

## Prospective versus Retrospective Bundled Payments

*Looking ahead, not looking back*

**By Olivia Ross, MPH, MBA**  
*Associate Director  
Pacific Business Group on Health*



When it comes to alternative payment models, one area that has recently gained a lot of attention is bundling. Bundles are a great tool to help payors and providers redefine the unit they use to measure value. Instead of setting a rate for each separate service, bundles set a rate for an entire procedure or treatment of a condition over a defined period of time. Rather than paying separately for a high-quality OR tech or a competitively priced

outpatient physical therapy session, we can look for a high value bundled payment for a knee replacement where the services and outcomes are coordinated.

Looking for value in the entire “bundle” of services recognizes that each of the component pieces is critical to a successful outcome for the patient. This progressive reinterpretation is applied in two different forms, prospective and retrospective bundles.

Prospective bundled payments allow a payer to look ahead and pay providers a single, pre-determined price at the time of service delivery. This payment covers all of the related services for that procedure or for that condition during a defined period of time.

Retrospective bundled payments allow a payer to look back and adjust their payment to meet an expected bundled rate for all of the related services for that procedure or for that condition during a defined period of time. Both forms can

serve as motivation for providers to improve their efficiency, since their profit margins depend on meeting or beating the bundled rate, but there are some important advantages to looking ahead, not looking back.

Prospective bundles force providers away from the fee for service model. For example, the Employers Centers of Excellence Network (ECEN) is a travel surgery program that delivers high quality surgical care through prospective bundled payments. The ECEN uses a pre-negotiated rate for joint replacements that includes onsite pre-op diagnostics, all facility and professional fees, implants, post-op clearance and initial physical therapy. In contrast, retrospective bundles allow providers to continue to bill for each service independently under the fee for service model.

Providers receiving retrospective bundled payments may not receive any feedback about how their billed rate compares to the target. Moreover, if the total cost of the related services still meets or beats

the target bundled rate, a clinician may never know that their costs were higher but they were protected by the efficiency and savings generated in another part of the care continuum. Even when these results are more transparent, the “true up” process may take place months or even more than a year later, weakening much of the motivation for change.

Retrospective bundles require a great deal of bandwidth to complete the retroactive review. The payer conducts a complicated reconciliation, looking at each fee for service claim that fits into the bundle. Prospective bundles also require a significant investment from providers to determine the appropriate rate for the related services included in the bundled payment. There can be administrative and regulatory challenges associated with adjudicating a prospective payment and distributing payments to many different providers or departments involved in the patient care. However, though challenging to develop, once established, the prospective model is self-sustaining. The payer and the provider agree to straightforward terms for the bundle and the rate. This predictable pricing helps both parties look ahead. Payers know what they will

be spending and providers know their budget and can make informed decisions on how to maximize use of available resources.

The Centers for Medicare and Medicaid Services (CMS) recently announced a major retrospective bundled payment initiative indicating to providers that bundles are becoming a preferred alternative payment model. The ECEN is demonstrating that providers can create savings when they innovate in how they deploy professional staff, choose technology and engage with outpatient and home-based services when they have full flexibility within a budgeted, prospective payment amount. Regardless of whether payers look ahead or back when determining the payment, bundles will only be successful through quality focused redesign and improvement across the care continuum.

*Olivia Ross is Associate Director with the PBGH New Initiatives team. Her projects include management of the Employers Centers of Excellence Network, which is a multi-purchaser (employer) collaborative established by PBGH as part of its commitment to improving the quality and affordability of health care. Additionally, Olivia participates in*

*several on-going projects focused on changing physician and hospital financial incentives to ensure high-quality health care delivery, while also containing costs.*

*Olivia joined PBGH in 2012 after four years at the Feinberg School of Medicine Center for Healthcare Studies at Northwestern University. She initially served as Project Coordinator for several programs aiming to advance patient safety through improved clinician communication and teamwork. Additionally, she led a range of activities with the Chicago Pediatric Patient Safety Consortium.*

*Olivia was then recruited to serve as the Research Project Manager of the newly formed Northwestern University Transplantation Outcomes Research Collaborative. In addition to managing patient safety projects, she supported strategic planning and oversaw the day-to-day operation of a group tasked with creating innovative health services and outcomes research in organ transplantation.*

*Olivia holds a Master in Public Health (MPH) from UCLA, and an MBA from the Kellogg School of Management at Northwestern University.*

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