



“BEWARE THE BUNDLE”: MEDICARE ANNOUNCES PILOT PROGRAM FOR BUNDLED PAYMENTS TO HEALTHCARE PROVIDERS

By Ralph Levy, Jr.

[CMS Continues to Explore Potential New Payment Methodologies](#)

In late August 2011, the Centers for Medicare & Medicaid Services (CMS) invited providers to submit letters of intent as to their willingness to participate in a pilot program designed to test a new payment methodology by which CMS would make a single “bundled” payment for all types of health care services related to a hospital stay for a single illness or course of treatment -- such as a specific surgical procedure (an “episode of care”). Depending on which of the four payment models that define differently what services are included in the episode of care that CMS ultimately adopts after the end of the pilot program, this single payment could cover all hospital care, laboratory testing and durable medical equipment provided to the patient during the hospital stay and the services provided by physicians and other providers while hospitalized and for a specified time period thereafter.

CMS anticipates significant cost savings and improved quality of care once this bundled payment system is rolled out after completion of its testing of the payment methodology and development of the accompanying quality incentives and requirements. Although the focus of this new program is a single hospital stay, it could be expanded to additional healthcare services in the future.

Based on the author’s experience in the dialysis industry, it is highly likely that CMS can adapt and utilize reimbursement methodologies now being used to pay for dialysis services for use in payment for episodes of care and other healthcare services. For example, starting January 1, 2011, CMS began compensating dialysis providers under a new bundled payment method that included in a single “per treatment” payment previously separately billable laboratory services and treatment-related drugs. This new system for reimbursement of dialysis providers includes positive adjustments based on the acuity of the patient and negative adjustments if certain minimum quality indicators (“quantification of quality standards”) are not met by the dialysis provider. It is likely that the bundled payment system for hospital stays will include quantification of quality standards and other elements that are taken into account in payment for dialysis services.

Since the August 2011 announcement, CMS has reviewed nonbinding letters of intent submitted by interested providers. Assuming that after this review, CMS approved some of the entities that submitted these letters, it provided them with data to enable those still interested in participation in the pilot program to submit applications

for participation in the pilot program by either October 21, 2011 or March 15, 2012 (depending on which program is applied for). As of this date, CMS has not announced the results of these first steps in implementation of the pilot program



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