BUILDING ACCOUNTABLE CARE ORGANIZATIONS

Harold D. Miller
Executive Director
Center for Healthcare Quality and Payment Reform
Goal of Accountable Care Orgs: Reducing Costs Without Rationing
Reducing Costs Without Rationing: Prevention

Healthy Consumer → Continued Health

Healthy Consumer ← Preventable Condition
Reducing Costs Without Rationing: Avoiding Hospitalizations

- Healthy Consumer
- Continued Health
- Preventable Condition
- No Hospitalization
- Acute Care Episode

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Reducing Costs Without Rationing: Efficient, Successful Treatment

Healthy Consumer

Continued Health

Preventable Condition

No Hospitalization

Acute Care Episode

Efficient Successful Outcome

High-Cost Successful Outcome

Complications, Infections, Readmissions
Who Needs to Be Accountable For Achieving Better Outcomes?

- **Healthy Consumer**
- **Continued Health**
  - **Preventable Condition**
  - **No Hospitalization**
    - **Acute Care Episode**
      - **Efficient Successful Outcome**
        - **High-Cost Successful Outcome**
        - **Complications, Infections, Readmissions**
Keeping People Well?
Primary Care

Healthy Consumer → Continued Health
Preventable Condition → No Hospitalization

Acute Care Episode → Efficient Successful Outcome
High-Cost Successful Outcome
Complications, Infections, Readmissions

PRIMARY CARE
Avoiding Hospitalizations? Primary + Specialty Care

Healthy Consumer

Continued Health

Preventable Condition

No Hospitalization

Acute Care Episode

Efficient Successful Outcome

High-Cost Successful Outcome

Complications, Infections, Readmissions

PRIMARY CARE

PRIMARY + SPECIALTY
Better Acute Care? Hospitals and Specialists, But...

Healthy Consumer → Continued Health → Preventable Condition → No Hospitalization → Acute Care Episode → No Complications, Infections, Readmissions → Efficient Successful Outcome → High-Cost Successful Outcome → Complications, Infections, Readmissions → PRIMARY CARE → PRIMARY + SPECIALTY → HOSPITALS & SPECIALISTS
...MDs Choose Which Hospital (or Non-Hospital Setting) to Use

Healthy Consumer

Continued Health

Preventable Condition

No Hospitalization

Acute Care Provider #1

Efficient Successful Outcome

High-Cost Successful Outcome

Complications, Infections, Readmissions

PRIMARY CARE

PRIMARY + SPECIALTY

HOSPITALS & SPECIALISTS

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So the Core of Accountable Care Organizations is Primary Care

Healthy Consumer

Continued Health

Preventable Condition

No Hospitalization

Acute Care Provider #1

Efficient Successful Outcome

High-Cost Successful Outcome

Complications, Infections, Readmissions

Acute Care Provider #2

Acute Care Provider #3

HOSPITALS & SPECIALISTS

PRIMARY CARE
Resources/Capabilities Needed for PCPs to Manage Utilization

PCP Practice → ? → Patient

- Inpatient Episodes
- Testing & Specialists
Resources/Capabilities Needed for PCPs to Manage Utilization

- Data and analytics to measure and monitor utilization and quality
- Coordinated relationships with specialists and hospitals
- Method for targeting high-risk patients (e.g., predictive modeling)
- Capability for tracking patient care and ensuring followup (e.g., registry)
- Resources for patient educ. & self-mgt support (e.g., RN care mgr)
- PCP w/ time for diagnosis, treatment planning, and followup

PCP Practice

Inpatient Episodes

Patient

Testing & Specialists
Resources Exist Today, But Function Independently of PCPs

- **Health Plan or Disease Mgt Vendor**
  - Data and analytics to measure and monitor utilization and quality
  - Coordinated relationships with specialists and hospitals
  - Method for targeting high-risk patients (e.g., predictive modeling)
  - Capability for tracking patient care and ensuring followup (e.g., registry)
  - Resources for patient educ. & self-mgt support (e.g., RN care mgr)

- **PCP Practice**
  - PCP w/ time for diagnosis, treatment planning, and followup

- **Inpatient Episodes**
- **Patient**
- **Testing & Specialists**
Medical Home Initiatives Expand PCP Capacity, But Not Enough

Health Plan

Data and analytics to measure and monitor utilization and quality

Coordinated relationships with specialists and hospitals

Method for targeting high-risk patients (e.g., predictive modeling)

Patient-Centered Medical Home

Capability for tracking patient care and ensuring followup (e.g., registry)

Resources for patient educ. & self-mgt support (e.g., RN care mgr)

PCP w/ time for diagnosis, treatment planning, and followup

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Goal: Give PCPs the Capacity to Deliver “Accountable Care”

- Data and analytics to measure and monitor utilization and quality
- Coordinated relationships with specialists and hospitals
- Capability for tracking patient care and ensuring followup (e.g., registry)
- Method for targeting high-risk patients (e.g., predictive modeling)
- Resources for patient educ. & self-mgt support (e.g., RN care mgr)
- PCP w/ time for diagnosis, treatment planning, and followup

PCP Practice + Partners = ACO

Inpatient Episodes

Patient

Testing & Specialists

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Problem #1: Most Physicians Are In Very Small Practices

% of Physician Practices in U.S., 2005

- 1-2 Physicians: 80%
- 3-10 Physicians: 10%
- 11-25 Physicians: 0%
- >25 Physicians: 0%
Solution 1a: Use IPAs or Virtual Physician Orgs for Critical Mass

- Data and analytics to measure and monitor utilization and quality
- Coordinated relationships with specialists and hospitals
- Capability for tracking patient care and ensuring followup (e.g., registry)
- Method for targeting high-risk patients (e.g., predictive modeling)
- Resources for patient educ. & self-mgt support (e.g., RN care mgr)

Independent Practice Association

Better Patient Outcomes & Lower Cost
Michigan BC/BS Physician Group Incentive Program

Phase I

Fee-for-Service

P4P for QI

Virtual MD Group

Phase II

Fee-for-Service

P4P for QI

Medical Home $
Solution 1b: Provide Support From Hospitals to Physicians

- Data and analytics to measure and monitor utilization and quality
- Coordinated relationships with specialists and hospitals
- Capability for tracking patient care and ensuring followup (e.g., registry)
- Method for targeting high-risk patients (e.g., predictive modeling)
- Resources for patient educ. & self-mgt support (e.g., RN care mgr)

Hospital Staff & IT (e.g., via Physician-Hospital Org.)

Better Patient Outcomes & Lower Cost
Problem #2: FFS Neither Enables Nor Incents PCPs to be ACOs

CURRENT PAYMENT SYSTEMS

Health Insurance Plan

$\downarrow$

Physician Practice

Office Visits

Phone Calls

Nurse Care Mgr

No payment for services that can prevent utilization

$\downarrow$

Specialty Consults

Avoidable

Lab Work/Imaging

Avoidable

$\downarrow$

Hospital Stay

Avoidable

Payment for preventable and unnecessary utilization of expensive care

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But It’s a Big Jump to a Full Global Payment System

FULL COMP. CARE/GLOBAL PAYMENT

Health Insurance Plan

- Condition-Adjusted Per Person Payment
  - Physician Practice/ACO
  - Office Visits
  - Phone Calls
  - Nurse Care Mgr
  - Specialty Consults
  - Avoidable
  - Lab Work/Imaging
  - Avoidable
  - Hospital Stay
  - Avoidable

Flexibility and accountability for a condition-adjusted budget covering all services
Solution: Simulate the Flexibility & Incentives of Global Payment

CARE MGT PAYMENT + UTILIZATION P4P

Health Insurance Plan

Office Visits

Monthly Care Mgt Payment

Phone Calls

RN Care Mgr

Specialty Consults

Avoidable

Lab Work/Imaging

Avoidable

Hospital Stay

Avoidable

Targets for Reduction In Utilization

More $ for PCP

P4P Bonus/Penalty Based on Utilization

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For Those Practices That Are Ready: Partial Global Payment

PARTIAL GLOBAL PMT (Professional Svcs)

Health Insurance Plan

Condition-Adjusted Per Person Payment

Physician Practice

Office Visits
Phone Calls
Nurse Care Mgr

Specialty Consults
Lab Work/Imaging

Hospital Stay
Avoidable

P4P Bonus/Penalty Based on Utilization

Flexibility and accountability for a condition-adjusted budget covering all professional services
Ultimately: Global Payment With Quality Incentives

FULL COMP. CARE/GLOBAL PMT + QUALITY P4P

Health Insurance Plan

Condition-Adjusted Per Person Payment

Physician Practice/ACO

Office Visits
Phone Calls
Nurse Care Mgr

Specialty Consults
Avoidable

Lab Work/Imaging
Avoidable

Hospital Stay
Avoidable

P4P Bonus/Penalty Based on Quality
Episode Payments for Acute Care Help the ACO Manage Costs

FULL COMP. CARE/GLOBAL PMT + QUALITY P4P

Health Insurance Plan

Condition-Adjusted Per Person Payment

Physician Practice/ACO

Office Visits
Phone Calls
Nurse Care Mgr

Episode Payment to Hospital

Specialty Consults
Avoidable
Lab Work/Imaging
Avoidable

Hospital Stay
Avoidable

P4P Bonus/Penalty Based on Quality
Transitioning to Accountable Care Payment

CARE MGT PAYMENT + UTILIZATION P4P

Health Insurance Plan

Physician Practice

Office Visits
Monthly Care Mgt Payment
Nurse Care Mgr

Specialty Consults
Lab Work/ Imaging

Hospital Stay

P4P Bonus/Penalty Based on Utilization

Targets for Reduction In Utilization

PARTIAL GLOBAL PMT (Professional Svcs)

Health Insurance Plan

Physician Practice

Office Visits
Monthly Care Mgt Payment
Nurse Care Mgr

Specialty Consults
Lab Work/ Imaging

Hospital Stay

P4P Bonus/Penalty Based on Utilization

P4P Bonus/Penalty Based on Quality

FULL COMP. CARE/GLOBAL PMT + QUALITY P4P

Health Insurance Plan

Physician Practice/ ACO

Office Visits
Monthly Care Mgt Payment
Nurse Care Mgr

Specialty Consults
Lab Work/ Imaging

Hospital Stay

P4P Bonus/Penalty Based on Quality

P4P Bonus/Penalty Based on Utilization

Condition- Adjusted Per Person Payment

Flexibility and accountability for a condition-adjusted budget covering all professional services

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Don’t Let the Perfect Be the Enemy of the Good

### EXAMPLES OF COST REDUCTION OPPORTUNITIES

| Better Management of Complex and Low-Income Patients |
| Greater Efficiency & Improved Outcomes for Inpatient Care |
| Improved Outcomes and Efficiency for Major Specialties |
| Reduction in Preventable ER Visits & Admissions |
| Appropriate Use of Testing/Referral |
| Prevention & Early Diagnosis |
“Level 1” ACO: PCPs Only

**HEALTH CARE PROVIDERS INCLUDED**

**EXAMPLES OF COST REDUCTION OPPORTUNITIES**

- Better Management of Complex and Low-Income Patients
- Greater Efficiency & Improved Outcomes for Inpatient Care
- Improved Outcomes and Efficiency for Major Specialties

**Level 1 ACO**

- Primary Care Practice
- Primary Care Practice
- Primary Care Practice
- Primary Care Practice

- Reduction in Preventable ER Visits & Admissions
- Appropriate Use of Testing/Referral
- Prevention & Early Diagnosis
“Level 2” ACO: PCPs + Key Specialists

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- Better Management of Complex and Low-Income Patients
- Greater Efficiency & Improved Outcomes for Inpatient Care

- Prevention & Early Diagnosis
- Appropriate Use of Testing/Referral
“Level 3” ACO: PCPs + Specialists + Hospital(s)

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**Level 3 ACO**
- Hospitals
- Other Specialists

**Level 2 ACO**
- Major Specialists (Cardiology, Orthopedics, Etc.)

**Level 1 ACO**
- Primary Care Practice
- Primary Care Practice
- Primary Care Practice
- Primary Care Practice

- Reduction in Preventable ER Visits & Admissions
- Appropriate Use of Testing/Referral
- Prevention & Early Diagnosis
“Level 4” ACO: Integrated Medical & Social Svcs

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### Organizational Structures to Support Accountable Care

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### Examples of Organizational Structures

- Primary Care Group Practice; Independent Practice Association
Organizational Structures to Support Accountable Care

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Key is *Clinical* Integration, Not Corporate Integration

**Level 3 ACO**

- Hospitals
- Other Specialists
- Major Specialists (Cardiology, Orthopedics, Etc.)
- Primary Care Practice
- Primary Care Practice
- Primary Care Practice

**Integrated Delivery System**

- Corporate Health System

**OR**

- Independent Practice Association
  + Contracts w/ Specialists
  + Contracts w/ Hospitals
  + Health Info Exchange
Key is *Clinical* Integration, Not Corporate Integration

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**THE INFERIOR OPTION?**

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Looking Through the Patient’s (& Purchaser’s) Eyes

PATIENT

High Quality Primary Care Physician

Avg. Quality Primary Care Physician

Low Quality Primary Care Physician

HOSPITAL #1

High Cost/Low Quality Orthopedic Surgery

Low Cost/High Quality Cardiac Surgery

HOSPITAL #2

Low Cost/High Quality Orthopedic Surgery

High Cost/Low Quality Cardiac Surgery
Who Will Want to Choose Hospital-Centric Networks??

**ACO #1**
- Avg. Quality Primary Care Physician
- High Cost/Low Quality Orthopedic Surgery
- Low Cost/High Quality Cardiac Surgery

**ACO #2**
- Avg. Quality Primary Care Physician
- Low Cost/High Quality Orthopedic Surgery
- High Cost/Low Quality Cardiac Surgery

**HOSPITAL #1**

**HOSPITAL #2**

PATIENT

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A Better Solution: Medical Homes + Value-Based Acute Care Choice

PATIENT → Primary Care Medical Home → Med. Quality Primary Care Physician → HOSPITAL #1
- High Cost/Low Quality Orthopedic Surgery
- Low Cost/High Quality Cardiac Surgery

HOSPITAL #2
- Low Cost/High Quality Orthopedic Surgery
- High Cost/Low Quality Cardiac Surgery
The Right Way to Define ACOs...

ACO
Primary Care Medical Home

PATIENT

Med. Quality Primary Care Physician

HOSPITAL #1

Low Cost/High Quality Cardiac Surgery

Low Cost/High Quality Orthopedic Surgery

HOSPITAL #2

Low Quality Primary Care Physician

High Cost/Low Quality Cardiac Surgery

High Cost/Low Quality Orthopedic Surgery
...And the Right Way to Stimulate Improvement In Other Services...
...Or See Low Quality Services Disappear

**ACO**
- Better Quality Primary Care Physician
- Low Cost/High Quality Orthopedic Surgery
- Low Cost/High Quality Cardiac Surgery

**HOSPITAL #1**
- No Longer Offer Orthopedic Surgery

**HOSPITAL #2**
- Better Value Cardiac Surgery
How Many ACOs in a Region? Multiple, “Right-Sized” ACOs

BENEFITS:
- Choice for physicians
- Choice for patients
- Efficient scale
- Opportunity to focus on strengths
Hospital Market Structure
Key to Overall Cost Control

MD Group

Virtual MD Group
MD MD MD MD
MD MD MD MD

Hospital

Virtual MD Group
MD MD MD MD
MD MD MD MD

Hospital

Virtual MD Group
MD MD MD MD
MD MD MD MD

Hospital

Virtual MD Group
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Hospital Market Structure
Key to Overall Cost Control

Virtual MD Group
MD  MD  MD  MD
MD  MD  MD  MD
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Price
Utilization

Hospital
Hospital

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Monopoly Hospitals Could Reprice to Offset Utilization
Our Standard Methods of Controlling Prices Don’t Work

- **Price Negotiations as Part of Contracting**
  - Even large insurers can’t demand price concessions from large/monopoly providers
Our Standard Methods of Controlling Prices Don’t Work

- **Price Negotiations as Part of Contracting**
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- **Narrow Networks**
  - In theory, could steer patients to lower-cost providers and give providers greater volume to reduce prices
  - In practice, prohibits patients from using the providers they prefer and creates consumer backlash
  - Networks are based on providers, not services, so providers with some good services are either in or out for all services
Our Standard Methods of Controlling Prices Don’t Work

• **Price Negotiations as Part of Contracting**
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• **Copays, Co-insurance and High-Deductible Health Plans**
  – Create little incentive for consumers to choose lower-cost providers on the expensive items that make a difference
  – Create significant disincentive to pursue preventive care that may prevent the expensive items in the first place
Your Choices With Auto Purchase Insurance

**HYUNDAI SONATA**
- MSRP: $22,450
- 5 yr/60,000m warranty
- 5 star crash rating

**LEXUS LS 460**
- MSRP: $63,825
- 4 yr/50,000m warranty
- No crash rating
Copayment: Lexus Wins

**HYUNDAI SONATA**
- 5 yr/60,000m warranty
- 5 star crash rating
- MSRP: $22,450
- $1,000 Copay: $1,000

**LEXUS LS 460**
- 4 yr/50,000m warranty
- No crash rating
- MSRP: $63,825
- $1,000 Copay: $1,000
Coinsurance: Lexus Wins for Most People

HYUNDAI SONATA

- 5 yr/60,000m warranty
- 5 star crash rating

MSRP: $22,450

- $1,000 Copay: $1,000
- 10% Coinsurance: $2,245

LEXUS LS 460

- 4 yr/50,000m warranty
- No crash rating

MSRP: $63,825

- $1,000 Copay: $1,000
- 10% Coinsurance: $6,383
High Deductible: Lexus Wins

**HYUNDAI SONATA**

- **MSRP:** $22,450
- 5 yr/60,000m warranty
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## Price Difference: Hyundai Wins for Most People

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Better Ways of Controlling Prices

- **Value-Based Competition by Providers for Consumers**
  - Define episode prices and global fees so it’s easier to compare costs of different providers and procedures
  - Publish information on prices and quality of all providers
  - Require consumers to pay the “last dollar” of providers’ prices (i.e., the difference between the prices of more expensive and less expensive providers/services with equivalent quality)
  - Create shared decision-making processes to help consumers decide among services based on benefits and costs
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- **Ensuring There Are Competitors**
  - Prevent anti-competitive consolidations and encourage limited duplication of services (assuming consumers are made price-sensitive)
  - Regulate prices where monopolies exist (e.g., the Maryland Hospital rate-setting commission)
  - Prohibit all-or-nothing contracting for services by large health providers as a condition of tax exemption
Benefit Design Changes Are Also Critical to Success

**Ability and Incentives to:**
- Improve health
- Take prescribed medications
- Allow a provider to coordinate care
- Choose the highest-value providers and services

**Benefit Design**
- Keep patients well
- Avoid unneeded services
- Deliver services efficiently
- Coordinate services with other providers

**Payment System**
- Allow a provider to coordinate care
- Choose the highest-value providers and services

**Patient**

**Provider**
Both are Controlled by the Payer

PAYER

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Benefit Design

Patient

Payment System

Provider

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But Purchaser Support is Needed Particularly for Benefit Changes

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Provider is only compensated for changed practices for the subset of patients covered by participating payers.
Payers Need to Align to Enable Providers to Transform
Functions Needed for Healthcare Reform in A Region

- Consumer Education/Engagement
  - Education Materials
  - Consumer Education/Engagement

- Quality/Cost Reporting
  - Quality Reporting
  - Cost/Price Reporting

- Value-Driven Delivery Systems
  - Technical Assistance to Providers
    - Design & Delivery of Care
    - Provider Organization/Coordination

- Engagement of Purchasers
  - Alignment of Multiple Payers
    - Value-Driven Payment Systems
      - Benefit Design
      - Payment System Design
Functions Can’t Proceed in Silos

- Quality/Cost Measure Design
- Quality Reporting
- Cost/Price Reporting
- Technical Assistance to Providers
- Design & Delivery of Care
- Provider Organization/Coordination
- Engagement of Purchasers
- Alignment of Multiple Payers
- Benefit Design
- Payment System Design
- Consumer Education/Engagement
- Education Materials
Coordinated Support for All Functions at the Regional Level
...With Active Involvement of All Healthcare Stakeholders
For More Information:

Harold D. Miller
Executive Director, Center for Healthcare Quality and Payment Reform

Miller.Harold@GMail.com
(412) 803-3650

www.CHQPR.org
www.PaymentReform.org