

Emerging Healthcare Organizations in an Era of Reform: Accountable Care Organizations

This is the second in a series of articles regarding new models and arrangements for emerging healthcare organizations (EHOs) in light of the continuing efforts towards healthcare reform. Future issues will address such topics as the Medical Home model and issues related to bundling payments for an episode of care.

With the passage of the new healthcare reform legislation, healthcare professionals are looking for new ways to increase efficiency and value, while decreasing the cost of providing healthcare services. One “solution” proposed by the reform legislation is the creation of accountable care organizations (ACOs). ACOs are healthcare organizations in which a set of providers, usually physicians and hospitals, are held accountable for the cost and quality of care delivered to a specific local population.¹ ACOs are currently only a theoretical mode of healthcare delivery and although the likelihood of success is yet unknown, the new legislation set forth requirements and plans for future pilot programs.

An ACO may be developed from several existing healthcare enterprise organizational models, e.g., physician group practices or network of practices; partnerships between hospitals and physicians; or, hospital – physician employee models.² Because hospitals and physicians are jointly responsible for the quality of care delivered to patients, they are jointly eligible for sharing in any of the cost savings achieved through clinical and operational efficiencies.³ However, certain criteria for participating in an ACO must be met:

1. A formal legal structure must be established in order to receive and distribute any shared savings;
2. The ACO must have a sufficient number of primary care physicians in order to provide care for at least 5,000 beneficiaries;
3. Any organization desiring to be an ACO must commit to participate in the program for at least three years;
4. The organization must have a management structure that includes both clinical and administrative systems;
5. The ACO must define processes to promote “evidence-based medicine,” which may be used to report data which evaluates cost, quality measures and the coordination of care; and,
6. The organization must demonstrate that it focuses on patient-centered care.⁴

ACOs are designed to increase healthcare quality while decreasing cost. What sets ACOs apart from other integrated health systems is the degree of autonomy given to physicians and the flexibility afforded to

physician groups, hospitals, and other networks of providers for the implementation of ACOs.⁵ For example, physicians may choose from a variety of payment structures (e.g., capitated payments, bundled payments, and bonuses from a portion of withheld fee-for-service costs) to determine the amount of risk they want to assume.⁶ Because the goal of the ACO model is to increase quality instead of quantity, physicians will receive bonuses for meeting resource use and quality targets over the course of a year and penalties for failing to meet both of these requirements.⁷ Also, because the Patient Protection and Affordable Care Act (PPACA) prohibits any additional program expenditures, incentive payments made to ACOs may only come from any savings generated by the ACO, thereby providing a strong motive to minimize healthcare costs.⁸ The American Medical Group Association (AMGA) has released a list of principles that they believe are essential to creating the ideal ACO:

- (1) Multispecialty medical groups and other organized systems of care make the strongest foundation for ACOs;
- (2) ACOs must be physician-led because they are best qualified to provide diagnosis and treatment of patients;
- (3) ACOs must be accountable for healthcare services in the communities they serve;
- (4) ACO incentives must be aligned to foster voluntary participation;
- (5) The core of ACOs must be primary care;
- (6) ACOs should be learning organizations that gather and use data to improve the efficiency and safety of patient care; and,
- (7) The core values of an ACO should include quality, patient-centered care, care coordination, accountability, innovation, physician self-governance, and leadership development.⁹

Although the provisions of the PPACA regarding ACOs do not go into effect until 2012, many healthcare professionals are urging physician and specialty groups to begin moving toward creating an ACO model now.¹⁰ Some physician groups have already begun operations as ACOs, e.g., as early as January 2010, Hill Physicians Medical Group in California began partnering with Blue Shield of California.¹¹ While one of the biggest

challenges has been in the arena of health information technology and transferring data among the entities,¹² Blue Shield has reported progress toward achieving healthcare cost savings for the year while maintain quality care delivery to the patient community.¹³

Because the concept of ACOs is still in its early stages, even with pilot programs that have already begun, there are still many uncertainties regarding their effectiveness. One area of uncertainty is related to the assignment of beneficiaries, i.e., healthcare professionals are concerned that because patients who are assigned to ACOs will still be able to seek care from other providers, providers who are outside the ACO may not share the same quality improvement, care coordination and cost-saving goals.¹⁴ Further, questions have arisen regarding how the ACO's shared cost savings will be calculated *vis a vis* any adjustments which may be needed to reflect the particular population that the individual ACO serves.¹⁵ Further, providers are also worried about existing antitrust laws since ACOs requires collaboration among independent providers who are often considered competitors.¹⁶

While the success of implementing an ACO model is yet uncertain, and procedural and legal issues must be resolved, early pilot operations appear to have given some insight into the potential benefit that ACOs could have on the healthcare system.

¹ "Can Accountable Care Organizations Improve the Value of Health Care by Solving the Cost and Quality Quandaries?" By Kelly Devers and Robert Berenson, Urban Institute, (October 2009) p. 1.

² "Medicare 'Accountable Care Organizations' Shared Savings Program—New Section 1899 of Title XVIII: Preliminary

Questions & Answers" CMS/Office of Legislation, p. 1.

³ "Accountable care organizations: A new idea for managing Medicare" By Jane Cys, American Medical News, Aug. 31, 2009, www.ama-assn.org/amednews/2009/08/31/gvsa0831.htm (Accessed 7/21/2010).

⁴ "Medicare 'Accountable Care Organizations' Shared Savings Program—New Section 1899 of Title XVIII: Preliminary Questions & Answers" CMS/Office of Legislation, p. 1-2.

⁵ "Accountable Care Organizations: A new model for sustainable innovation" By Paul H. Keckley and Michelle Hoffman, Deloitte Center for Health Solutions, 2010, p. 11.

⁶ "Accountable Care Organizations: A new model for sustainable innovation" By Paul H. Keckley and Michelle Hoffman, Deloitte Center for Health Solutions, 2010, p. 11.

⁷ "Accountable care organizations" By David Glass and Jeff Stensland, MedPAC, (April 9, 2008), p. 4.

⁸ "Accountable Care Organizations: The Practical Reality" By Douglas Hastings, BNA Webinar (June 2, 2010), p. 5.

⁹ "Accountable Care Organizations: Principles" AMGA (May 28, 2010), www.amga.org/AboutAMGA/ACO/principles_aco.asp, (Accessed 7/27/2010).

¹⁰ "Health System Reform: Health Care Industry Urged to Move on Accountable Care Organizations Now" By Sara Hansard, BNA's Health Law Reporter, Vol. 19, no. 933 (July 8, 2010).

¹¹ "Large Healthcare Purchaser Takes Risky Leap into ACOs" By Janice Simmons, HealthLeaders Media (April 8, 2010).

¹² "Large Healthcare Purchaser Takes Risky Leap into ACOs" By Janice Simmons, HealthLeaders Media (April 8, 2010).

¹³ "Large Healthcare Purchaser Takes Risky Leap into ACOs" By Janice Simmons, HealthLeaders Media (April 8, 2010).

¹⁴ "Health System Reform: Health Care Industry Urged to Move on Accountable Care Organizations Now" By Sara Hansard, BNA's Health Law Reporter, Vol. 19, no. 933 (July 8, 2010).

¹⁵ "Health System Reform: Health Care Industry Urged to Move on Accountable Care Organizations Now" By Sara Hansard, BNA's Health Law Reporter, Vol. 19, no. 933 (July 8, 2010).

¹⁶ "Accountable Care Organizations: Promise of Better Outcomes at Restrained Costs; Can They Meet Their Challenges?" By C. Frederick Geilfuss and Renate M. Gray, BNA's Health Law Reporter, Vol. 19, no. 956 (July 8, 2010).



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