

# THE DEBATE OVER EPISODE-BASED PAYMENTS IN ONCOLOGY

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**CAN THIS SYSTEM REPLACE BUY AND BILL?**

– By Paul Watson –



## In a reformed healthcare system, will oncologists be paid by the episode?

The current economic downturn has only added more fuel to the fire in the debate over universal healthcare and provider payment reform. As the Obama administration is now turning its attention to this debate, many analysts and legislators are expressing disdain over the fee-for-service model—a system they see as rewarding volume and intensity of service rather than the quality and clinical value of those services. As a result, it seems there is an increasing number of experts who are considering the implementation of the episode-based payment system as a replacement for the fee-for-service model; however, there is also increasing speculation from opponents about how such an approach might work in oncology, or if it can work at all when it comes to replacing buy and bill. Interestingly, it is not the Centers for Medicare and Medicaid Services (CMS) that is testing the efficacy of an episode-based payment system in oncology, but rather United Healthcare, a private payer. This fact alone may highlight the vast savings potential insurers see in such a payment model.

### Testing Grounds for a New System

According to Stuart Gutterman, MD, Senior Program Director of the Commonwealth Fund's Program on Medicare's Future, "The fee-for-service payment system is the wrong way to go. Bundled payment is simply a way to encourage providers to take broader responsibility for the care that their patients get and also rewards them for doing that." The Commonwealth Fund is a private foundation that supports independent research on healthcare issues and offers grants to improve healthcare practice and policy.

Under an episode-based payment model, hospitals or healthcare professionals receive a single fixed payment that covers the entire hospitalization episode for the patient. This payment ostensibly covers all the costs associated with the patient's treatment (i.e., blood tests, chemotherapy, nurse visits, follow-up care, etc). The fixed payment may be adjusted for severity of illness or revised until a clinical outcome is achieved. Providers whose costs exceed the average payment would be financially penalized whereas providers whose costs fell far below the average would profit handsomely. As a result, healthcare professionals have an incentive to provide the best quality care at the lowest possible price.

Although President Obama's Recovery Act included \$1.1 billion for comparative effectiveness research (and his budget touched on bundled payment models for Medicare reimbursement) there may be little political motivation in Congress to implement payment methods, based on comparative effectiveness research, especially since meaningful outcomes in oncology will not be documented for some time.

As such, episode-based payments may provide CMS a roundabout way of implementing "least costly alternative" reimbursement strategies by proxy and physicians may choose less expensive drugs that are clinically equivalent to treat their patients in order to keep their expenses low.

### Compelling Yet Controversial

Experts like Trish Goldsmith, Executive Vice President and COO of the National Comprehensive Cancer Network (NCCN) and Lee Newcomer, MD, Senior Vice President of Oncology at United Healthcare are divided over the merits of instituting an industry-wide episode-based payment model in oncology. Both agree that the fee-for-service model needs revision, though Goldsmith sees bundled payments as too simplistic a system for the convoluted nature of cancer care, and paradoxically, too complex administratively to execute efficiently at the office.

Goldsmith stated that an episode-based payment system is an excellent idea in theory, "but, I just don't see a broad, quick uptake of that system because of the administrative complexities and the huge risk and variability associated with the technologies, drugs, and biologics used to treat cancer."



**Trish Goldsmith,**  
Executive Vice President  
and COO, National  
Comprehensive Cancer  
Network

She noted that several years ago, one of NCCN's member institutions, Roswell Park Cancer Institute in Buffalo NY, entered into an episode-based payment contract with their local Blues plan. "The project lasted for about two years and while both parties were satisfied with it, it was an administrative nightmare and just too difficult to implement and maintain."

On the other hand, Newcomer believes that medical oncologists may come to embrace [cont. on pg 10 >>](#)

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