Washington Healthcare News®

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Articles, Interviews and Statistics for the Healthcare Executive

VOLUME 7, ISSUE 11 NOVEMBER 2012

Bundled Payments: A Meaningful and Middle-Ground Solution

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As part of its effort to contain rising health care costs, the government is trying to lessen the wide variance in Medicare spending among hospitals. According to *Kaiser Health News*, some researchers believe these spending discrepancies represent excess medical services and account for as much as a third of the $2.6 trillion in total US health care outlays.

The government hopes bundled payments—a lump sum paid, either prospectively or retrospectively, for a specific set of medical services defined by an episode of care—will increase operational efficiencies and bring health care costs down through standard care protocols, greater coordination, and shared accountability.

In a sense, bundled payments made prospectively are similar to quasi-capitation, because hospitals and physicians are forced to consider and manage the cost of treatment for a specific procedure. Put another way, the doctors and hospitals assume the financial risks for an episode of care, not the payer.

That said, selective bundled payments offer a middle-ground between fee-for-service reimbursement and full capitation. And for provider organizations

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Inside This Issue

Washington Healthcare News Moves to All-Digital Format

By David Peel
Publisher
Washington Healthcare News

All Washington Healthcare News readers receive an email when our web site content changes. In addition, about one in three readers receive our print edition. With the exception of advertising, the print edition content mirrors the home page of our web site.

While many publications have moved to an online only format, we've maintained both print and online publications because many of our readers prefer the portability and ease of reading on paper. However, due to the recent availability of reasonably priced WIFI tablets and the high publication and distribution costs of our print edition, we are moving to an all-digital format in January 2013 and will stop publishing our print version.

Changing Business Models

The publishing industry has changed as the internet has become ubiquitous. However, many publishers remain trapped in print only business models. Most have an online presence, generally a web site, but haven't figured out how to make it work financially. They see print edition subscribers decrease each month and hope fee increases will help maintain revenues. In the health insurance industry, this is called a death spiral, and we'll see more print publishers cease business this decade.

The Washington Healthcare News has always provided all online content for free. There is no login requirement. We have offered digital only job postings for many years and have become a leader in our niche. We will now offer digital advertising for consultants and vendors to the health care industry and expect to lead this niche as well. Our digital advertising is about 50% less than what was charged for comparable print advertising.

New Technology

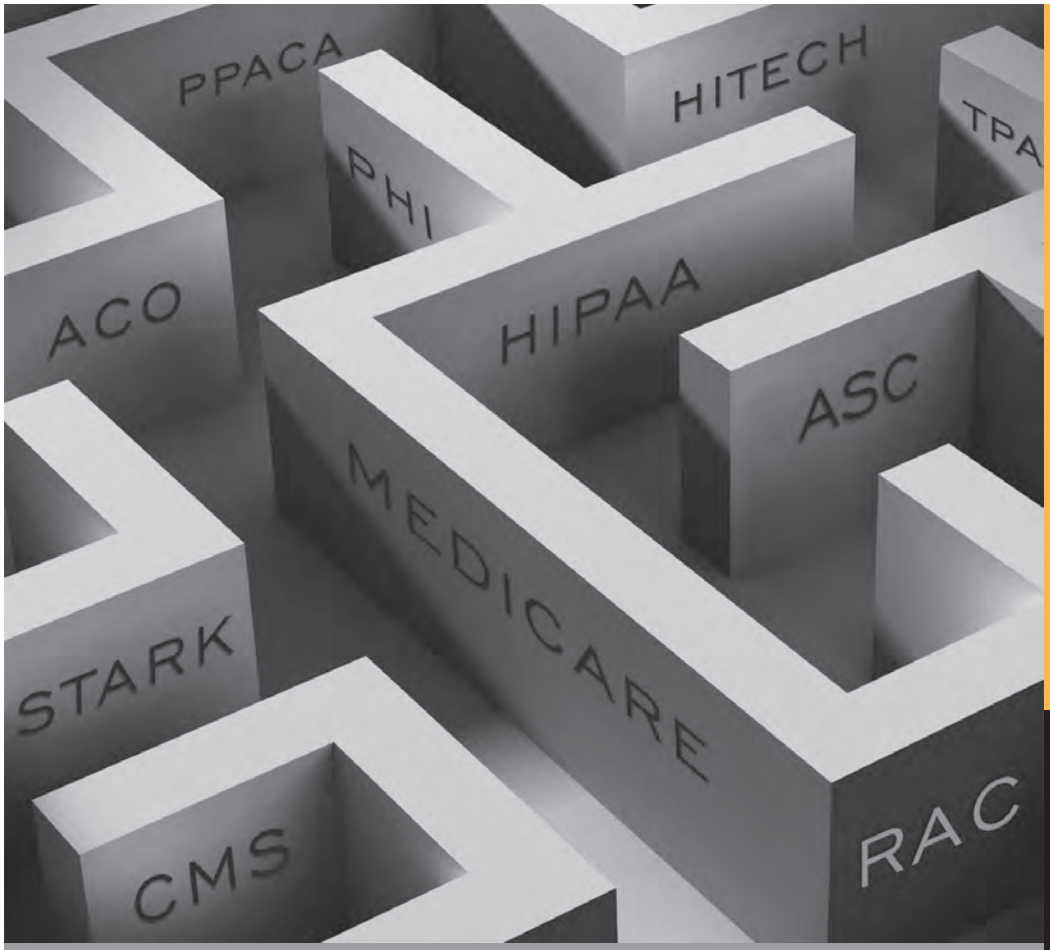
Our web site uses HTML5 technologies to animate images. The iPad recognizes this technology as do all of the iPad competitors. In addition, you don't need to install an application (app) to view Washington Healthcare News content; just visit the site on a tablet at www.wahcnews.com. HTML5 technologies allow the Washington Healthcare News to make a seemless transition to digital only publishing.

Moving Forward

If you are a hard copy recipient of the Washington Healthcare News, and want a similar reader experience, check out the new tablets. Two currently sold at Costco range from $200 to $380, respectively, and each provide a high quality reader experience.

We appreciate the support you've given us in the past and hope you continue to support us in the future.

David Peel is the Publisher of the Washington Healthcare News. He can be reached at 425-577-1334 or dpeel@healthcarenewssite.com.



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transforming themselves into accountable care organizations (ACOs), bundled payments could also be an internal means of aligning incentives with physicians under a global payment system. They can also help providers boost operating margins by negotiating better prices for high-cost devices and driving more efficient care coordination.

A number of organizations have already launched bundled payment initiatives. The Integrated Healthcare Association (IHA) in California, for instance, is implementing a pilot program to test the feasibility of bundling payments for selected inpatient surgical procedures to hospitals, surgeons, consulting physicians, and ancillary providers.

Several months ago BlueCross BlueShield announced that it had reached bundled payment agreements with Vanderbilt University Hospital and three Nashville, Tennessee–area orthopedic groups. The agreements establish a single payment for total knee and hip replacements, including aftercare and rehabilitation.

Finally, the Cleveland Clinic and home-improvement retailer Lowe's have an innovative health care agreement in which doctors at Cleveland perform heart surgeries on Lowe's employees for a bundled payment. The clinic is reportedly discussing a similar agreement with defense contractor Boeing.

Yet despite their promise and potential, bundled payments present challenges. For example, there's a need to define and track a health care episode in order to bundle payments for it. Accurate data is essential to establish baseline costs, set pricing for the bundle, and track ongoing cost savings. And numerous and detailed quality measures must be developed for specific episodes of care.

In addition, strong IT support that focuses on data transparency is critical, as is physician consensus around the treatment protocols. Doctors are key to the success of any bundled payment initiative because they make the decisions that affect the costs of care and the efforts to redesign care delivery.

Lastly, health care organizations understand that there have to be clearly defined, and reimbursed, post-discharge responsibilities. During the post-discharge period,

patients are no longer under the constant management of their attending physician and may develop conditions, and seek treatment for those conditions, outside the control of the physicians who were responsible for their inpatient care. Nonetheless, the costs of these post-discharge services are often charged against the bundled payment.

To address these challenges, organizations interested in embracing bundled payments must start out by conducting a readiness assessment that includes people, governance, infrastructure, quality, finance, capacity, and IT. The key questions here are: Is there room for improvement, and where? And can the organization act as a third-party administrator to track and distribute payments?

If the organization is ready to implement bundled payments, it has to be patient. It will probably take six months to a year to get up to speed. During this period a multidisciplinary work group needs to establish parameters that include episode definition, quality measures, and pricing. It also needs to formulate a strategy that encompasses standards of care, cost reduction, gain-sharing opportunities, and appropriate compliance measures. Once the initiative has been implemented, the organization must also continually reassess and audit to make sure the bundled payment program is generating maximum efficiency and full cost savings.

In the end, it's clear that bundled payments can be complicated; but it's also true that for many providers this model offers a meaningful step toward the future of health care.

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Understanding the Seattle Paid Sick and Safe Time (PSST) Ordinance

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On September 1, 2012, Seattle joined the ranks of only three other cities in the country that require employers with five or more employees to provide paid sick and safe time (PSST) leave to their employees.

What Employers Are Impacted by this Ordinance? This ordinance not only impacts employers whose primary place of business is in the City of Seattle, it also impacts non-Seattle employers who have employees who work at least 240 hours within the city of Seattle, within a calendar year. Work is defined as performing any function other than simply passing through the city. The definition of workplace is equally as broad and may include telecommuting. However, the ordinance will not apply to employees who are on work study, or federal, state or county government employees. Additionally, employers with employees represented by unions may agree with the union in the applicable collective bargaining agreement to waive the requirements of the PSST ordinance, for the represented employees.

To reduce the burden on small employers, the ordinance establishes different tiers of benefit accrual. Tier 1 employers are those with between 5 and 49 employees; Tier 2 employers are those with between 50 and 249 employees, and Tier 3 employers are those that have at least 250 employees. A determination of the tier in which an employer falls will be based upon the average number of full time equivalent employees paid per calendar week during the preceding calendar year. In order to arrive at this number, an employer must consider *all* compensated hours of *all* employees (including full time, part time and hours worked for the employer by temporary workers regardless of the source of those temporary employees). In arriving at their tier, employers must consider hours regardless of whether the hours were worked in or outside Seattle. Once an employer has determined the tier in which it falls, the employer will know how many hours of PSST leave it must provide.

The definition of an employer is also more expansive than one might think. An "employer" may include more than one business entity and may be treated differently depending on whether the entity is considered

an integrated enterprise. If the multiple businesses are considered an integrated enterprise, they would be treated as a single employer and all employees of the integrated enterprise counted in determining the tier into which it falls. However, if they are not an integrated enterprise, each business stands alone in determining the appropriate tier level under which they are required to provide benefits under the ordinance.

Special Considerations Regarding New Employers: New employers are provided a grace period under the ordinance and are not required to comply with the provisions of the law until 24 months after they hire their first employee.

How Much Leave Are Employees Entitled to Under this Ordinance? Employees may use leave after 180 days of employment. The amount of PSST leave depends upon the tier in which the employer falls. Tier 1 and 2 employers must provide at least one hour of PSST leave for every 40 hours worked. However, the cap on the accrual is different for the two tiers with Tier 1 maxing out at 40 hours of accrual while Tier 2 maxes out at 56 hours. Accrual for Tier 3 employers is different, requiring that Tier 3 employers must provide 1 hour of PSST leave for every 30 hours worked with a maximum accrual of 72 hours. If employees do not use the accrued time, the ordinance requires that an employee be permitted to carry the unused time over into the next year with a maximum carry over equal to the annual rate accrual for each tier, except Tier 3 employees with universal leave policies must allow up to a 108 hour carry over. Employers are not, however, required to pay for accrued unused PSST leave if an employee leaves employment. However, if the employee leaves and is reinstated within seven (7) months, the employee's unused PSST leave must be reinstated.

For What Types of Absences May This Leave Be Used?

Sick Time: Employees may use the PSST leave for their own medical issues or to facilitate preventive care or to care for a family member with a mental or physical injury who needs diagnosis, care or treatment. In order to secure this leave, an employee need only request the leave in a manner that is consistent with the employer's usual and customary procedures relating to sick leave. If an employee is absent for *any portion*

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of three (3) or more consecutive days, an employer may require signed medical certification from a health care provider that the leave is necessary. An employer *may not* require that the health care provider explain the nature of the medical condition. If an employer does not provide health care insurance for their employees but wishes to require a medical certification for absences of 3 or more days, the employer must pay one-half (1/2) of any out of pocket expenses incurred by the employee in obtaining the medical certification (including services of the health care provider and transportation). Time taken as PSST leave may not be counted as an absence for purposes of discipline or under a no fault attendance policy.

Safe Time: Employees may also use PSST leave to attend to issues related to sexual assault, domestic violence and stalking including time to receive treatment, time to avail themselves of other necessary services and time to participate in legal proceedings related to these events. The purpose of permitting leave for these activities is to enable the employee to maintain financial independence, achieve safety and minimize both physical and emotional injuries arising out of the domestic violence, sexual assault or stalking.

Employees may also use PSST leave to assist immediate family members, including domestic partners, individuals with whom the employee has a child in common, individuals with whom the employee has either a biological or legal parent child relationship and/or individuals to whom the employee is or has been married or, if the employee is over the age of 16, someone with whom the employee has had a romantic relationship as defined by Washington law who need the employee's assistance because of sexual assault, domestic violence or stalking.

PSST is also available to employees in the event a public official determines that either the employee's place of business and/or their child's school should close to limit exposure to infectious agents, hazardous materials or biological toxins.

Impact of Ordinance on Universal Leave Programs: If an employer has a combined sick and vacation leave policy, or PTO policy, the policy must permit use in the amount and for

the reasons covered by the PSST ordinance. If it does not, they are required to increase the amount of PTO leave or combined leave so that the amount of leave is adequate to accommodate the maximum hours of leave required by the ordinance. Specifically, Tier 3 employers with universal or combined leave programs are required to provide at least 108 hours of leave and permit up to 108 hours of unused leave to be carried over. Therefore, this ordinance may require the amendment of policies which are currently use it or lose it policies to conform to these requirements.

Employers who are deemed to have a combined policy may not require employees to disclose whether they are using PTO for purposes permitted under the ordinance. However, where the accrual of universal leave is equal to or greater than the amount of PSST leave required by the ordinance, if an employee exhausts his/her PTO, the employer will not be required to provide additional leave to be used for sick or safe reasons until the next scheduled accrual.

How Is Pay Calculated? Compensation for non-exempt employees depends upon when the leave is taken. If the leave is taken when the employee is scheduled to work straight time hours, then the straight time rate applies. If leave is taken during a time when the employee is entitled to overtime and/or a premium rate, then the overtime or premium rate applies. Employees are not entitled to lost tips or commissions during use of paid sick/safe leave.

Pay for exempt employees is determined by dividing the employee's annual salary by 52 weeks to arrive at a weekly salary. Once the weekly salary is determined, then the weekly salary is divided by the actual hours regularly worked in a week not to exceed 40 hours.

What Happens if an Employer Suspects Abuse? Although the ordinance clearly prohibits any form of retaliation for use of leave pursuant to the ordinance, abuse by employees is not sanctioned by the ordinance. Consequently, the regulations permit a requirement for documentation, and presumably discipline for failure to adequately respond, if there is a pattern or clear evidence of abuse. The regulations define abuse as repeated absences, repeated instances of absences which precede or follow regular

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Washington State Health Insurance Company Financial Results[1]

For the Six Months Ended 06/30/12 compared to the Six Months Ended 06/30/11

Full Service Medical Plans Only - Sorted by Total Revenues - 000's Omitted[2]

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	Member Months[3]			Total Revenues			Net Underwriting Gain (Loss)[4]			Investment Gain (Loss) & Miscellaneous			Other Income[5]			Net Income (Loss)		
Health Plan Name	**06/12**	**06/11**	**Change**	**06/12**	**06/11**	**Change**	**06/12**	**06/11**	**Change**	**06/12**	**06/11**	**Change**	**06/12**	**06/11**	**Change**	**06/12**	**06/11**	**Change**
Dollars																		
Premera Blue Cross	3,979	3,422	557	1,263,212	1,228,841	34,371	37,802	56,140	-18,338	25,447	28,150	-2,703	2,733	-242	2,975	57,149	72,128	-14,979
Regence BlueShield	3,541	3,765	-224	1,096,830	1,110,712	-13,882	-5,210	-10,850	5,640	28,323	40,920	-12,597	-972	-2,187	1,215	17,578	29,551	-11,973
Group Health Cooperative	2,156	2,216	-60	1,069,949	1,041,008	28,941	6,987	2,424	4,563	9,655	30,937	-21,282	0	0	0	16,642	33,360	-16,718
Group Health Options	1,320	1,423	-103	506,884	505,940	944	-13,062	1,936	-14,998	2,588	2,438	150	0	0	0	-10,475	2,533	-13,008
Molina Healthcare of WA	2,135	2,061	74	479,544	409,045	70,499	17,581	10,464	7,117	611	594	17	0	0	0	5,953	6,871	-918
Community HP of WA	1,671	1,688	-17	381,283	348,768	32,515	-14,045	-2,148	-11,897	7,712	1,447	6,265	-910	-45	-865	-7,243	-746	-6,497
UnitedHealthcare of WA	323	328	-5	257,103	261,263	-4,160	1,059	24,398	-23,339	1,769	1,288	481	0	0	0	-7,958	16,440	-24,398
Arcadian Health Plan	255	255	0	199,474	208,492	-9,018	-9,192	-1,218	-7,974	580	3,640	-3,060	24	0	24	-8,052	2,421	-10,473
LifeWise HP of WA	668	594	74	163,032	139,885	23,147	-7,918	-455	-7,463	1,983	2,094	-111	-32	109	-141	-4,030	1,032	-5,062
Asuris NW Health	418	468	-50	124,083	131,379	-7,296	8,474	537	7,937	1,048	1,298	-250	-38	-35	-3	6,161	1,277	4,884
SoundPath Health	99	67	32	64,894	19,749	45,145	379	146	233	170	86	84	-26	-76	50	523	156	367
Columbia United Providers	367	355	12	64,345	67,969	-3,624	1,281	2,325	-1,044	31	64	-33	0	0	0	853	1,661	-808
KPS Health Plans	153	182	-29	59,331	65,080	-5,749	401	4,064	-3,663	121	-88	209	-218	-128	-90	304	3,783	-3,479
Timber Prod. Mfg. Trust	66	71	-5	15,105	12,600	2,505	1,570	1,558	12	2	67	-65	-109	0	-109	1,464	1,625	-161
Per Member Per Month[6]																		
Premera Blue Cross	3,979	3,422	557	317	359	-42	10	16	-7	6	8	-2	1	0	1	14	21	-7
Regence BlueShield	3,541	3,765	-224	310	295	15	-1	-3	1	8	11	-3	0	-1	0	5	8	-3
Group Health Cooperative	2,156	2,216	-60	496	470	26	3	1	2	4	14	-9	0	0	0	8	15	-7
Group Health Options	1,320	1,423	-103	384	356	28	-10	1	-11	2	2	0	0	0	0	-8	2	-10
Molina Healthcare of WA	2,135	2,061	74	225	198	26	8	5	3	0	0	0	0	0	0	3	3	-1
Community HP of WA	1,671	1,688	-17	228	207	22	-8	-1	-7	5	1	4	-1	0	-1	-4	0	-4
UnitedHealthcare of WA	323	328	-5	796	797	-1	3	74	-71	5	4	2	0	0	0	-25	50	-75
Arcadian Health Plan	255	255	0	782	818	-35	-36	-5	-31	2	14	-12	0	0	0	-32	9	-41
LifeWise HP of WA	668	594	74	244	235	9	-12	-1	-11	3	4	-1	0	0	0	-6	2	-8
Asuris NW Health	418	468	-50	297	281	16	20	1	19	3	3	0	0	0	0	15	3	12
SoundPath Health	99	67	32	655	295	361	4	2	2	2	1	0	0	-1	1	5	2	3
Columbia United Providers	367	355	12	175	191	-16	3	7	-3	0	0	0	0	0	0	2	5	-2
KPS Health Plans	153	182	-29	388	358	30	3	22	-20	1	0	1	-1	-1	-1	2	21	-19
Timber Prod. Mfg. Trust	66	71	-5	229	177	51	24	22	2	0	1	-1	-2	0	-2	22	23	-1

Notes:

1. All information from the Washington State Office of Insurance Commissioner web site.
2. 000's omitted means the last three digits of each figure is removed. For example, the number 1,000 becomes 1.
3. Member Months is the combined total of each month's ending membership. For example, to get Member Months through 12/11, monthly membership for January through December is added together to get a combined total.
4. Net Underwriting Gain (Loss) is Net Income prior to Income taxes, Investment Gains and Losses and Miscellaneous revenues and expenses. It is a thought to be an accurate measure of the adequacy of premium revenue and can be a good predictor of future premium increases or decreases.
5. A negative Other Income number means it was an expense.
6. Per Member Per Month is any of the financial figures divided by Member Months for the particular plan.

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days off or some other pattern which might be indicia of abuse.

Conclusion: Though complicated, careful review of the ordinance, attention to its definitions, and planning should help impacted employers navigate the new leave grid.

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