steps that must be accomplished in each clearly defined bundle.

To ensure quality, physician payment may be tied, in part, to adherence to process-of-care performance measures. Results at Geisinger have included reduced lengths of stay, lower readmission rates, and outcomes that exceed national averages.

**Medicare.** Recently, the Centers for Medicare & Medicaid Services launched the Acute Care Episode Demonstration project at 5 sites in 4 states to test bundled payments for Medicare Part A (for inpatient hospital care, skilled nursing care, and hospice care) and Medicare Part B (includes doctors’ fees and outpatient hospital visits) for 9 orthopedic and 28 cardiac inpatient surgical services and procedures. A portion of the cost-savings is designated to be shared with Medicare beneficiaries. Results are expected after 2013.

**Prometheus.** The Prometheus Payment model, sponsored largely by the Robert Wood Johnson Foundation, is the subject of ongoing pilot projects. The model takes into account 3 components in determining payment:

- Evidence-informed base payment
- Patient-specific severity adjustment
- Allowance for "potentially avoidable complications."

This last element is essential in most current bundled payment scenarios. If complications are avoided, the providers may be paid more than they would have received under conventional fee-for-service, with the ultimate aim of reducing complications and overall cost. Although this retrospective approach limits the opportunity to influence provider behavior, the Prometheus model continues to provide an important example as experiments in bundled payment move forward.

Lessons from Early Initiatives: Payer-Provider Collaboration, and Transparency

A key lesson learned from these early initiatives is that clinicians must play a leading role in decision-making—physicians need to be involved in defining the bundle, in managing care, and in defining the responsibility of each provider involved.

Transparency is also critical. This requires a fundamental cultural shift away from adversarial relationships between payers and providers. Bundled payments should represent a true alignment of incentives among the payer, provider, and the patient. All providers and patients must have access to what they can expect with a bundled payment, what the bundle includes and excludes, who the participants are, and how it all works.