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Entering an ACO Agreement? Know the Risks

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In an effort to reduce health care costs, the Affordable Care Act encourages providers, physicians, and hospitals to partner to better coordinate patient care. Known as accountable care organizations (ACOs), these payer-provider alliances are designed to deliver low-cost, high-quality care and avoid unnecessary duplication of services and medical errors.

To further promote ACO participation, the Centers for Medicare & Medicaid Services (CMS) is rewarding efficiency and improved patient management and experience by providing financial incentives and shared savings for outcomes such as reducing the length of hospital stays and using technology to improve communications. As a result, over the past 12 months, ACOs have experienced significant and steady growth and now cover between 37 million and 43 million patients in the United States, according to an August 2013 Leavitt Partners report.

Before agreeing to participate in an ACO, however, there are risks to consider. Participating ACO members are bound by a contractual arrangement and jointly accountable for improving the quality and affordability of care, among other unique contract requirements. Therefore, it's important to understand the expectations of the contract, payment arrangements, and how to minimize the anticipated risks.

ACO Models

Determining which type of ACO model is appropriate depends on initial capital resources (such as Medicare or third-party payers), strength of clinical and administrative systems, and level of experience in coordinated care. It also depends on the level of risk the organization is willing to assume. A successful ACO that lowers costs and maintains quality of care and access will share the savings it achieves with its members.

Medicare Shared Savings Program

The MSSP model encourages providers to work together to coordinate patient care for Medicare fee-for-service beneficiaries. Providers that meet certain quality standards can share in any savings they attain.

Implementing an MSSP ACO requires a three-year commitment to care for a group of at least 5,000 Medicare beneficiaries and mandatory reporting on 33 measures each performance year.

While MSSPs may be the right option for organizations that want to move away from fee-for-service to full-risk payment and care models, it may be challenging to motivate providers because of savings caps and a lack of funding to incentivize external providers.

Pioneer ACOs

The Pioneer ACO model may be appropriate for health care organizations with expertise in coordinated health care delivery. However, when you implement a Pioneer ACO, it's important to avoid overestimating capabilities relative to financial risk. Participants must enter into shared savings with other payers so that more than 50 percent of their revenues are derived from the arrangement by the end of the second performance year—and there's no option for a shared savings–only arrangement. In an ACO's third performance year, participants who have shown cost savings in the first two years are eligible to move to a population-based, per-beneficiary, per-month payment arrangement with CMS.

Commercial ACOs

Although CMS models of accountable care account for the majority of ACOs, commercial payers have adapted the CMS ACO models into flexible versions that suit a wider range of providers. Commercial ACOs are responsible for setting their own quality metrics, and risk contracts vary from payer to payer. Commercial ACOs require significant financial investment in information technology, care coordination programs, and patient-centered medical homes. However, with fewer regulatory restrictions, commercial ACOs have more freedom to experiment with alternative risk sharing and care management fee relationships.

Payment Arrangements

There are a variety of payment models to allow organizations to determine the amount of risk they're willing to assume while also aiming to improve the quality of care and patient outcomes and lower costs. Five common ACO payment models include:

- **One-sided shared savings.** Providers can share up to 50 percent of the unspent funds if spending is below the cost target for the year, but they face no penalties if spending exceeds the target.
- **Two-sided shared savings.** Providers are held accountable if spending exceeds the target. Providers stand to earn a larger percentage of the shared savings but are also liable for a larger percentage of the difference between the target and actual expenditures for the year.
- **Bundled or episode payments.** Providers receive a single payment for all of one patient's services for one period of care. Providers assume the financial risk if the cost of treating a patient during a period of care exceeds the payment received.
- **Partial capitation or global payments.** The ACO assumes risk for some or all of providers' services but not for hospital or other nonphysician services.
- **Global payments.** Providers receive monthly or annual payments, regardless of services performed during that period. This model rewards providers who increase efficiency and reduce costs.

Reducing Risk

The clear assignment of risk responsibilities is crucial. All parties need to know what is and what isn't covered at the beginning of the partnership. It's also essential to ensure a clear understanding of the reconciliation and settlement contract provisions as well as what data will be used in the reconciliation calculations.

There are four ACO risk-sharing models:

- **Bonus payment at risk.** Provider is at risk of not receiving a bonus payment based on performance.
- **Market share risk.** Patients are offered lower co-pays or premiums to select certain providers. Providers are at risk of loss of market share.
- **Risk of baseline revenue loss.** Providers face financial loss if they fail to meet certain cost or quality standards or if actual costs exceed target costs.
- **Financial risk for patient population (whole or partial).** Providers manage treatment costs for services within a predetermined schedule and assume risk for costs that exceed payments.

If your organization is considering transitioning to an ACO model of health care, it's important to

understand the benefits, risks, and challenges associated with each. A successful ACO should set benchmarks, continuously measure performance, and distribute shared savings and incentives.

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