HEALTH CAPITAL Topics
Volume 4, Issue 9
September 2011
Cora Drew, Esq., MPH - Director of Research • Jessica Burt - Editor

Accountable Care Organizations Series: When Are ACOs?

Section 3022, the Medicare Shared Savings Program (MSSP), was introduced on March 23, 2010, with the passage of the Patient Protection and Affordable Care Act (ACA).[1] The ACA signaled the widespread introduction of the term "*Accountable Care Organization*" (ACO), although the concept of accountability in healthcare delivery has been around since the 1930's. As the accountable care concept matured, the potential structure of ACOs evolved into several variations including: historical ACOs; Federal ACOs and various incentive programs; and, commercial ACOs.[2] While each of these arrangements aim to increase healthcare quality while decreasing the associated costs of providing healthcare services, ACOs emergence in the healthcare industry is driven by diverse factors, leading to various timelines for ACO implementation.[3] In the fifth part of the Accountable Care Organizations Series, this article considers the question: *When Are ACOs?*

HISTORICAL ACOS

Accountable care was linked to better healthcare in 1932 when the C*ommittee on the Costs of Medical Care* suggested, among other things, that the focus of medical care should be on coordination with state agencies.[4] This construct was realized under the Health Maintenance Act of 1973, which designed HMOs to contain healthcare costs and integrate health systems.[5] While this form of managed care crumbled during the 1990's, in 2000, the Department of Health and Human Services began examining incentive-based payment methods leading to the creation of the Medicare Physician Group Practice (PGP) project.[6] The PGP project began on April 1, 2005, and, over a five-year period, provided incentive Medicare payments for care coordination and quality, efficiency, and cost improvements.[7] Shortly thereafter, in 2006, the term ACO was coined by Elliott Fisher, a physician and professor of medicine at Dartmouth Medical School, and Glenn Hackbarth, the chairman of the Medicare Payment Advisory Commission (MedPAC).[8] Inspired by the results of the PGP project, in June 2009, MedPAC issued *Report to Congress: Improving Incentives in the Medicare Program*, which included an entire chapter on ACOs.[9] The MSSP section within the ACA heavily this report.

FEDERAL ACOS

Under the ACA, the MSSP was originally set to begin January 2012.[10] Since releasing the proposed regulations on March 31, 2011, CMS has received a significant amount of criticism leading to the creation of several incentive programs designed through the Center for Medicare and Medicaid Innovation (CMI). Each of the three incentive programs is designed to broaden the types of healthcare organizations that may participate in the MSSP and to ease the transition to become a compliant ACO.[11]

The *Pioneer ACO Model* is intended for "*mature ACOs*" that have already begun coordinating care efforts and has the goal of reducing capital barriers and increasing quality outcomes by working with private payors.[12] In order to participate in the Pioneer ACO model, an organization must have submitted a letter of intent and application by June 30, 2011 and August 19, 2011, respectively.[13] The Pioneer ACO model added some competition to the application process, as only 30 organizations will be allowed to join this demonstration project.[14] Despite extensions for the application period, CMS continues to hope that the project will begin in the fourth quarter of 2011. While the pioneer ACO model aims to lessen burdens by increasing shared savings payments, the payout is still theoretical.[15] Recently, the Mayo Clinic, the Cleveland Clinic, Geisinger Health System, and Intermountain Healthcare , the four systems considered the most promising models for ACOs, all declined to apply for the Pioneer ACO program.[16]

The *Advanced Payment ACO Initiative* appears to be a more tangible solution for potential ACOs struggling with upfront capital requirements. Through the advanced payment initiative, eligible ACOs would receive money up-front, based on their anticipated shared savings payments. These advanced payments will be paid back once the ACO realizes shared savings. Public comments on the initiative were due June 17, 2011.[17]

The third CMI Program, the *Accelerated Development Learning Sessions*, offers advice to existing and emerging ACO leadership teams regarding how to develop and maintain an operational, efficient, and profitable ACO. Participation in the four sessions offered June-November 2011 is completely voluntary, and is not a consideration for Federal ACO status.[18]

© HEALTH CAPITAL CONSULTANTS

(Continued on next page)

(Continued from previous page)

COMMERCIAL ACOS

Many organizations have already transitioned their private payor contracts to reflect the form of value-based purchasing associated with ACOs. These private "*ACO-like*" organizations, e.g., UnitedHealthcare, AETNA and Wellpoint, use commercial insurance contracts to emphasize coordination of care and shared savings incentives.[19] Blue Cross Blue Shield Massachusetts implemented its *Alternative Quality Contract* emphasizing global payments incentivizing achievement of quality goals in January 2009.[20] Some of the largest health systems in the U.S. have been on the path to creating functional ACOs for many years, including Kaiser, Geisinger, Mayo Clinic, Cleveland Clinic, certain medical groups located in California, and even several HMOs.[21]

CONCLUSION

The quick answer to the question "When are ACOs" … is "Now". Whether applying for Federal status or negotiating with commercial payors, healthcare entities seeking to coordinate care for better quality outcomes and lower costs, should begin coordinating now to remain competitive in the emerging market. In part six of the ACO series, HC Topics will describe the specific hurdles healthcare enterprises will need to overcome to create a functioning and compliant ACO, examining, *How are ACOs*?

1 "Medicare Program; Medicare Shared Savings Program: Accountable Care Organizations and Medicare Program: Waiver Designs in Connection With the Medicare Shared Savings Program and the Innovation Center; Proposed Rule and Notice," Fed. Reg. Vol. 76 No. 67 (April 7, 2011).

2 "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.

3 "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

4 "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.

5 "Accountable Care Organizations: Will They Deliver?" By Marsha Gold, Mathematica Policy Research, Inc. (January 2010), p. 5.

6 "Assessing an ACO Prototype—Medicare's Physician Group Practice Demonstration" By John K. Iglehart, NEJM: Health Policy and Reform (December 22, 2010) p.1.

7 "Medicare Physician Group Practice Demonstration" By Centers for Medicare & Medicaid Services, (December 2010) p.9.

8 "Creating Accountable Care Organizations: The Extended Hospital Medical Staff" By Elliott S. Fisher, et al., Health Affairs, Vol. 26, no. 1 (2007), p. 56, footnote 7.

9 "Chapter 2: Accountable Care Organizations" By MedPAC, Report to Congress: Improving Incentives in the Medicare Program" (June 2009), p. 39.

10 "Patient Protection and Affordable Care Act" Public Law 111-148, Section 3022, 124 STAT 395 (March 23, 2010).

11 "Medicare ACO Options Added After Criticism" By Charles Fiegl, American Medical News, May 30, 2011, http://www.ama-assn.org/amednews/2011/05/30/gv110530.htm (Accessed 7/15/11).

12 "Affordable Care Act Gives Providers New Options to Better Coordinate Health Care," US Department of Health and Human Services, May 17, 2011, http://www.healthcare.gov/news/factsheets/accountablecare05172011a.html (Accessed 7/15/11).

13 "Pioneer ACO Deadline Extended" By Margaret Dick Tocknell, HealthLeaders Media, June 10, 2011, http://www.healthleadersmedia.com/print/TEC-267205/Pioneer-ACO-Deadline-Extended (Accessed 7/15/11); "Pioneer ACO Application," Center for Medicare and Medicaid Innovation, http://innovations.cms.gov/area-of-focus/seamless-and-coordinated-care-models/pioneer-aco-application (Accessed 7/15/11).

14 "CMS Announces ACO 'Pioneer' Program and Advanced Payment Initiative," Henry J. Kaiser Family Foundation, May 17, 201, http://healthreform.kff.org/Scan/2011/May/CMS-Announces-ACO-Pioneer-Program-and-Advanced-Payment-Initiative.aspx (Accessed 7/15/11); "Pioneer ACO Model," Center for Medicare and Medicaid Innovation, 2011, http://innovations.cms.gov/areas-of-focus/seamless-and-coordinated-care-models/pioneer-aco/ (Accessed 7/15/11).

15 "Pioneer ACO Deadline Extended" By Margaret Dick Tocknell, HealthLeaders Media, June 10, 2011, http://www.healthleadersmedia.com/print/TEC-267205/Pioneer-ACO-Deadline-Extended (Accessed 7/15/11).

16 "'Poster Boys' Take a Pass on Pioneer ACO Program," By Jenny Gold, Kaiser Health News, September 14, 2011, http://www.kaiserhealthnews.org/stories/2011/september/14/aco-pioneers-medicare-hospitals.aspx?referrer=search (Accessed 09/21/2011).

17 "Affordable Care Act Gives Providers New Options to Better Coordinate Health Care," US Department of Health and Human Services, May 17, 2011, http://www.healthcare.gov/news/factsheets/accountablecare05172011a.html (Accessed 7/15/11).

18 "Affordable Care Act Gives Providers New Options to Better Coordinate Health Care" HealthCare.gov, U.S. Department of Health and Human Services, May 17, 2011, http://www.healthcare.gov/news/factsheets/accountbalecare05172011a.html (Accessed 7/15/2011); "Accelerated Development Learning Sessions" Center for Medicare and Medicaid Innovation, http://innovations.cms.gov/areas-of-focus/seamless-and-coordinated-care-models/acolearningsessions/ (Accessed 7/15/2011).

19 "An ACO Overview" Toshiba American Medical Systems, Inc., , Tustin, CA: Toshiba Corporation, 2011.

20 "Private-Payer Innovation In Massachusetts: The 'Alternative Quality Contract'" By Michael E. Chernew, et al., Health Affairs, Vol. 30, No. 1, January 2011, p 51.

21 "Leading Change in Health Care: Building a Viable System for Today and Tomorrow" By Ian Morrison, Chicago, IL: Health Forum, Inc., 2011, p. 184.

© HEALTH CAPITAL CONSULTANTS

(Continued on next page)

HCC
HEALTH CAPITAL CONSULTANTS

(800) FYI - VALU

Providing Solutions in the Era of Healthcare Reform

Founded in 1993, HCC is a nationally recognized healthcare economic financial consulting firm

- **HCC Home**
- **Firm Profile**
- **HCC Services**
- **HCC Experts**
- **Clients Projects**
- **HCC News**
- **Upcoming Events**
- **Contact Us**
- **Email Us**

HEALTH CAPITAL CONSULTANTS (HCC) is an established, nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, Missouri, with regional personnel nationwide. Founded in 1993, HCC has served clients in over 45 states, in providing services including: valuation in all healthcare sectors; financial analysis, including the development of forecasts, budgets and income distribution plans; healthcare provider related intermediary services, including integration, affiliation, acquisition and divestiture; Certificate of Need (CON) and regulatory consulting; litigation support and expert witness services; and, industry research services for healthcare providers and their advisors. HCC's accredited professionals are supported by an experienced research and library support staff to maintain a thorough and extensive knowledge of the healthcare reimbursement, regulatory, technological and competitive environment.

Robert James Cimasi, MHA, ASA, FRICS, MCBA, AVA, CM&AA, serves as President of **HEALTH CAPITAL CONSULTANTS** (HCC), a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: "*The U.S. Healthcare Certificate of Need Sourcebook*" [2005 - Beard Books], *"An Exciting Insight into the Healthcare Industry and Medical Practice Valuation"* [2002 – AICPA], and *"A Guide to Consulting Services for Emerging Healthcare Organizations"* [1999 John Wiley and Sons].

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious "*Shannon Pratt Award in Business Valuation*" conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows.

Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the Senior Vice President of **HEALTH CAPITAL CONSULTANTS** (HCC), where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia, and is a Fellow of the American College of Healthcare Executives. He has co-authored *"Research and Financial Benchmarking in the Healthcare Industry"* (STP Financial Management) and *"Healthcare Industry Research and its Application in Financial Consulting"* (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser's Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.

Anne P. Sharamitaro, Esq., is the Vice President of **HEALTH CAPITAL CONSULTANTS** (HCC), where she focuses on the areas of Certificate of Need (CON); regulatory compliance, managed care, and antitrust consulting. Ms. Sharamitaro is a member of the Missouri Bar and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as an editor for the Journal of Health Law, published by the American Health Lawyers Association. She has presented healthcare industry related research papers before Physician Hospitals of America and the National Association of Certified Valuation Analysts and co-authored chapters in "*Healthcare Organizations: Financial Management Strategies*," published in 2008.

© HEALTH CAPITAL CONSULTANTS