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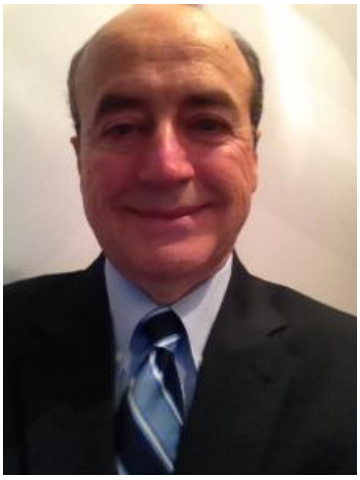
Capitation Returns, All Bundled Up

The New Payment Systems More Than Hint at The Old Ones

Posted on: Apr 11, 2013 By Francesco Federico, M.D.



Love it or leave it, capitation is creeping back into healthcare in a kinder, gentler way.

We first saw capitation as a proposed solution to the nation's healthcare problems during the managed care era of 1985-2005. The concept however was poorly accepted and performance was suboptimal.

Today, accountable care promoted by the Accountable Care Act again promises much – provider choice, a better patient experience, transparency, accountability, enhanced quality, cost containment, value promotion, and sophisticated analytic tools to make evidenced-based decisions. In an attempt to avoid the negativism of capitation, the architects have introduced the term "bundling." But healthcare veterans know the truth and see a remarkable similarity between "bundling" and capitation - both are restrictive payment options found on the fee-for-service end of the payment spectrum.

During the last era, a variety of internal organizational and external market factors drove bad capitation behavior. While "bundling" is a differently calculated episodic condition restrictive payment vehicle, it is not intrinsically more pure or automatically destined for success. For it to have any chance of succeeding, it must have the proper actuarial design, financial reconciliation rigor, transparency, implementation fairness and strong oversight.

If healthcare stakeholders want to not further delay critically needed improvements promised by this second wave of healthcare reform, "bundling's" potential pitfalls should be transparently addressed up front. Six in particular are worth watching:

- **Financial Bundle Calculation** - these calculations need expert, experienced, data driven projections.
- **Catastrophic Financial Events within the "Bundle"** - payers need to soften potential catastrophic financial exposure of providers by providing affordable protection.
- **Data Control** - in a new era of accountability, desired transparency, dedicated information technology and rapidly growing medical informatics, data should be readily available to interested parties.
- **Management Company Competency** – in administering "bundle" complexity, testing, re-testing and a certification process should be considered.
- **Provider Contractual Sensitivities** - there should be a clear understanding of who will arbitrate critical contractual/payment disputes such as payer administrative charge, provider billing increases, special event circumstances, utilization excesses (high or low).
- **Taking on the "Bundle"** - over time, more provider organizations with varying talents and competencies will want to receive and manage the "bundle." This evolution was seen during the first wave of capitation as increasing group competencies and a desire to control cash flows fuelled a great capitation movement and rapid and at times irresponsible downloading of complex risk to providers.

Many questions surround the "bundling." What services are included/excluded? What is a

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reliable financial methodology factoring in acuity, cost of services, discounting, medical inflation and regional cost variability? What are contractual strategies ensuring financial success? What is the appropriate contract length - a short term contract might seem more beneficial and less risky yet a longer term contract with risk offsets may perform better? And perhaps most importantly, how best to establish clear, reasonable and achievable metrics that directly link financial payment to quality, value oriented, outcome-based performance?

As “bundling” comes of age, payers are likely expected to generate more cost savings. Thus a new era of capitation masquerading as a “bundle” may arrive. In this environment, financial pressure may breed the bad behavior we saw before. This may include restriction of services, narrow networks, provider non-inclusion, inadequate “bundle” payment for the level of acuity, patient cost shifting, provider patient dumping and cherry picking.

This second wave of healthcare reform is critical to providing universal, affordable, high value healthcare for our population. The concept of “bundling,” if constructed and applied correctly with historical perspective, is one good strategy among many for ensuring success.

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