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Integrated Healthcare Association (IHA) Launches Episode of Care Payment Project

*Pilot Project Focuses on Joint Replacement Among
Southern California Health Plans, Hospitals and Providers*

OAKLAND, Calif., April 26, 2010 – The Integrated Healthcare Association (IHA) is launching a pilot project to test whether episode of care payments (bundled payments) for specific medical procedures can improve health care efficiency, generate cost savings and improve health care outcomes. IHA received grant funding for the pilot effort from the California HealthCare Foundation (www.chcf.org).

“California health care providers have been leaders in payment approaches which foster integrated/coordinated care, such as capitation – a fixed payment for a comprehensive set of services,” said Thomas R. Williams, executive director of IHA. “Bundled payments offer another mechanism to help align financial incentives for all providers involved in treating a patient during a discrete episode of care for a specific condition.”

Starting in late summer and focusing initially on commercial PPO patients in Los Angeles and Orange counties, the project is designed to demonstrate the feasibility of episode of care payments for total knee or hip replacements. Later phases of the pilot will expand the types of procedures and include others areas of California.

Episode of care payments have received national interest as a promising method to improve quality and contain costs. A report from the Commonwealth Fund Commission on a High Performance Health System gives policy recommendations that change the way we pay for care from fee-for-service to bundled methods of payment. The report projects that bundled payments for acute care episodes could potentially reduce national health expenditures by as much as \$300 billion by year 2020.¹

Nationally, most health care services are paid for on a fee-for-service and volume-based system with separate payments for individual tests, procedures or provider visits. The episode of care project will test the feasibility of a reformed payment structure that establishes a single budget or fee for a procedure that involves multiple providers.

“This innovative pilot will be helpful in improving understanding of how to best enhance patient

¹ The Commonwealth Fund Commission on a High Performance Health System. *The Path to a High Performance U.S. Health System: A 2020 Vision and the Policies to Pave the Way*. February 2009.

care through an integrated approach to reimbursing physicians and hospitals” said Thomas M. Priselac, president and CEO of Cedars-Sinai Health System in Los Angeles. “It allows doctors, hospitals, and health plans to work collaboratively in designing the best way to implement this approach to reimbursement based on episodes of care.”

Participation in the pilot is voluntary and includes these forward-thinking organizations: Aetna, Blue Shield of California, CIGNA, HealthNet, Cedars-Sinai Medical Center, Hoag Hospital, UCLA Health System, Saddleback Memorial Medical Center, and Tenet-California. In addition to health plan and hospital participants, several independent practice associations (IPA) and medical groups will be engaged in this new bundled payment system.

“Over time, pilot participants commit to sharing savings realized via higher-quality, more-efficient care,” said Bart Asner, MD, CEO of Monarch HealthCare and one of the IPA pilot participants. “Ultimately, these savings will flow through to consumers in more affordable health insurance products.”

The potential of episode payment to achieve both quality and cost improvements was initially shown in the early 1990s by Medicare’s Coronary Artery Bypass Graft Demonstration project. During its five-year run, this demonstration saved Medicare \$42 million on coronary bypass patients treated in the demonstration hospitals, an average discount of roughly 10% from expected spending, including a 90-day post-discharge period.²

The recently passed national health reform bill includes Medicare and Medicaid sponsored establishment of national, voluntary bundled payment pilot programs beginning in 2012.

About the Integrated Healthcare Association (IHA)

IHA is a statewide leadership group that promotes quality improvement, accountability, and affordability of healthcare in California. The IHA P4P program is the largest nongovernmental physician incentive program in the U.S. and includes 8 health plans (including Kaiser for reporting only) and over 229 medical organizations representing 35,000 physicians providing care for 10.5 million members. Other IHA programs include: value-based purchasing of medical devices; the measurement and reward of healthcare efficiency; and healthcare affordability. For more information, please visit: www.IHA.org.

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² Health Care Financing Administration. *Medicare Participating Heart Bypass Center Demonstration, Extramural Research Report*. September 1998.