



Between April 2009 and November 2010, five ACE sites began implementing the demonstration: Baptist Health System (BHS), Oklahoma Heart Hospital (OHH), Hillcrest Medical Center (HMC), Lovelace Health System (LHS), and Exempla Saint Joseph Hospital (ESJH). This 3-year demonstration used a global payment for an episode of care defined as the bundle of Part A and Part B services provided during an inpatient stay for selected hip/knee and cardiac DRGs. The goals of the demonstration were to: improve quality of care; increase collaboration between providers and the health system; and to save money to the Medicare program. Both quantitative and qualitative methods were used.

Based upon interviews with key participants, we found that the demonstration led to standardization of operating processes and materials. Vendor negotiations on surgical implants, equipment, and materials in both orthopedic and cardiovascular DRGs produced the greatest cost savings. As a result the demonstration sites believed they saved money. Most beneficiaries were unaware of the demonstration, even after signing the demonstration notice at admission. And for those that were aware, the demonstration did not influence their choice of hospitals.

The discounted bundled payments generated an average gross savings to Medicare of \$585 per episode or a total of \$7.3 million across all episodes (12,501 episodes). Increases in post-acute care (PAC) costs reduced these savings by approximately 45 percent, resulting in per-episode savings of \$319 and total net savings of approximately \$4 million, or 1.72% of the total expected costs. Most of these reduced savings were caused by one site where PAC costs greatly increased. The provision of Part B services increased during the episodes but since there was bundled payment, this was not a cost to Medicare. In addition, an average payment of \$270 per episode was made to each beneficiary who was treated under the demonstration. These payments totaled \$2.8 million. After netting out the savings produced by the Part A and B discounted payments, the increased PAC costs, and the reimbursements to beneficiaries, Medicare saved approximately \$1.2 million dollars, or .5% of the total expected costs.

In general, quality was not impacted during the demonstration. There was no change in the ACE inpatient volume of procedures at ACE sites, except for ACE defibrillator procedures (increase) and ACE pacemaker procedures (decrease). It was the case, however, that the results did vary across sites for many of the metrics. For example, while volume did not change in the demonstration sites, it did change for some individual sites.