



# A Strategy for Medicare Payment Reform

Improving Accountable Care Organizations While Expanding Bundled Payments

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# Introduction and summary

Medicare currently pays for most health care services on a fee-for-service, or FFS, basis, paying doctors, hospitals, and other health care providers separately for each item and service furnished to a patient. This payment structure rewards quantity over quality. First, it encourages the overuse of health care that is unnecessary or even potentially harmful, especially for high-cost items and services. Second, it does nothing to encourage coordination between different health care providers.

The health care system—including the Medicare program—is slowly adopting new payment models that change these incentives and encourage higher-quality, more coordinated care. The Department of Health and Human Services, or HHS, recently set a timeline to accelerate Medicare’s move away from FFS payments. HHS’ goal is for 50 percent of its Medicare payments to be made through alternative payment models by 2018, with an interim goal of 30 percent by 2016.<sup>1</sup>

Medicare’s payment reform efforts have largely focused on two models: accountable care organizations and bundled payments. Accountable care organizations, or ACOs, are groups of health care providers that share responsibility for providing lower-cost, higher-quality care for a group of patients. Bundled payments are fixed amounts paid by payers—including Medicare, Medicaid, states, and private health care plans—to health care providers for all of the care a patient is expected to need during a defined period of time or for a set of services needed to treat a particular injury or illness.

The **fee-for-service payment system** is where health care insurers, including Medicare and Medicaid, pay doctors, hospitals, and other health care providers separately for different items and services furnished to a patient.

An **alternative payment model** is one that holds health care providers accountable for the quality and cost of care furnished to a patient.

**Accountable care organizations** are groups of health care providers that agree to share responsibility for coordinating lower-cost, higher-quality care for a group of patients.

**Bundled payments** are fixed amounts paid to health care providers for a bundle of services or for all the care that a patient is expected to need during a period of time.

Within these broad parameters, there are numerous ways to structure ACO and bundled payment reforms. In fact, Medicare alone has a number of different ACO and bundled payment models. This variation allows Medicare to test a wide variety of payment reforms, but it also creates significant confusion about how best to move payment reform forward.

This report outlines a broad strategy for Medicare payment reform based on the Center for American Progress' analysis of the initial results from one of Medicare's most ambitious ACO models, the Pioneer ACO Model. We first calculated overall savings by the Pioneer ACOs, finding that they reduced overall spending by 0.67 percent compared with the target amount of spending in the model's second year. These results are consistent with L&M Policy Research's independent evaluation of the Pioneer program so far. We also reviewed quality results for the program, finding that the Pioneer ACOs are providing quality care but that there is still room for improvement.

Because these overall results were modest, we also took a closer look at Montefiore Health System's successful Pioneer ACO to determine why it was able to realize far greater savings than other participating organizations. (see Appendix A)

It is unclear if other Pioneer ACOs will be able to replicate the same level of success of the few high-performing organizations. Unlike ACOs—whose success appears based at least in part on their geographic location and mix of patients—bundled payments have already been successful in a variety of settings and for a range of health care conditions. For this reason, CAP urges the Centers for Medicare & Medicaid Services, or CMS—the agency within HHS that administers the Medicare program—to focus additional resources on expanding its bundled payment reforms.

ACOs will remain an important part of Medicare's payment reform efforts, and CMS should continue to improve its ACO programs—including the Pioneer ACO Model—to allow more organizations to achieve success over time. But if Medicare is going to achieve its goal of moving away from FFS payments, it must focus greater attention on bundled payment models.

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