Medicare's Bundled Fees Hit Knee, Hip Replacements

The shift of Medicare dollars away from fee-for-service medicine when it comes to paying for knee and hip replacements begins a new era for medical device makers and hospitals coping with bundled payments.

Beginning today, April 1, hospitals and doctors in 67 regions— one in every five U.S. metro areas— will be at risk for all Medicare spending for hip and knee replacements covered by the health insurance program for the elderly.

The Most And Least Expensive Places To Get A Knee Replacement

Hospitals where the surgery takes place will be accountable for the quality as well as the costs of care from the start of the surgery through 90 days after discharge. This means the Centers for Medicare & Medicaid Services (CMS) will now pay for an “episode of care” under this new value-based reimbursement known as the Comprehensive Care for Joint Replacement model.
Some 800 hospitals will essentially have to keep their costs below the $25,565 cost per episode based on Medicare’s payments or they will face a penalty for going over that amount. And three in five hospitals could find they are facing penalties if they don’t quickly improve their performance, according to a new analysis of the Centers for Medicare & Medicaid Services (CMS) joint replacement model by health research firm Avalere Health.

It’s an uneasy and historic time for hospitals and medical device makers like Johnson & Johnson, Stryker and Zimmer as providers look to save money to keep inside the episode payment amount.

“This is CMS’ first mandatory bundle,” Josh Seidman, senior vice president at Avalere Health said in an interview. “We would expect there will be more as well so this should be a wake-up call.”

To be sure, bundled payments are here to stay and increasingly becoming the norm among private insurers like UnitedHealth Group, Aetna, Anthem and Blue Cross
and Blue Shield plans, shifting billions of dollars in payments to value-based models.

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Many see the bundled fees as a way to get doctors, hospitals and other caregivers to work more closely together. But there’s something at stake for the device makers, too, because the artificial knee or hip is an expense Medicare has to pay for as well.

Stryker, for example, said it is partnering with the doctors and hospitals to share in the risk for implementing the new CMS model.

“We analyze historic hospital procedural and claims data, which ultimately leads to a customized implementation program for each customer,” said Stuart Simpson, vice president and general manager of Stryker’s reconstructive division. “We then help customers monitor hospital and patient reported metrics to continuously assess quality and cost of care. Stryker is partnering with physicians and hospitals to assume accountability and share risk for the implementation of these programs.”

And the bundled payment for hip and knee surgeries is only the beginning under Medicare, with more value-based payments for orthopedic and cardiac surgeries likely down the road, analysts say.
Hospitals across the country that don’t change their ways could sustain thousands of dollars in penalties.

“If they basically are going about the way they have provided care, they are going to face losses,” Seidman says. “There is a downside.”

There have already been scores of hospitals that have voluntary agreed to bundled payment for knee and hip surgeries but the new effort is mandatory for most hospitals and health systems in the specified regions.

“(The Department of Health and Human Services) is trying to get a handle on places where overall costs are higher than they should be,” Seidman said.

The potential for savings is huge. In 2013, hip and knee replacements cost Medicare more than $7 billion alone in hospital costs and the procedures vary in price across the country.

Generally, the device industry says it’s been supportive of the move but wants to make sure the bundled payment doesn’t lead to shutting out a potentially new and innovative technology. Therefore, device makers continue to work with the Centers for Medicare and Medicaid Services (CMS) on the bundled payment initiative.

“If done right, new payment models like the [comprehensive joint replacement model] have the potential to lower costs and improve the quality of care,” said Richard Price, senior vice president of payment and health care delivery policy at AdvaMed, the trade association for the medical device industry. “However,
AdvaMed submitted comments to CMS recommending shared decision-making and rigorous monitoring and evaluation of the program to ensure beneficiary access to medical technologies, including innovative improvements, that are appropriate for the lifestyle and medical condition of individual patients, both in the short and long term.”