

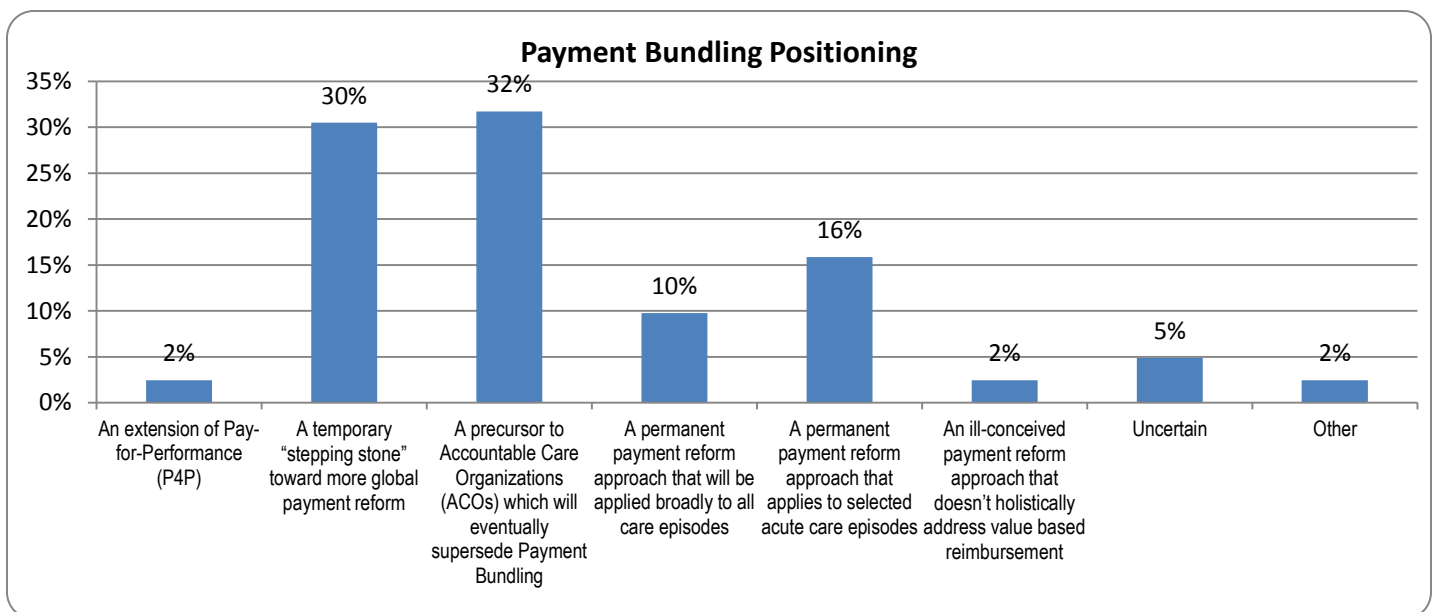
## Study Summary Report: Payer Plans for Payment Bundling

Gantry Group recently completed a two phased study with U.S. Payers to explore their plans for Payment Bundling. Payment Bundling (also known as "case rates", "episode-based payment," or "global payments") makes a single payment that otherwise would be reimbursed separately. This single "bundled" payment covers all physician fees, hospital in-patient/outpatient services related to a treatment or condition, implant costs, and may possibly span multiple providers in multiple settings.

Thirty (30) phone interviews were conducted with Provider Relations, Provider Contracts, and Network Services executives for the first phase of the study. Insights from these interviews directed the content of the second phase of the study: an online survey with seventy-five (75) Payer executives. In order to fully expose Payment Bundling trends, participants were qualified for their familiarity with their organizations' contractual negotiations with providers and/or their organizations' considerations for payment reform.

### Trend 1: Payers are adopting an evolutionary approach for Payment Reform.

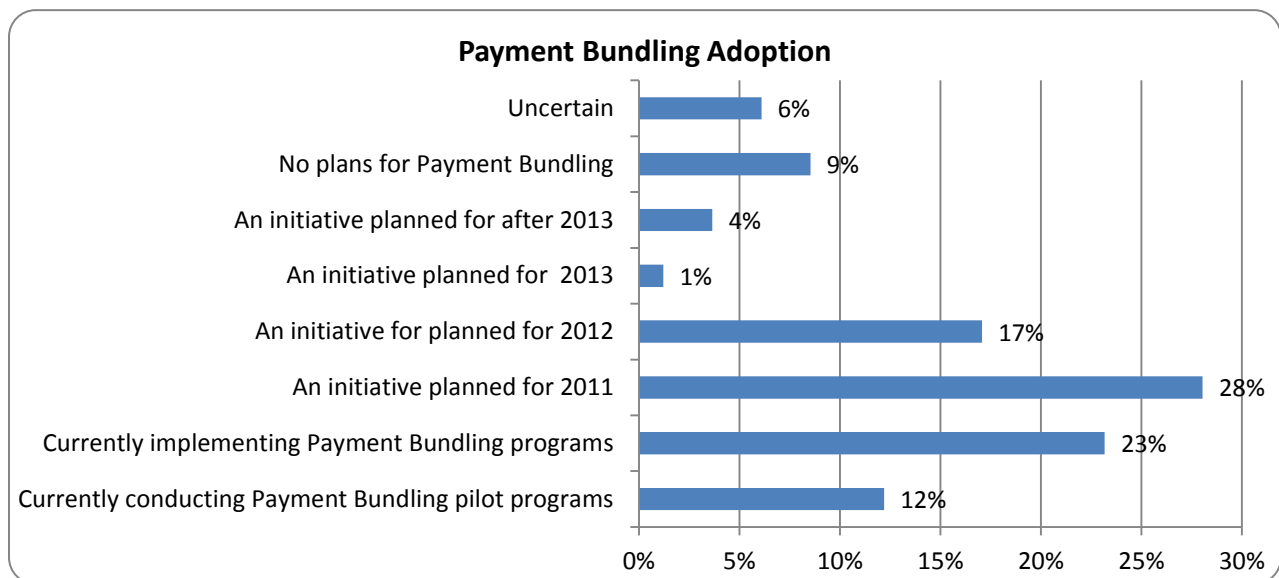
Payers unanimously believe that payment reform is essential: the fee-for-service payment model is not effective since it encourages maximum utilization. Payment Bundling is a component of the larger initiative for comprehensive Payment Reform, which is among most Payers' top 5 initiatives. Payers (62%) view Payment Bundling as a "means" to an "end"... but not the "end." Only 26% of Payers view Payment Bundling as a *permanent* payment reform approach. Payers are prepared for multiple payment models to coexist and be applied as appropriate. Payers feel they must pilot several different payment reform approaches to discover which one is most effective and feasible to administrate. Payer's approach to payment reform is therefore evolutionary... making progressive steps away from fee-for-service. Payers believe that Payment Bundling will drive cost effectiveness and stronger outcomes to achieve the ultimate goal: ACO transformation of the Provider Network.



## Trend 2: Most Payers are planning to pilot Payment Bundling to test effectiveness.

The vast majority of Payers will experiment with Payment Bundling before it is widely adopted over the next 2 to 3 years. Although only 35% of Payers are implementing Payment Bundling pilots or programs today, 80% of Payers plan to adopt Payment Bundling – to some extent – by the end of 2012. Depending on pilot program success, Payers will expand their Payment Bundling initiatives to include other acute episodes that meet the criteria for Payment Bundling. Strong drivers for Payment Bundling adoption include:

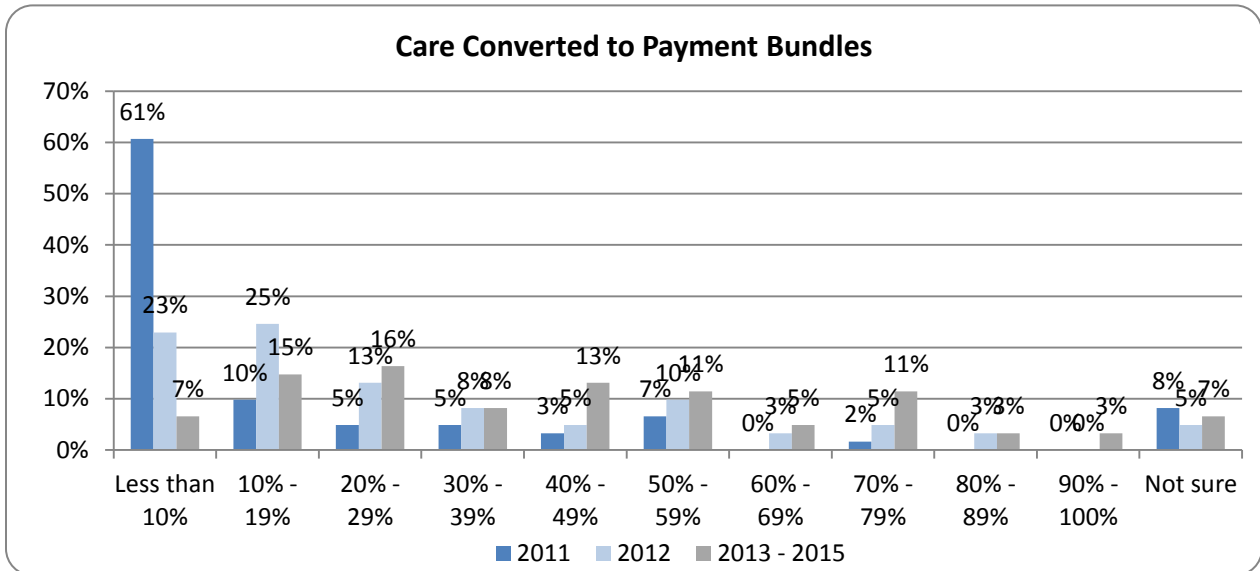
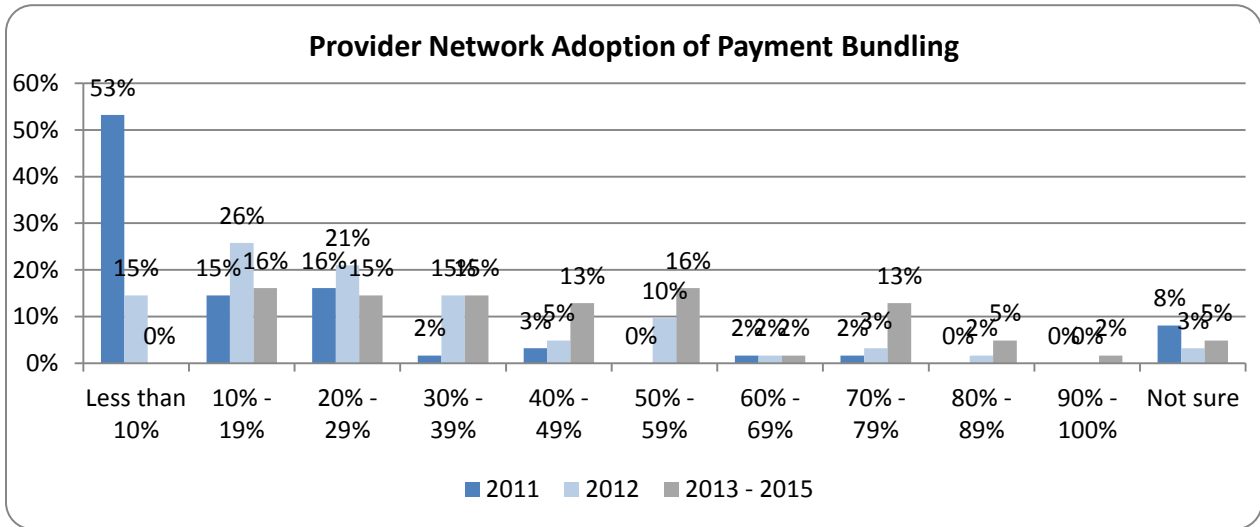
- Improved care coordination to holistically treat the whole patient
- Strong employer group demand... particularly from self-insured employers
- A need to reduce medical cost and MLR
- A desire to be ready for forecasted CMS mandates that are deemed inevitable
- A desire to reduce cost variation within each care episode
- Improved ability to forecast medical cost... better manage financial risk



## Trend 3: Payers expect adoption of Payment Bundling will be modest.

Payers' planned initiatives for Payment Bundling are modest. While 63% of Payers will be in some stage of Payment Bundling implementation during 2011, the majority (53%) of these Payers don't expect more than 10% of their Provider Networks to adopt Payment Bundling during 2011. This slow Provider Network adoption can be attributed to Providers' resistance to Payment Bundling, as well as Payers' methodical rollout of Payment Bundle initiatives for selected conditions to selected Provider groups. The majority (61%) of these Payers don't expect more than 10% of the earmarked care episode volume to be processed as Payment Bundles during 2011.

Payers' investment in Payment Bundling to date is modest. Over half (52%) of the participants in this study have spent less than \$100,000. Most of the investment is yet to come over the next two years.

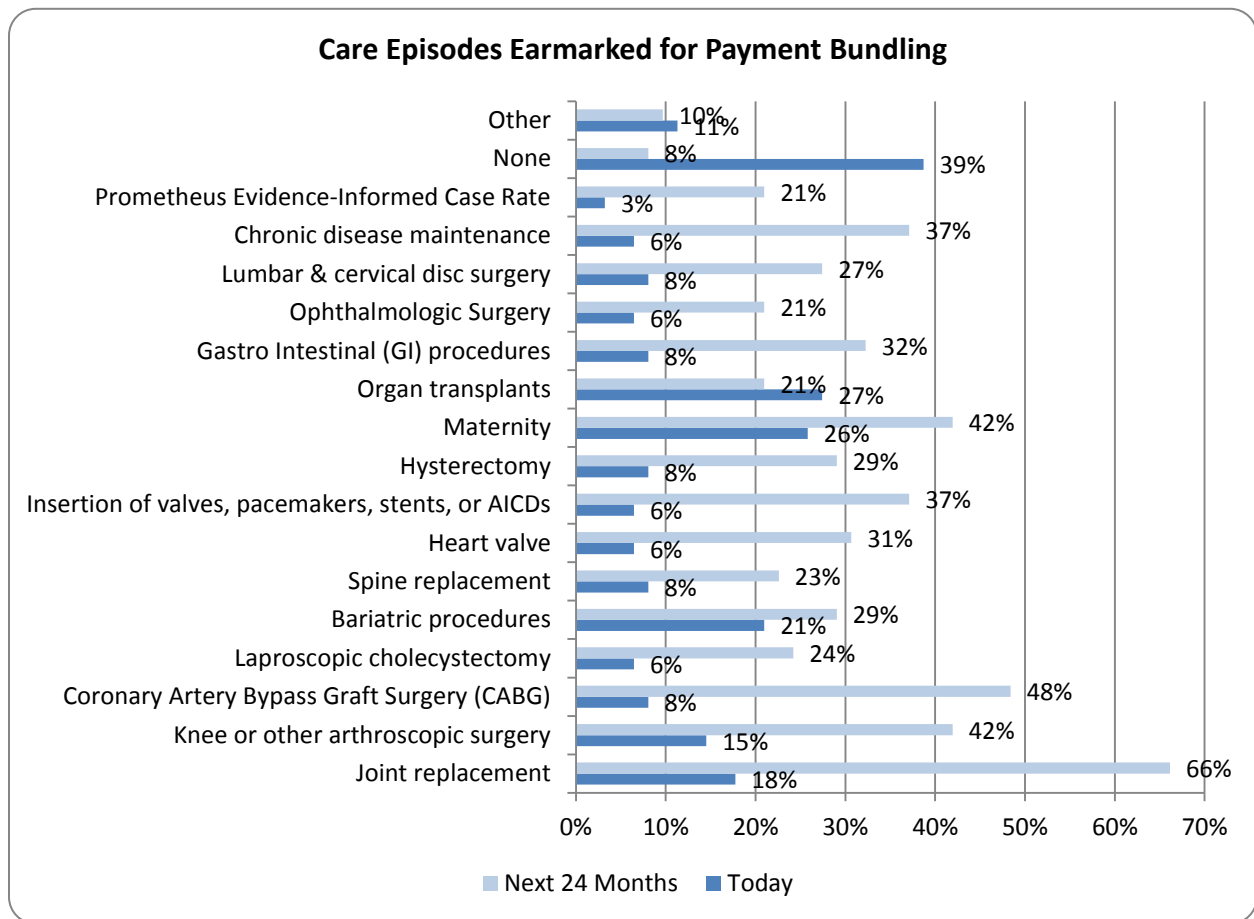


**Trend 4: Payment Bundling is not a universal payment reform solution; it will be applied selectively.**

Payers do not believe Payment Bundling is applicable to all providers and all services. Rather, Payment Bundling is appropriate for a subset of acute care episodes that bear the following characteristics:

- Has a clear beginning and end to the care episode (i.e. care episodes are easy to define)
- Includes a large component of discretionary cost
- Shows broad cost variability among providers
- Involves a medical device or implant
- Occurs at high instance rate within the membership (i.e. high frequency, high volume)
- Significantly contributes to total medical costs (i.e. high cost)

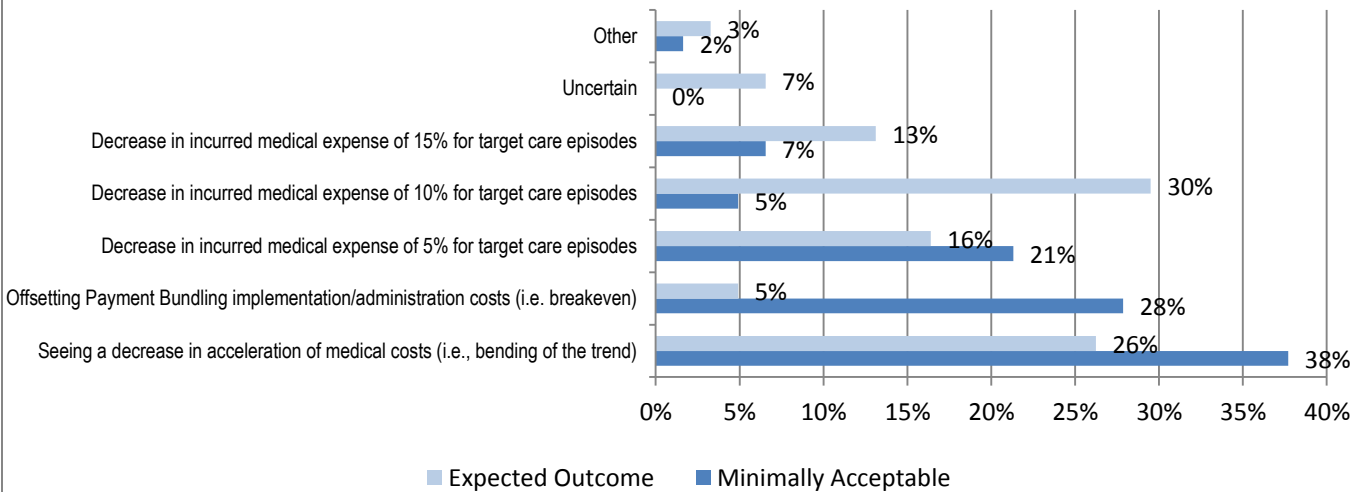
Not surprisingly, most Payers do not believe that Payment Bundling is appropriate for chronic care episodes. Joint Replacement (66%), CABG (48%), Maternity (42%) & Knee Surgery (42%) will be the most prevalent Payment Bundles by the 2012 year-end.



**Trend 5: Payers was Payment Bundling to at least “bend the trend.”**

Payers will use their Payment Bundling pilots as the vehicle to ascertain if Payment Bundling can deliver a strong financial benefit for Payers and Providers without sacrificing care quality. At the very least, Payers want to “Bend the Trend” of medical cost (38%) to curtail spiraling costs and break-even with their Payment Bundling implementation costs (28%). However, most Payers hope to beat this minimal outcome, with about a third of study response (30%) expecting to see a 10% medical cost savings resulting from Payment Bundling implementation.

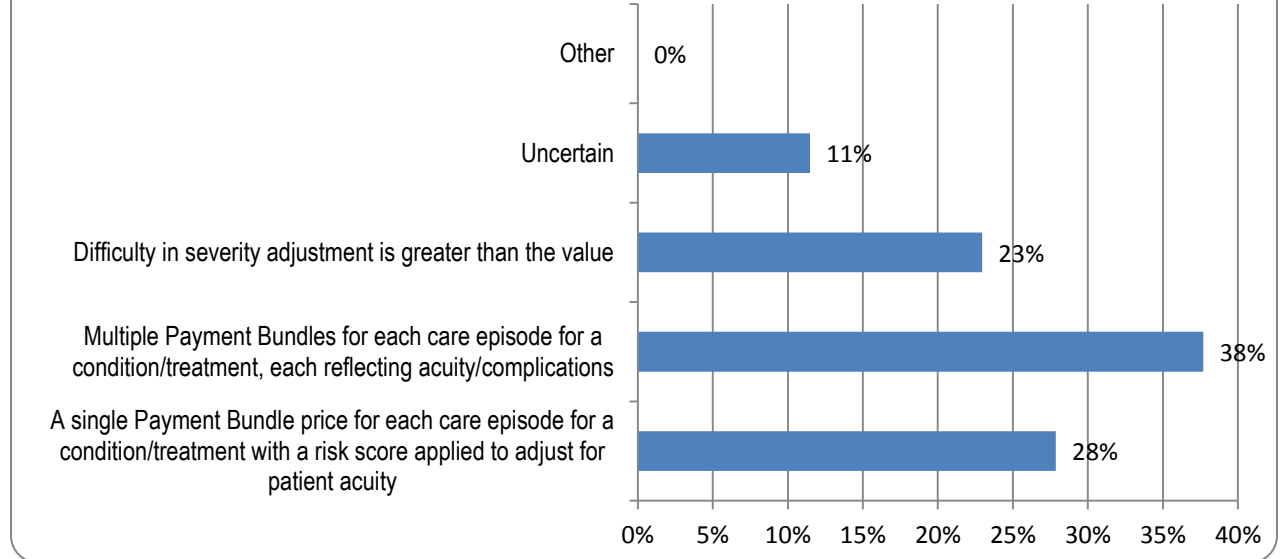
### Anticipated Payment Bundling Impact



### Trend 6: Need for Payment Bundle administration simplicity dictates approach taken to accommodate care episode acuity.

While Providers definitely want Payment Bundles to take acuity into account, Payers feel the pain of administration complexity: 51% want to stick to a single Payment Bundle for each selected care episode. Payers revealed that they typically arrive at the Payment Bundle price by examining historic claims and taking an average of the claims with/without complexities. Most Payers believe this approach to be sufficient to adjust for episode acuity.

### Payment Bundle Pricing Adjustments for Acuity



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