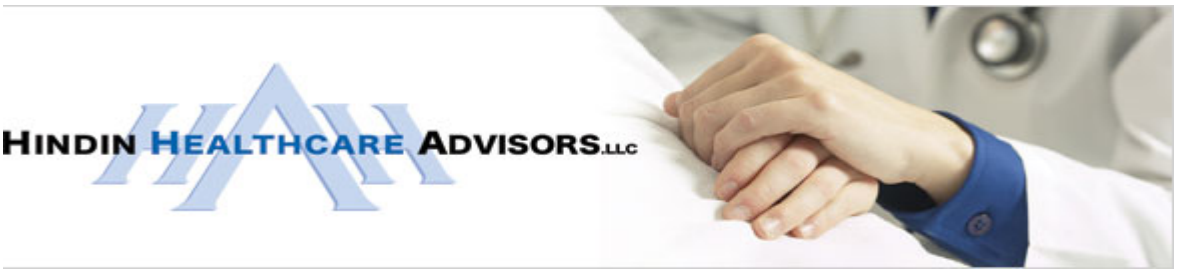

Medicare ACOs – A Competitive Opportunity Or Revenue Reduction Risk!

March 23, 2011

Long awaited regulations are due out next week. Here is the Bottom line:

1. ACOs target the 75% of Medicare enrollee not part of Medicare HMOs – your best customers.
2. 80% of potential savings will come from ***hospital revenue.***
3. Physicians an do this without you.

Can you afford to stay on the sidelines? Read more.

Background

Many physician groups and hospital physician partners have or are planning to establish Medicare ACOs to improve care delivery and participate in the Medicare shared incentive payment program. Yet, many remain skeptical about being able to earn even a portion of saved expenses given the investment required to support improved care delivery for Medicare recipients.

Piedmont Physicians, Advocate Health Care, and others are organizing ACO like organizations to contract beyond Medicare with commercial insurance plans on a risk sharing basis. Still others recognize the value of organizing care delivery along the ACO model to reduce the cost of delivering care to their uninsured patients.

What is CMS's intent? A Preview of Key Points:

On the eve of the release of the new regulations, CMS, with support from key Senate and House staff, and the Whitehouse have significantly narrowed the focus for certified ACOs.

- This program applies to the 75% of Medicare beneficiaries who have not enrolled in a Medicare HMO i.e. the rest of the Medicare business.
- Medicare ACOs represent a repositioning of influence in the health care delivery market. Nearly all the discussion has centered on enabling physician groups to lead this effort.
- CMS wants to see Medicare ACOs as change agents in EACH community.
- Small PHYSICIAN groups will qualify and be eligible for the shared savings payments to counterbalance hospital sponsored initiatives that are perceived to be slower to implement change.
- The "standard" ACO will have to move to partial capitation within 3 years and/or be at downside risk.
- Physician groups that are already in the Medicare Risk business will get a "Pioneer" program that will provide immediate savings payments or partial capitation payments on the traditional Medicare patient base they serve. This will move to full capitation i.e. an HMO like model in 3 years. For some communities this is a considerable volume.
- There will be no criteria requiring hospital participation in an establishment, ownership, governance or management of an ACO network.

Implications

- CMS apparently sees ACOs as a model for significantly changing the care delivery and the cost of care for Medicare recipients.
- 10,000 Medicare lives with modest improvements in care coordination and care management can produce incremental savings from $16M to $30M before sharing with CMS. 80% of these savings is current ***hospital revenue.***
- Commercial Insurers hope to capitalize on the ACO care delivery model to reduce their costs.
- CMS will encourage physicians to organize ACOs independent of hospitals to accelerate change.
- Hospitals, independent physicians, and physician groups that do not participate in ACO development could find themselves at a competitive disadvantage as "contractors" to ACOs.
- Independent or hospital employed physicians could see their patient based erode as ACOs deliver on promised improvements in care delivery and customer service.

Recommendations:

- Get a fix on the potential incremental value (and cost) of creating an ACO for 5 or 10,000 attributable lives. This will help you determine what you and you aligned physicals could potentially gain or lose if you do or do not pursue an ACO. This can be done quickly and inexpensively.
- Determine who else could be planning to launch an ACO in your market. Partner with or prepare to compete as needed.
- Complete a "gap" analysis indicating what you would have to do to become a certified ACO.
- Begin preparing for certification for 2013 now; it's already too late for 2012 unless you have been under development already. Applications will be due in the spring of 2012. You will mostly likely have to demonstrate capacity to operate as an ACO rather than being in a planning stage.
- Consider partnering with commercial insurers to develop and implement a pilot ACO care delivery and customer service model for commercial patients.
- Identify and lock in needed external resources now; when the ACO regulations come out, qualified contractors will be in high demand.

We can help:

- Quantify the opportunity in your local market.
- Quickly complete a "gap" analysis.
- Prepare and help implement a roadmap for ACO development and certification and/or commercial or other patient populations.

Edward M. Hindin
Hindin Healthcare Advisors, LLC
1100 Clinton St. Suite 302, Hoboken NJ 07030
201 656 1004 (O) • 201 656 1444 (F) • 201 208 7161 (C)
email: ehindin@hhadvisors.com • Visit us online at: www.hhadvisors.com