Medicare pays between $16,500 and $33,000 for hip or knee replacements depending upon the hospital and geographic area of the country, but with a new payment program Medicare expects to save $343 over the next five years.

On Nov. 16, 2015, the Centers for Medicare & Medicaid Services announced they would begin to make bundled payments for these surgeries in 800 hospitals in 67 geographic areas under a model program over the next five years.

The new payment program is a move away from fee-for-service payment to value-based payment where health care providers are financially incentivized to provide quality services rather than payment based on the quantity of services provided. A similar Medicare program begins Jan. 1, 2016 for home health agencies.

Hospitals asked for a delay in the program when commenting on the draft regulations. CMS pushed back implementation from Jan. 1, 2016 to April 1, 2016.

State policymakers will want to watch these two broad-scale value-based models with their own Medicaid programs in mind. New York and Arkansas are two states that have already made significant movement toward value-based systems. Minnesota, Pennsylvania and Oregon also have experimented with Medicaid payment reforms, described here.

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