

The Medicare Participating Heart Bypass Center Demonstration was conducted to assess the feasibility and cost effectiveness of a negotiated all-inclusive bundled payment arrangement for coronary artery bypass graft (CABG) surgery while maintaining high quality care. HCFA originally negotiated contracts with four applicants (1991). In 1993 the government expanded the demonstration to include three more participants. The evaluation by Health Economics Research showed that an all-inclusive bundled payment arrangement can provide an incentive to physicians and the hospital to work together to provide services more efficiently, improve quality, and reduce costs. The bundling of the physician and hospital payments did not have a negative impact on the post-discharge health improvements of the demonstration patients.

### **Evaluation Highlights:**

- The demonstration showed that many hospitals can work jointly with their medical staffs to develop a single bid offering the government meaningful discounts. All successful applicants were willing to forego outlier payments and balance billing, thereby bearing all the risk for costly cases.
- While all seven hospitals exhibited strong declines in lengths of stay ranging from one-half to one full day per year, only one hospital had declines that exceeded the downward trend taking place among local competitors.
- From the start of the demonstration in 1991 through its conclusion in 1996, the Medicare program saved \$42.3 million on bypass patients treated in the demonstration hospitals. The average discount amounted to roughly 10% on the \$438 million in expected spending on bypass patients, including a 90-day post-discharge period. In addition, beneficiaries (and their insurers) saved another \$7.9 million in Part B coinsurance payments, so total Medicare savings were estimated as \$50.3 million in five years.
- Three of four original hospitals were able to make major changes in physician practice patterns and hospital operations that generated significant cost savings.
- Holding many patient risk factors constant, a statistically significant, negative, trend in inpatient mortality rate was found among demonstration hospitals. However, both demonstration and competitor hospitals were found to have a declining mortality trend.
- Hospitals' participation in the demonstration seemed to have little or no effect on physician referral patterns.
- Overall, there were no systematic differences in self-reported health outcomes between demonstration and non-demonstration patients.
- The fact that consulting physicians could not bill Medicare directly proved contentious in several sites. Surgeons cut back on their use of consultants, which aggravated physicians even more. A benefit to physicians was the willingness of each hospital to take responsibility for collecting any deductible and coinsurance amounts on both Part A and B.
- The demonstration involved major changes in reimbursement arrangements. The single largest administrative burden for hospitals under the demonstration involved billing and collection. Patients were pleased with a single copay amount

Supplemental insurers responsible for paying patient deductible and coinsurance amounts were uniformly displeased with the flat actuarial payment calculated by HCFA.