

## Perspective

### Pioneer Accountable Care Organizations: Year-One Report Card

By Don Urbanowicz, Urbanowicz Consulting

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*One-year results from the Pioneer ACO model are mixed – generally positive but inconsistent financial results – with more uniformly positive quality results.*

#### **Introduction**

In July of 2013, the Centers for Medicare and Medicaid Services (CMS) reported the early results of the Pioneer Accountable Care Organization (ACO) pilot program. The Pioneer ACO model – separate from but complementary to the Medicare Shared Savings Program (SSP) and other ACO initiatives – was specifically designed by CMS for organizations with experience in providing value-based care and risk-sharing. CMS selected 32 health systems to participate in the pilot Pioneer ACO program.

Recall that in an ACO model, hospitals and groups of physicians contract to care for a specified population of patients – with the goal of improving the quality of patient care and lowering healthcare costs by better integrating and coordinating services. ACOs that successfully meet performance and cost benchmarks were to be rewarded through bonuses and share in any cost savings to the Medicare program.

## Overall Results

Highlights of the results from the first year of the Pioneer ACO model include the following: *All 32 participating health systems were able to show improved patient care related to quality and patient satisfaction benchmarks, specifically with respect to cancer screenings and controlling blood pressure* Only 18 of the 32 health systems lowered costs for the Medicare patients they treated *Thirteen systems saved enough to share savings with the Medicare program* Two systems cost Medicare more and reportedly may owe \$4 million back to the program \* Savings totaled \$140 million, \$76 million of which will be returned to the Pioneer ACOs as their portion of the shared savings – a net savings of \$33 million will be returned to the Medicare trust funds

Nine Pioneer ACOs – Prime Care Medical Network, Inc.; University of Michigan Health System; Physician Health Partners LLC; Seton Health Alliance; Plus ACO (North Texas Specialty Physicians and Texas Health Resources); Healthcare Partners Nevada ACO LLC; Healthcare Partners California ACO LLC; JSA Care Partners LLC; and Presbyterian Healthcare Services – will be leaving the program. Seven have opted to participate in the SSP. The remaining two ACOs – Plus (North Texas Specialty Physicians) and Presbyterian Healthcare Services – intend to leave the ACO program outright.

## Financial Impact to Medicare

- \$140 million in total savings by the Pioneers
- \$52.4 million in total losses by Pioneers
- \$76 million in shared savings to be returned to 13 Pioneers
- \$33 million in net savings for Medicare Trust Funds

## Quality Results

All 32 ACOs successfully reported the quality measures required by the program For the 15 quality metrics with available comparison data, Pioneer ACOs outscored the published rates for all of fee-for-service Medicare 25 of the Pioneers demonstrated successful readmission reduction, outperforming the benchmark for all Medicare beneficiaries

## The Detail behind the Results and Financial Impact

The Pioneers slowed cost increases, according to the initial indicators. On average, costs for more than approximately 670,000 Medicare beneficiaries treated in the 32 Pioneers grew by only 0.3% in 2012 versus the 0.8% growth for typical Medicare beneficiaries, according to CMS.

Of the eighteen Pioneers that saved money, 13 saved enough to split their savings with Medicare, generating a gross savings of almost \$88 million in 2012. One of the 13 was Partners Healthcare in Boston – which includes Massachusetts General. The CEO of Partners Healthcare confirmed



the system saved over \$14 million for Medicare and will get back a little over \$7 million. In addition, the CEO said that about 70% of the system's patients remain under traditional fee-for-service contracts – where a hospital pays separately for individual services and rewards volume instead of value. However, based on the results of the pilot program, the CEO expects to move toward the ACO model as cost savings and quality improvements continue to be demonstrated.

Another Pioneer – Bellin-ThedaCare Healthcare Partners in Wisconsin – lowered costs for its 20,000 Medicare ACO patients by an average of 4.6% compared to the baseline population the program used as a comparison. The system will share in several million dollars in savings. The Executive Director claimed the system reduced hospital admission rates, readmission rates and length of stays for its ACO patients – positive news in a shared-savings world.

The Definitive Healthcare group reviewed the financial metrics included in their online database and identified the size of the healthcare system and the magnitude of operating costs as significant predictors as to whether an ACO would be a successful Pioneer ACO. Definitive Healthcare observed that: *Partners Healthcare, Steward Healthcare, and Beth Israel Deaconess Health System had significantly higher costs per claim than Pioneer ACOs that didn't generate adequate savings or are now reported to be leaving for the MSSP, and The University of Michigan Health System was an exception to the observation, but the Universities physician group still reported a savings rate of 0.3%.* \* “The fact that larger health systems within the Pioneer ACO model are enjoying savings bonuses leads one to believe that the program guidelines did not properly account for savings variations based on the size of the health system – and perhaps more importantly – previous technological and procedural innovation”

### **What the “Analysts” Are Saying**

Despite everyone's rush to proclaim winners, losers and future prospects for the program, health care analysts – in general – were not surprised by the results.

Comments included:

“We weren't surprised that more Pioneers didn't achieve savings – in part because so many of their other patients are still under traditional payment”.

“It's hard to manage two separate sets of books, and it's hard to ask physicians to practice medicine in two different ways”.

“It is not surprising that more participants didn't achieve savings in the first year, given that the program has three years to achieve its goals”.

“When organizations undertake major healthcare reforms, it's a marathon, not a sprint. Significantly lowering the cost of care is harder and takes more time than showing improvements in quality”.



## **What the Industry “Insiders” Are Saying**

“The Pioneer departures suggest even large, sophisticated provider systems are not as ready to handle downside risk as analysts thought they were”.

“The problem with the Pioneer design is that provider organizations with lower historical Medicare Costs will struggle to succeed under Medicare’s formula for bonuses, while ACOs with higher historical costs will be rewarded. Where you start is the whole name of the game”.

“CMS needs to reconsider some elements of the Pioneer structure, including revising the quality benchmarks, making claims data more quickly available to ACOs, and giving ACOs greater flexibility to steer beneficiaries to high-quality, low-cost sites of care and prevent patient turnover”.

“ACOs struggle to squeeze savings from already-low Medicare payments. Another challenge was that the Pioneer model does not allow ACOs to keep beneficiaries from going outside the ACO network for care. It’s more helpful to be able to guide the care in the setting where you have greater quality control”.

“The most common complaint among ACOs encountering difficulty with the Pioneer ACO Model is that CMS has not adequately addressed cost-saving measures that predated the program”.

“Further consideration of hospital market analytics would certainly provide greater insight into why some Pioneer ACOs excelled in savings while others lagged behind”.

“We question whether shared savings programs such as the Pioneer ACO Model and the MSSP, which rely on bringing costs in below an established cost benchmark, can be sustainable over many years”.

## **ACOs Are Spreading Quickly**

The number of ACOs in the US surpassed 400 in January of 2013, an increase from about 150 in Quarter 1 of 2012.

Approximately 250 Health Care Systems have set up ACOs under Medicare’s SSP – which is similar to the Pioneer model with the exception that participants aren’t required to share in any losses as Pioneers are required to do. ACOs in the SPP model share only in the savings in the first two years.

Nearly 200 ACO-type contracts have been set up by insurance companies with healthcare systems. UnitedHealth Group expects to double its accountable care contracts to \$50 billion by 2017. Approximately 12 states have also created ACOs to care for Medicaid patients.



According to Definitive Healthcare, six new accountable care relationships were announced in July of 2013 alone.

## **What Are Device Companies Doing?**

In one example of an innovative transaction, Phillips recently partnered with Georgia Regents Medical Center and entered into a 15-year, \$300 million agreement to focus on patient-centered care, where reportedly Phillips is sharing in the risk to improve performance and reduce costs.

## **Summary**

The one-year results from the Pioneer ACO model are mixed. The financial results were generally positive – but inconsistent. The quality results were more uniformly positive.

The early results underscore the challenges that policymakers and healthcare providers face as they reform payment and delivery systems in an effort to reduce healthcare spending and improve quality of care.

The jury is out as to whether ACOs will be able to secure lasting improvements in cost, quality and population health objectives. Many questions remain for providers as they assess alternative reimbursement and delivery models.

Given the uncertainty, many orthopedic companies will likely keep close tabs on ACOs – but watch from the sidelines. The more aggressive companies are “piloting” risk sharing programs with ACOs focused on improving outcomes, processes, and efficiencies; minimizing error rates; and/or reducing costs.

*Don Urbanowicz is Principal of Urbanowicz Consulting (UC), a medical device advisory firm with a musculoskeletal focus seeking to enable clients to achieve strategic and transaction-related goals by capitalizing on market opportunities. UC offers a unique perspective on how large global companies approach strategy, valuation, negotiations, due diligence and integration, and a thorough understanding of achieving success throughout all phases of the transaction process. Please learn more online at [www.urbanowiczconsulting.com](http://www.urbanowiczconsulting.com), and contact Don Urbanowicz at [urbanowicz@du-llc.com](mailto:urbanowicz@du-llc.com).*

