

### Accountable Care Organizations Series: Why Do We Need ACOs?

The current structure of Accountable Care Organizations (ACOs) was shaped by Elliott Fisher, M.D., M.P.H., of Dartmouth Atlas of Health Care, in 2006, but this new management style for healthcare entities was not brought into the mainstream until the passage of the Patient Protection and Affordable Care Act (ACA) on March 23, 2010.<sup>1</sup> Specifically, the Medicare Shared Savings Program provision establishes ACOs as a major health care reform initiative. This article examines the healthcare environment and the prominence of ACO's prior to the healthcare reform legislation and endeavors to answer the question: *Why Do We Need ACOs?*

#### A BRIEF HISTORY OF ACCOUNTABLE CARE

The current goals of healthcare reform, which include lowering costs, increasing quality of care, and increasing access to care, are not new to the healthcare landscape, nor is the concept of accountable care. With its inception in the 1920's, managed care has been the medium through which the US has aimed at reaching these goals. Accountable care began in 1932 when the Committee on the Costs of Medical Care was tasked with studying the economics of healthcare and the prevention of illness.<sup>2</sup> Through this process, the Committee issued the following five major recommendations for the healthcare community: (1) medical service should be organized by groups of physicians, nurses, pharmacists, etc., centered around a hospital; (2) make all basic public health services available to the entire public; (3) implement group payment, such as insurance or taxation, for costs of medical care; (4) states should focus on coordination of care and create agencies to do so; and (5) professional medical education should be stricter with emphasis on prevention and expansion of primary care physicians.<sup>3</sup>

The story continues nearly forty years later when managed care received a push into the mainstream with the passage of the Health Maintenance Act of 1973, creating Health Maintenance Organizations (HMOs) to contain healthcare costs and integrate health systems. While managed care and HMOs attempted to lower costs, providers resisted the restrictions of the Act and opted to form independent physician associations (IPAs) instead of group practices. As a result, the overall goals of the Health Maintenance Act were not achieved and many critics judged managed care as unsuccessful, e.g.,

contributing to higher health care costs, increasing the number of uninsured and lowering quality.<sup>4</sup> By the 1990's the provider and patient backlash against managed care hit an all-time high, leading to fee-for-service (FFS) and pay-for-performance payment models being utilized more prevalently in recent years.<sup>5</sup>

#### CURRENT HEALTHCARE ENVIRONMENT

The rising cost of healthcare in recent years has been attributed to both the aging population and their increasing demand for services, in addition to waste.<sup>6</sup> One study estimated that in 2008, the annual cost of preventable medical errors accounted for \$17.1 billion of the total national health expenditures, \$2.3 trillion.<sup>7</sup> The waste attributed to medical errors result in adverse outcomes from misdiagnosis, surgical injuries, incorrect drug prescriptions, and various other mishaps.<sup>8</sup> Additionally, the Agency for Healthcare Research and Quality's annual National Healthcare Quality Report for 2009 emphasized that another reason for low health care quality is that people without insurance are less likely to get recommended preventive care and care management services.<sup>9</sup> This generally leads to low quality of care and more catastrophic healthcare events. A positive feature of the current healthcare reform environment is the recent dedication to management technology.

Advancements in technology in the healthcare industry in recent years, such as the introduction of electronic health records (EHR), have made people in the industry hopeful for efficient sharing of medical records and reduced overhead costs. Through the American Recovery and Reinvestment Act of 2009, Federal healthcare reform assigned \$19 billion in funding for health information technology to be upgraded uniformly, but provider resistance has prevented large scale permeation, with only 20.5 percent of physicians reporting use of EHRs that meet ARRA functionality criteria in 2009.<sup>10</sup>

#### CONCLUSION

One means through which the ACA attempts to address concerns related to high costs, low quality, and inefficient utilization of healthcare technology, is through ACOs. However, the many challenges associated with the implementation of certain healthcare reform initiatives has created much uncertainty. While

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ACO demonstration projects and pilot programs are beginning to take shape, ACOs as outlined in the healthcare reform legislation, are currently only a theoretical model of healthcare delivery with an unknown likelihood of success.<sup>11</sup> In the next article in this series we will examine the various ACO models and structures that have been proposed to date, and attempt to answer, *What is an ACO?*

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- 3 "I.S. Falk, the Committee on the Costs of Medical Care, and the Drive for National Health Insurance" By Milton I. Roemer, American Journal of Public Health, Vol. 75, No. 8, 1985, p. 842.
- 4 "Managed Care as Victim or Villain?" By Kenneth E. Thorpe, Journal of Health Politics and Law, Vol. 24 No. 5, October 1999.
- 5 "Accountable Care Organizations: Will They Deliver?" By Marsha Gold, Mathematica Policy Research, Inc., January 2010, p. 6.
- 6 "Crossing the Quality Chasm: A New Health System for the 21st Century" Institute of Medicine, Washington D.C.: National Academy Press, 2000, p. 3
- 7 "The \$17.1 Billion Problem: The Annual Cost of Measurable Medical Errors" By Jill Van Den Bos, et. al., Health Affairs, Vol.

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- 8 "The State of Health Care Quality in America" Robert Wood Johnson Foundation, <http://www.rwjf.org/files/research/currentstateofquality.pdf>, (Accessed 5/18/11).
- 9 "Key Themes and Highlights from the National Healthcare Quality Report" Agency for Healthcare Research and Quality (2009), <http://www.ahrq.gov/qual/nhq09/Key.htm>, (Accessed 5/18/11).
- 10 "Electronic Medical Record/Electronic Health record Use by Office-Based Physicians: United States, 2008 and preliminary 2009" By Chun-Ju Hsiao, et al., Centers for Disease Control and Prevention, National Center for Health Statistics, December 2009, p.4; "Working Group 6: the Role of Technology to Enhance Clinical and Educational Efficiency" By Steven E. Nissen, et al., Journal of the American College of Cardiology, Vol. 44, No. 2, 2004, p. 258; "Healthcare and the American Recovery and Reinvestment Act" By Robert Steinbrook, The New England Journal of Medicine, Vol. 360, No. 11, March 12, 2009.
- 11 "Accountable Care Organizations, Explained" By Jenny Gold, NPR, January 18, 2011, <http://www.npr.org/2011/01/18/132937232/accountable-care-organizations-explained>, (Accessed 3/7/11)



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