

# Cost-saving effort in health care falls short of goals, study finds

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A pilot program intended to implement and test a cost-saving strategy for orthopedic procedures at hospitals in California failed to meet its goals, succumbing to recruitment challenges, regulatory uncertainty, administrative burden and concerns about financial risk, according to a new RAND Corporation study.

The outcome represents a disappointing effort to widely adopt bundled payments, a much-touted strategy that pays doctors and hospitals one fee for performing a procedure or caring for an illness. The strategy is seen as one of the most-promising ways to curb [health care spending](#).

Researchers evaluated a three-year effort coordinated by the Integrated Healthcare Association beginning in 2010 to adopt bundled payments for orthopedic procedures such as a total knee replacement surgery among commercially insured people under age 65.

The project had such a low volume of cases that there was not enough information to draw conclusions about how bundled payments affect [health care](#) quality or costs, the initial goals of the study. The findings are published in the August edition of the journal *Health Affairs*.

"Bundled payments have great promise for controlling [health](#) care costs, but thus far efforts to put the strategy in place on a wider scale have struggled," said Susan Ridgely, the study's lead author and a senior policy analyst at RAND, a nonprofit research organization. "We've learned lessons from the early setbacks, but more work still needs to be done to

realize the potential of this model of payment."

Under bundled payments, doctors, hospitals and other health providers share a fixed payment that covers the average cost of a bundle of services – such as all aspects of caring for a person undergoing a hip replacement. The approach is intended to encourage health providers to work together to eliminate unnecessary care and improve quality.

At the outset of the California bundled payment project, participants included six of the state's largest [health plans](#), eight hospitals and an independent practice physicians' association.

Eventually, two insurers dropped out because they believed the bundled payment model in this project would not lead to a redesign of care or lower costs, according to the study. Another decided that bundled payment was incompatible with its primary type of business, which is health maintenance organizations using capitation payments.

Just two hospitals eventually signed contracts with health plans to use bundled payments. Hospitals that dropped out cited a lack of need to participate, as well as concerns about the time and effort involved. However, two ambulatory surgery centers signed contracts with one health plan.

The volume of [orthopedic procedures](#) in participating hospitals was extremely low – just 35 cases in three years. Ambulatory surgery centers had higher volume (111 cases), but health plans have been slow to contract with such centers despite their lower costs compared to hospitals.

The project was hurt by delays in regulatory approvals of contracts, a lack of consensus about what types of cases to include under bundled payment and defining which services belonged in the bundle. In the end,

most stakeholders agreed that the bundle definitions were probably too narrow to capture enough procedures to make bundled payment viable.

Recommendations for future bundled payment projects include ensuring sufficient volume, keeping the definitions of bundles simple and findings ways to manage the financial risk for [health care providers](#).

Although the project failed to spread bundled payment across California, the [Integrated Healthcare Association](#) generated substantial expertise in technical aspects of implementation, including model contract language and bundle definitions.

"Despite the many challenges, participants continue to be interested in making bundled payments work," Ridgely said. "The lessons from this project may help future efforts to be more successful."

Interest in bundled payments as a strategy to control [health care costs](#) has grown since adoption of the federal Affordable Care Act, which encourages the approach. Many private health plans are experimenting with the approach and federal officials have organized a national bundled payment initiative involving Medicare enrollees.

Bundled Payments for Care Improvement Initiative organized by the federal Centers for Medicare and Medicaid Services has had a robust response from hospitals and physician organizations. According to Medicare officials, thousands of Medicare providers across the U.S. are in the planning phases and 105 Medicare providers are currently implementing bundled payments under the [BCPI](#). It remains to be seen, however, whether these new projects can overcome the challenges faced in other tests of bundled payment.

Provided by RAND Corporation

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