

# ACOs

## How Do You Get There From Here?

**H**ow do you get there from here? Many hospitals and health systems are asking that question when it comes to forming accountable care organizations. So far, there are no clear answers. While the Affordable Care Act encourages ACOs, it doesn't mandate them. And with less than a year to go before the Medicare ACO program is set to be up and running, key details and requirements have yet to be released.

"There are several big challenges facing hospitals," says Nancy Foster, the American Hospital Association's vice president of quality and patient safety. "A great deal depends on how the Centers for Medicare & Medicaid Services write the final regulations."

Despite the unknowns, there are important steps your organization can take when considering forming an ACO. First, you need a good understanding of the patient population that likely would be served by the ACO, including their utilization habits. Next, you need a concrete idea of what your organization would do differently as an ACO to improve and maintain the quality of care.

An assessment of physician alignment is critical. "ACOs will have to have a strong primary care base," notes Jim Smith, senior vice president of the Camden Group. ACOs will require a shift in thinking from high volume to high value, emphasizing primary and preventive care. "A primary care physician strategy will be a key component for ACO success," Smith says.

Without effective IT systems, an ACO will be a non-starter, says Bruce Henderson, national leader of PricewaterhouseCoopers Electronic Health Record-Health Information Exchange Practice. "A patient-centered record, aggregated across the community, is essential to manage the population," he says. ACOs will need a fully functional, electronic health record, as well as health information-exchange capabilities, Henderson says, adding that few organiza-

tions currently meet these requirements.

Payment reform is one of the foundations for ACO formation, holding providers accountable for cost and quality. The hospital-payer relationship will alter significantly. "Accountable care organizations need to do a lot of homework before entering discussions with payers," says Danielle Lloyd, senior director of reimbursement policy for Premier. Among other things, she recommends that organizations conduct simulations of various payment models to determine what level of shared payment and risk is right for them. Doug Cropper, president and CEO of Genesis Health System, Davenport, Iowa, advises that payer negotiations take time. "We have been meeting with payers every two weeks for the past year," he says. "Even with that level of frequency, we still have a lot to do."

"Health care has to change regardless of what people think of health care reform," says Michael Bryant, president and CEO of Methodist Medical Center, Peoria, Ill. "We want to be ahead of that change." With a lot of the elements in place, Methodist is positioning itself to participate in the Medicare ACO program next year, and is also in discussions with commercial payers to transform payment and delivery models. The organization has placed significant emphasis on educating employees on the pending transformation. "We are just now getting our organization to understand the different and complex paradigm shift that is occurring," Bryant says.

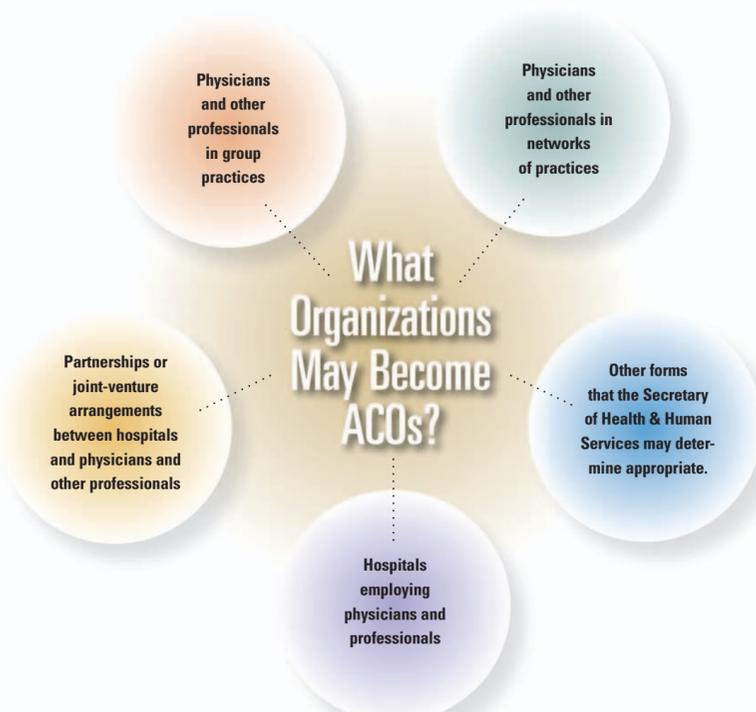
Following the successful launch of a disease-management partnership with Michelin, a large, local employer, Bon Secours St. Francis Health System in Greenville, S.C., is considering forming an ACO. "The cost curve in health care is not sustainable," notes Johnna Reed, vice president of cardiovascular services. "We realize that we have the delivery model, partnership and payment test model in place for an ACO." The patient-centered, accountable care model may be the tipping point for easing costs and improving population health, she adds. ●

## ACO Requirements

ACOs are touted as a means to transform the care delivery system, with a focus on coordinated, patient-centered care. The Affordable Care Act outlines the requirements organizations must meet to form ACOs under the Medicare Shared Savings Program. These requirements can be applied to non-Medicare ACOs as well.

- Define processes to promote the practice of evidence-based medicine and provide data to evaluate quality and cost measures.
- Build a management and leadership structure that includes administrative and clinical systems.
- Develop a formal legal structure that allows the organization to receive payments and distribute shared savings among participating providers.
- Have enough primary care providers to provide care to a minimum of 5,000 Medicare beneficiaries.
- Provide the Centers for Medicare & Medicaid Services with a list of participating primary care practitioners and specialists.
- Contract with a core group of specialist physicians.
- Agree to participate in the program for a minimum of three years.

Source: H&H research, 2011



Source: The Centers for Medicare & Medicaid Services, 2011

## Required Organizational Competencies

ACOs will vary based on their composition, population served, payment structure and risk assumption. This flexibility is necessary to address variations in populations and provider arrangements across the country, among other things. No one model will work. Yet, to be successful, all ACOs will need to possess a set of organizational competencies to ensure a solid foundation to support the transformation of the care delivery system.

» **Executive leadership:** Executive leadership and participation are critical to ACO formation and success. Without support from senior leadership, organizations will have a tough time establishing trusting relationships with payers and other providers in the community.

» **Physician leadership:** Physician leadership is essential to secure support for delivery system reform.

» **Relationships with other providers:** The ACO must comprise the full continuum of care for patients, including, but not limited to, primary care, acute care and post-acute care services.

» **Patient-centered primary care model:** To effectively manage population health, ACOs need a solid, primary care model, such as the medical home, to provide appropriate, coordinated patient care.

» **IT infrastructure:** A robust IT infrastructure is a vital component of ACOs to facilitate the management of patient information across multiple sites of care. ACOs require electronic health records and health information exchange to manage care and share information in real time.

» **Legal structure:** The ACO must have a legal structure that allows the receipt and distribution of payments and savings to participating providers.

» **Quality reporting:** The ACO must have defined processes to support evidence-based medicine, be able to set quality benchmarks and measure performance indicators.

» **Ability to manage financial risk:** The ACO model eventually may shift utilization and revenues significantly. ACOs also take on risk associated with managing a given patient population and meeting cost and quality projections.

» **Clinical management:** Clinical systems should promote the use of evidence-based medicine, report quality and cost measures and facilitate care coordination.

» **Patient education:** A significant educational effort is needed to help patients understand the benefits of receiving care from an ACO.

Source: H&H research, 2011

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### CAPITAL

Forming an ACO will require significant up-front capital. The development of a strong IT framework alone will require a sizable capital investment. Access to capital may be challenging for some organizations as investors may be wary about investing in new undertakings.

2

### PHYSICIAN BUY-IN

Some physicians may have concerns about relinquishing autonomy and may resist shared-payment arrangements.

3

### PATIENT BUY-IN

Patients likely will be assigned to an ACO, but they also will be allowed to see providers outside of the ACO. Whether consumers will understand and accept the ACO concept is uncertain. ACOs will need to educate consumers about their role in reducing costs and improving quality.

4

### LEGAL AMBIGUITY

The formation and operation of ACOs require the coalescing of diverse provider groups to develop a new system of care with the aim of improving quality and reducing costs. Antitrust issues such as price-fixing and accrual of significant market power are of concern, as are the Stark self-referral kickback laws. CMS will need to address these issues to prevent potential legal impediments to ACO formation.

Source: H&H research, 2011

## FOUR SCENARIOS: Potential Next Steps in ACO Formation

If your organization is considering forming an ACO, how you get started depends on numerous factors, including level of physician alignment, relationships with other community providers, IT infrastructure and access to capital. Here are suggested next steps for forming an ACO based on different organizational scenarios.

Without a fully functional, electronic health record, as well as health information exchange capabilities and physician alignment, an ACO will have little chance of survival.

Challenges to ACO Formation



**SCENARIO 1:** Organizations with aligned physicians, limited IT infrastructure and nonmanaged care environment

**Next steps:**

- Conduct gap analysis of competencies and resources.
- Assess capital strategy.
- Consider strategic partnerships.
- Invest in IT.

**SCENARIO 2:** Organizations with significant physician alignment and relationships with providers across the continuum of care, and that operate in a managed care environment with geographic coverage

**Next steps:**

- Conduct a market analysis and assess organization's position.
- Take advantage of opportunities to differentiate or grow market share.
- Pursue a Medicare ACO pilot, as well as ACO strategies with private payers.
- Expand market further to ensure appropriate geographic coverage.
- Ensure that compensation reinforces an ACO-oriented culture.

**SCENARIO 3:** Organizations with fragmented physician relationships, limited IT infrastructure and limited data analytics capability, high costs, average quality and service scores, and secondary market position

**Next steps:**

- Pursue performance improvement for operations and quality and service.
- Examine organization's long-term sustainability in reformed payment system.
- Reassess need for strategic partnership(s).
- Develop IT investment plan.
- Develop plan for physician integration.

**SCENARIO 4:** Organizations with strong physician alignment, robust IT infrastructure, high cost or inconsistent quality, access to capital and culture willing to adapt

**Next steps:**

- Continue to focus on performance improvement.
- Examine how the organization can be more efficient and improve quality.
- Explore how to advance more quickly to ACO model.

Source: The Camden Group, 2010