



CALIFORNIA HEALTHCARE FOUNDATION

California Market Forces Drive Unique ACO Partnerships

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Payment Reform: Changing How
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New Insurer-Provider Accountable Care Partnerships Under Development

- Providers collaborating with public and private payers on new delivery system and payment reforms in response to national health reform
 - Transition from volume-based fee-for-service (FFS) payment to value-based payment
 - Medicare accountable care organization (ACO) programs seek to address total spending across the care continuum
 - Medicare ACOs spurring interest in similar commercial contracting arrangements

What Is a Commercial ACO Arrangement?

- Designed to address total spending across care continuum
- ACOs are physician networks and sometimes hospitals or other providers that agree to be responsible for cost and quality of care of a defined population
- Insurers contract with ACOs to achieve goals related to cost containment and improved quality

Outside California, Structuring ACOs to Avoid Managed Care Backlash

- New payment incentives incorporated into existing PPO and HMO products
- Unclear how often hospital is ACO participant
- Global budget with shared savings if project under budget; sometimes also share losses
- Layered over existing FFS payment
- Shared savings contingent on meeting quality standards
- Incremental increase in provider risk-sharing
- No patient incentives to use ACO providers

California in Vanguard of Commercial ACO Development

- Blue Shield CalPERS ACO launched in Sacramento in 2010
- 14 commercial ACOs as of May 2013
- Opportunity to examine ACO development as part of CHCF-funded longitudinal study of local health care markets
 - Conducted by the Center for Studying Health System Change (HSC), a non-partisan health policy research organization in Washington, DC

Presentation Outline

- Study design
- Study findings
 - California market dynamics driving ACO development
 - Unique design of California ACOs
 - Local market variation in ACO development
 - ACO benefits and challenges
- Implications for future ACO development

Study Design

- Follow-up to 2008 site visits to six diverse California communities
 - Interviews with 185 health care leaders (providers, insurers, policymakers) conducted Nov. 2011 - May 2012
- Focus on the delivery system: hospitals, physician organizations, safety net
 - Understand how providers are preparing for health reform — including contracting with insurers
- Implications for providers, patients, and policy

Markets Studied



California Market Conditions Set Stage for Commercial ACO Collaborations

- High proportion of commercial HMO enrollment with gatekeeping
- Presence of large physician organizations (POs) — independent practice associations (IPAs) and medical groups — that take capitation for primary care and specialty services
- Hospitals typically paid FFS

ACO Collaborations Mark Shift in Insurer-Provider Relationships

- In 2008, providers exerting market leverage and insurers passing on cost increases
- Insurers selectively pushing back with limited-network products that unilaterally exclude prominent, high-cost providers
 - Narrow-network HMOs, tiered-network PPOs
 - CalPERS as catalyst
- Since 2008, changing market conditions have motivated ACO collaborations

Competitive Pressures Driving Insurer-Provider Partnerships

- Growing Kaiser market share means continuing declines in business for insurers and providers
- Insurers looking for ways to compete on price
- POs, especially IPAs, facing declining capitation, aggressively seeking to diversify and expand enrollment
- Hospitals anticipating reduced bottom lines under health reform; see ACOs as opportunity to manage total costs of care

Early California ACOs Limited-Network Products

- Lower-premium products to compete with Kaiser
 - Providers willing to accept lower payments to gain market share
- Developing new ACO products that build on first-generation, limited-network products
 - Include incentives for enrollees to choose ACO providers
 - HMO-ACO: ACO providers only
 - PPO-ACO: lowest-cost sharing for ACO providers but still have access to non-ACO providers

Commercial ACO Products, May 2012

Site	Limited-Network Product	Insurer	PO	Hospital	Employer Role
Sacramento	HMO	Blue Shield	Hill Physicians	Dignity Health	CalPERS
	HMO	Health Net	Sutter	Sutter	None
San Diego	PPO	Aetna	Sharp IPA	None	None
	PPO	Anthem	Sharp IPA/Medical Group	None	None
San Francisco	HMO	Blue Shield	Brown & Toland (IPA)	CPMC	San Francisco City and County Employees Health System
	HMO	Blue Shield	Hill Physicians	Dignity/UCSF	San Francisco City and County Employees Health System
Los Angeles	PPO	Anthem	HealthCare Partners	None	None

Other Key ACO Product Features

- IPA-led on provider side, few hospitals participating (HMO-ACOs only)
- Align financial incentives of insurer, POs, and hospitals (where participating)

HMO-ACO Product Features

- Blue Shield CalPERS HMO-ACO
 - Hospitals participating along with insurer and IPA
 - Three-way shared savings/losses allocated by ability to influence spending
 - CalPERS received upfront premium reduction

PPO-ACO Product Features

- Anthem PPO-ACO in San Diego
 - POs receive care management fee, shared savings only (not at risk for losses)
 - Challenges to managing care because patients can see non-ACO providers
 - System hospitals not participating initially

Hospital Disincentives to Join ACOs

- Hospitals assessing trade-offs from:
 - Reduced volume due to cost-cutting measures
 - Increased volume from limited network
 - Changes in financial incentives
- Net effect of PPO-ACOs more complex to assess than with HMO-ACOs

Local Variation in ACO Development

- Assessing business case market by market
 - Sacramento and San Diego most active, followed by San Francisco and Los Angeles; Riverside/San Bernardino and Fresno lag
- Market conditions supporting development
 - Strong Kaiser presence
 - Large PO seeking more risk-sharing
 - Price-competitive hospital system and PO with scale, range of services and geographic breadth to support limited network
 - Sufficient insurer and provider competition
 - Purchasers actively engaged in select markets

ACO Benefits and Challenges

- Incentives for “virtual integration” among insurers, POs and hospitals a la Kaiser but no magic bullet for slowing spending
- Even in California, requires substantial infrastructure investments and process change
- Data exchange challenging
- Need for active hospital participation
- Doubts about long-term savings

Implications for Future ACO Development in California

- Jury still out on viability — cost savings, market share gains, geographic expansion, impact of health reform
 - More recent ACOs not limited-network products
- While California is better positioned, still more work to be done
 - Achieve greater clinical integration across the care continuum
 - Refine payment mechanisms, especially for PPOs
 - Feasibility of moving to global capitation
 - Address if/how to regulate ACOs

Implications for Future ACO Development Outside California

- Greater potential for delivery redesign/cost savings
- Uncertain market conditions, purchaser demand for limited-network ACO products
- Longer time horizon to develop necessary provider infrastructure
 - Hospital acquisition of physician practices is wildcard
- Active nationwide monitoring and evaluation essential to identify promising delivery system reforms

Publications Available at CHCF.org

- Six Regional Market Community Updates
- Two cross-site analyses:
 - *Ready or Not: Are Health Care Safety-Net Systems Prepared for Reform?* (June 2013)
 - *Arranged Marriages: The Evolution of ACO Partnerships in California* (September 2013)
- Go to www.chcf.org/almanac/regional-markets

Questions?

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