



## WHY EPISODE-BASED PAYMENT IN GENERAL

Episode-based payment is a value-based payment methodology that offers reimbursement for all of the clinically appropriate services needed by a specific patient for a particular condition or treatment. Episode-based payment is increasing in popularity as Medicare, commercial and Medicaid plans and states are implementing the approach. While many episode-based programs are still in their infancy, there are a number that have shown to be effective at reducing costs and improving the quality of care.

Episode-based payment is particularly effective where there are "high costs, or when there is significant variation in the cost associated with managing a particular condition or treatment."

Under episode-based payment, a provider is typically held accountable to one price for a set of services. This accountability can incentivize the optimization of care delivery processes, the implementation of evidence-based care, and a reduction of unwarranted variation in care to maximize savings potential. For example, an episode-based payment approach for maternity care can motivate providers to optimize care delivery through such avenues as group prenatal education, which can reduce emergency room visits in the third trimester and increase the weight of the baby at birth.<sup>i</sup>

<sup>i</sup>Walker DS and Worrell R. "Promoting Health Pregnancies Through Perinatal Groups: A Comparison of Centering Pregnancy Group Prenatal Care and Childbirth Education Classes." *J Perinat Educ.* 2008 Winter, 17(1): 27-34.

## RESULTS OF EPISODE-BASED PAYMENT OUTSIDE OF MATERNITY CARE

In certain clinical areas, episode-based payment has proven successful for payers.



### MEDICARE

In the first 21 months of the Bundled Payment for Care Improvement (BPCI) program, where Medicare pays providers for 48 different clinical episodes, Medicare payments declined more for hospitals participating in the joint replacement episode than those that were not, without a significant change in quality outcomes.<sup>ii</sup> Furthermore, under CMS's Acute Care Episode demonstration and the BPCI program, the average Medicare episode expenditure declined nearly 21 percent over six years at one health system for joint replacement.<sup>iii</sup>



### MEDICAID

In the Medicaid market, three states have implemented episodes on a broad basis – Arkansas, Tennessee and Ohio. Results for the first two states are available now.

- In the first year of Arkansas' program during which it implemented a maternity episode and four other clinical episodes, the state saw a 5 percentage point decrease in Caesarean section rates, though an increase in the length of stay for the condition, perhaps indicating a shift to more clinically appropriate Caesarean sections. In addition, improvements were made in screenings for asymptomatic bacteriuria, hepatitis B specific antigen, use of ultrasound and screening for gestational diabetes. As for cost, more Medicaid providers improved their cost profile than worsened their cost performance.<sup>iv</sup>
- Similarly, Tennessee's Medicaid program implemented three different episodes and realized a savings of over \$6 million - and experienced an improvement in quality.<sup>v</sup> (For more information on specific quality improvement for the maternity episode, see below.)



### COMMERCIAL

On the commercial side, several payers have implemented episode-based payment – some have implemented one or two episodes, while others have implemented a suite of episodes. Horizon Blue Cross Blue Shield of New Jersey has the longest-standing experience among commercial insurers with wide-scale episode implementation. Horizon first implemented joint replacement episodes in 2010 and has since expanded its program to over nineteen different episodes, and contracted with more than 900 physician "Episode Conductors" (i.e., physician partners accountable for the episode of care.). Results reported thus far in orthopedic cases, have shown a significant decrease in the average cost of hip replacements, a reduction in all-cause readmissions, hip revisions after replacements and knee revisions after replacements.<sup>vi</sup>

<sup>ii</sup>Dummit LA, Kahvecioglu D, Marrujo G, et al. "Association Between Hospital Participation in a Medicare Bundled Payment Initiative and Payments and Quality Outcomes for Lower Extremity Joint Replacement Episodes." *JAMA Intern Med.* September 27, 2016. <http://jamanetwork.com/journals/jama/article-abstract/2553001>

<sup>iii</sup>Navathe AS, Troxel AB, Liao JM, et al. "Cost of Joint Replacement Using Bundled Payment Models." *JAMA Intern Med.* January 3, 2017 <http://jamanetwork.com/journals/jamainternalmedicine/article-abstract/2594805>

<sup>iv</sup>Statewide Tracking Report. Arkansas Center for Health Improvement. January 2015. [www.achi.net/Docs/276/](http://www.achi.net/Docs/276/)

<sup>v</sup>Presentation made by the Tennessee Division of Health Care Finance and Administration to the Provider Stakeholder Group, October 19, 2016. <https://tennessee.gov/assets/entities/hcfa/attachments/OctProviderMeeting16.pdf>

<sup>vi</sup>HCI3. "Nation's Largest Commercial Value-Based Healthcare Program Delivers on Triple Aim." February 2015.

## COMPELLING REASONS TO PURSUE MATERNITY EPISODE PAYMENTS

### 1 MATERNITY CARE IS A MAJOR SPENDING AREA FOR COMMERCIALY INSURED AND MEDICAID POPULATIONS.



Childbirth is the most common reason for hospitalization in the US, representing about 10 percent of all hospital stays.<sup>vii</sup> Pregnancy, labor and birth account for 7 of the top 20 most expensive hospitalized conditions<sup>viii</sup> and account for 27 percent of all costs in the Medicaid program.<sup>ix</sup> It is the single largest group of diagnoses, by cost, for employers providing health insurance benefits<sup>x</sup> and accounts for 15 percent of all costs for commercial insurers.<sup>xi</sup>

### 2 MATERNITY COSTS AND CARE VARY SIGNIFICANTLY ACROSS AND WITHIN STATES, WITH VARYING CAESAREAN RATES (AND COSTS) A SIGNIFICANT CONTRIBUTOR.



Across the country, the costs of maternity care can vary greatly. For example, commercial insurers in Louisiana pay about \$10,000 for a vaginal delivery and \$14,000 for a Caesarean delivery while commercial insurers pay over \$15,000 for a vaginal delivery and over \$21,000 in California.<sup>xii</sup>



The use of often unnecessary Caesarean sections (at high and varying cost) is one of the most significant drivers of the overall cost of maternity care. According to an analysis of nine Medicaid managed care plans, the use of Caesarean sections ranged from 23 percent to 45 percent of births<sup>xiii</sup> – the national average is 32 percent.<sup>xiv</sup>



High rates of Caesarean sections persist, in part<sup>xv</sup>, because of the underlying fee-for-service payment system that rewards this high cost procedure. Caesarean sections garner more revenue than vaginal deliveries; during 2010 the average total commercial payment for maternity and newborn care was \$18,329 for a vaginal delivery and \$27,866 for a Caesarean delivery.<sup>xvi</sup> In Medicaid, average payments were \$9,131 (vaginal delivery) and \$13,590 (Caesarean delivery).<sup>xvii</sup>

### 3 EPISODE-BASED PAYMENT CAN ADDRESS COST AND QUALITY PROBLEMS ASSOCIATED WITH MATERNITY CARE.



Rising maternity care costs are not correlating with improved outcomes. Despite the existence of evidence-based care trajectories for low-risk pregnant women (and often for lower risk pregnant women who have pre-existing chronic conditions for which the care trajectory during pregnancy is also evidence-based), patients often receive unwarranted variation in the quality of their care. There are enormous opportunities within the delivery of maternity care to engage women and their families in a way that supports person-centered care and may positively affect outcomes for women and babies.



Often under a fee-for-service payment model, prenatal care, labor and birth, and postpartum care are viewed and care delivered as three distinct treatment periods. However, by viewing them as three phases in one episode through the use of episode-based payment, there is a potential for incentivizing the types of interactions and care delivery that support positive cost and quality outcomes.<sup>xviii</sup>



The use of episode-based payment is gaining foothold for maternity care because it's expected to help curb the costs of maternity by limiting incentives to provide unnecessary services, including unnecessary Caesarean sections. It may also help to improve outcomes as providers will be incentivized – via the use of outcome-level maternity quality measures – to provide “low-touch” interventions, such as group prenatal education, enhanced prenatal care, more meaningful care coordination, doula services, and others – which can reduce complications, lead to lower use of Caesarean sections and early elective deliveries, and improve outcomes for both the mother and the baby.

<sup>vii</sup>Pfunter A, Wier L, Stocks C. “Most Frequent Conditions in U.S. Hospitals, 2011.” *Healthcare Cost and Utilization Project (HCUP) Statistical Briefs*. Rockville, MD: Agency for Healthcare Research and Quality (US) [www.hcup-us.ahrq.gov/reports/statbriefs/sb162.pdf](http://www.hcup-us.ahrq.gov/reports/statbriefs/sb162.pdf)

<sup>viii</sup>Torio C and Andrews R. “National Inpatient Hospital Costs: The Most Expensive Conditions by Payer, 2011. August 2013. *Healthcare Cost and Utilization Project (HCUP) Statistical Briefs*. Rockville, MD: Agency for Healthcare Research and Quality (US) [www.hcup-us.ahrq.gov/reports/statbriefs/sb160.pdf](http://www.hcup-us.ahrq.gov/reports/statbriefs/sb160.pdf)

<sup>ix</sup>Moore B, Levit, K and Elizhauser, A. “Costs for Hospital Stays in the United States, 2012.” *Healthcare Cost and Utilization Project (HCUP) Statistical Briefs*. Rockville, MD: Agency for Healthcare Research and Quality (US).

<sup>x</sup>Wier LM., Andrews RM. The national hospital bill: the most expensive conditions by payer, 2008. *Statistical brief #107*. March 2011. In: *Healthcare Cost and Utilization Project (HCUP) Statistical Briefs*. Rockville, MD: Agency for Healthcare Research and Quality (US) [www.ncbi.nlm.nih.gov/books/NBK53976/](http://www.ncbi.nlm.nih.gov/books/NBK53976/).

<sup>xi</sup>Moore B, Levit, K and Elizhauser, A. “Costs for Hospital Stays in the United States, 2012.” *Healthcare Cost and Utilization Project (HCUP) Statistical Briefs*. Rockville, MD: Agency for Healthcare Research and Quality (US).

<sup>xii</sup>Truven Health Analytics MarketScan Study. “The Cost of Having a Baby in the United States.” January 2013. <http://transform.childbirthconnection.org/wp-content/uploads/2013/01/Cost-of-Having-a-Baby1.pdf>

<sup>xiii</sup>HCI3 analysis of Medicaid managed care plans for the Association of Community Affiliated Plans. 2015.

<sup>xiv</sup>Centers for Disease Control and Prevention. *National Vital Statistics Report*. December 23, 2015. [www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64\\_12.pdf](http://www.cdc.gov/nchs/data/nvsr/nvsr64/nvsr64_12.pdf)

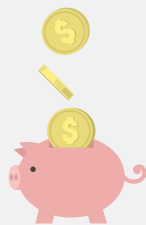
<sup>xv</sup>Caesarean sections are also chosen by some women, and some providers perceive vaginal deliveries to carry more litigious risk, contributing to the procedure's overuse.

<sup>xvi</sup>Truven Health Analytics MarketScan Study. “The Cost of Having a Baby in the United States.” January 2013. <http://transform.childbirthconnection.org/wp-content/uploads/2013/01/Cost-of-Having-a-Baby1.pdf>

<sup>xvii</sup>Truven Health Analytics MarketScan Study. “The Cost of Having a Baby in the United States.” January 2013. <http://transform.childbirthconnection.org/wp-content/uploads/2013/01/Cost-of-Having-a-Baby1.pdf>

<sup>xviii</sup>Health Care Payment and Learning Action Network. “Clinical Episode Payment Models.” 2016. <http://hcp-lan.org/workproducts/cep-whitepaper-final.pdf> Last accessed January 10, 2017.

## EVIDENCE OF COST SAVINGS FROM USING EPISODE-BASED PAYMENT FOR MATERNITY CARE



Many of the maternity episode payment arrangements that are in existence today are quite new and have not operated long enough to have reportable ROI results. The fact that they are continuing to operate into second and third years, however, is indicative that the episodes are having a positive effect on maternity cost and/or quality. Some entities have shared evidence of positive quality improvement with likely positive financial implications. For example, Geisinger's Perinatal

ProvenCare Initiative has reduced NICU admissions by 25 percent, and has not performed an early induction or elective Caesarean delivery before 41 weeks unless medically indicated since 2011.<sup>xix</sup>

Two episode-based programs have reported positive savings specifically for their maternity episodes: Tennessee's Medicaid program and Horizon Blue Cross and Blue Shield of New Jersey.

### TENNESSEE'S HEALTH CARE INNOVATION INITIATIVE

Through Tennessee's Health Care Innovation Initiative, the Tennessee Division of Health Care Finance and Administration mandated that its Medicaid managed care organizations implement a maternity episode (among others) with its providers on January 1, 2015. The episode covers prenatal care, delivery, postpartum care, and treatment of any complications or related readmissions of the mother.<sup>xx</sup> Maternity episodes saved the state over \$4 million dollars in the first year. See the table on the right for details on Tennessee's maternity episode savings as reported by the State.

In addition to the cost savings, Tennessee experienced a positive improvement in quality. All quality measures improved in performance over the baseline, including a 2.2 percentage point decrease in its Caesarean section rate, a 3.9 percentage point increase in Group B Streptococcus screening rate, and a 1.6 percentage point increase in its HIV screening rate, among other quality indicators.

#### RESULTS OF TENNESSEE'S MATERNITY EPISODE IN 2015<sup>xxi</sup>

Number of episodes in 2015	21,058
Reduction in total episode cost	\$4,719,519
Provider reward payments	(\$527,466)
Provider penalty payments	\$244,952
<b>Total savings to the state</b>	<b>\$4,437,006</b>
<b>Total per episode savings</b>	<b>\$210.70</b>

### HORIZON'S EPISODE OF CARE PROGRAM

As previously mentioned, Horizon Blue Cross Blue Shield of New Jersey operates its "Episode of Care" program, which today, consists of nineteen different clinical episodes, including maternity care. Much like other maternity episodes, Horizon's episode covers prenatal care, delivery and postpartum care. Horizon has enrolled over 300 physicians in its maternity care episode and has seen success in important clinical outcomes, such as the Caesarean section rate. New Jersey has a much higher rate of Caesarean sections than the country (more than 40 percent vs. 32 percent) and Horizon has experienced a 32 percent reduction in the number of Caesarean sections among its

Episode of Care provider partners as a result of its new maternity payment model. Among network providers who are not in the Episode of Care program, the rate of C-section remains flat, while among Episode partners, the rate is on the decline, resulting in improved quality of care and recovery for patients (moms and babies), and a reduction in the overall cost of care. Horizon reports a return on investment in the range of 1.5 to 2.0:1 for its maternity episode.

Horizon is also tracking pre-natal and post-partum visits, and opioid use among surgical patients, post-episode.

<sup>xix</sup>Health Care Payment and Learning Action Network. "Clinical Episode Payment Models." 2016. <http://hcp-lan.org/workproducts/cep-whitepaper-final.pdf>

<sup>xx</sup>Memo to TennCare Managed Care Organizations from Keith Gaither, Director Managed Care Operations. September 4, 2014. [www.tn.gov/assets/entities/hcfa/attachments/ProgramDescription.pdf](http://www.tn.gov/assets/entities/hcfa/attachments/ProgramDescription.pdf)

<sup>xxi</sup>Presentation made by the TN Division of Health Care Finance and Administration to the Provider Stakeholder Group, October 19, 2016. <https://tennessee.gov/assets/entities/hcfa/attachments/OctProviderMeeting16.pdf>

<sup>xxii</sup>Calculated by subtracting reward payments from the reduction in total episode cost and adding provider penalty payments to the reduction in total episode cost.

<sup>xxiii</sup>Communication with Lili Brillstein, Director, Episodes of Care, Horizon Healthcare Innovations, January 24, 2017.

### ABOUT THE MATERNITY MULTI-STAKEHOLDER ACTION COLLABORATIVE



The Maternity Multi-Stakeholder Action Collaborative (MAC) is a LAN-supported learning collaborative composed of stakeholders that have committed to implementing maternity care episode payment. It is designed to provide support and resources to organizations that want to drive improvement in maternity care outcomes via alternative payment.

To learn more about and/or participate in the MAC, please visit <https://hcp-lan.org/maternity-action-collaborative/>