

# ACOs: A Tool to Manage Healthcare Costs

By:  
Rosemarie Day and Emily Eibl

The past year has been a tumultuous time for healthcare. The stop and go effort of repealing and replacing the Affordable Care Act (ACA) has introduced a lot of uncertainty and instability into the healthcare industry. While the debate over repealing and replacing the ACA has resurfaced some deep divisions between Democrats and Republicans in how they think about the guiding principles of healthcare and insurance, there is one concept that the po-

litical parties agree on but has been somewhat overshadowed by the recent events: the growth of healthcare costs needs to be reined in. Growth in healthcare costs are largely driven by price and volume of services, price and value of new technologies, and demographics. One tool to help decrease the growth rate is payment reform, and specifically to focus on paying for value, not volume. One key mechanism of payment reform is Accountable Care Organizations (ACOs).

While there is bipartisan consensus that there needs to be a reduction in the growth of healthcare costs, the mechanisms and timeline to achieve that goal are not always aligned across the parties. Currently, we are getting mixed signals from the Trump administration about payment reform. For example, over the past several months, the Centers for Medicare and Medicaid Services delayed the start dates for four bundled-payment initiatives covering cardiac and orthopedic care.

While the current administration is sending mixed signals about their support of payment reform, it is an area that deserves continued focus, especially building on ACOs. ACOs are groups of healthcare providers (doctors, hospitals, health plans, etc.) who come together to provide coordinated high-quality care to patients, often using alternatives to fee-for-service payments. The goal of this coordinated care is to ensure that patients are getting the right care, at the right time, while avoiding unnecessary duplication of services and providing quality care.

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## Results

ACOs have seen early success in reducing costs and improving quality. Studies have demonstrated that commercial ACOs have lower expenses per Medicare enrollee and slightly higher overall quality scores.<sup>1</sup> Many private ACOs effectively use alternative incentives and payments, such as full or partial capitation, bundled payments, and

performance-associated bonuses.  
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<sup>1</sup>ACOs Holding Commercial Contracts Are Larger and More Efficient Than Noncommercial ACOs [Internet]. The Commonwealth Fund. [cited 2016 October 4]. Available from: <http://www.commonwealthfund.org/publications/in-the-literature/2016/oct/acos-holding-commercial-contracts>

One example of a successful ACO is Banner Health Network. Banner Health Network is based in Phoenix, Arizona and is a Medicare ACO that has also formed accountable contracts with private payers. These contracts span several groups, including Aetna, Cigna, Blue Cross Blue Shield of Arizona, and United Healthcare. Banner operates 24 acute care hospitals in seven states and has saved CMS more than \$15 million.<sup>1</sup> According to the Banner CEO, their strategy is dominated by “Supporting beneficiaries when they were most at risk and in need of medical advocacy— after a new diagnosis, following hospital discharge, or as a result of multiple emergency department visits.”

positive impact

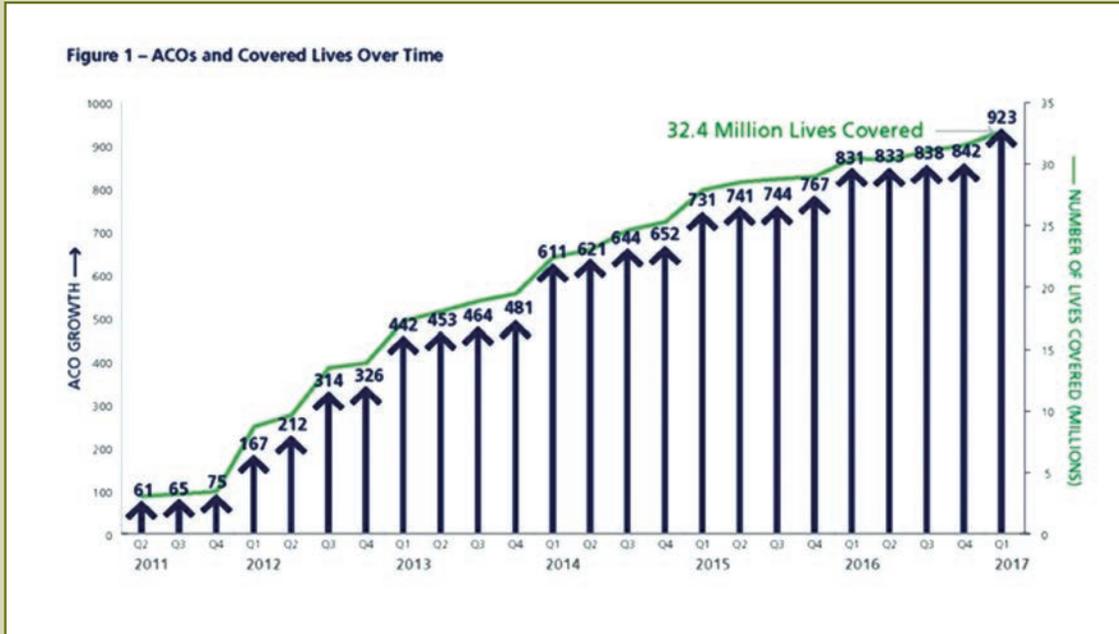
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### ACO Growth Trends

The number of ACOs has grown dramatically over the last 6 years. They grew from 61 in 2011 to 923 in the first quarter of 2017. They now cover over 32 million people.<sup>2</sup>

### ACO's By Payer Type

In 2017, there were 1,366 ACO contracts in the country. Of the 1,366 contracts, commercial contracts represented a majority of all contracts (715 or 52%), and a majority of all covered lives (59%). Medicare contracts represented 563 contracts (41%) and 29% of covered lives. Medicaid accounted for 88 contracts (6%) and 12% of covered lives.<sup>3</sup>

### Continued Expansion: A Path Forward

The policy uncertainty at the federal level does not have to stifle the continued expansion of ACOs. The catalyst to launch ACOs can come from outside the federal government through states. For example, Massachusetts is in the process of setting up a Medicaid ACO program. This new Medicaid ACO program hopes to create better and more coordinated care. The program strives to improve quality and member experience through integration across the full spectrum of care, including medical care, behavioral health and long-term services and supports (LTSS). The program shifts incentives to hold providers accountable for quality and total cost of care for a

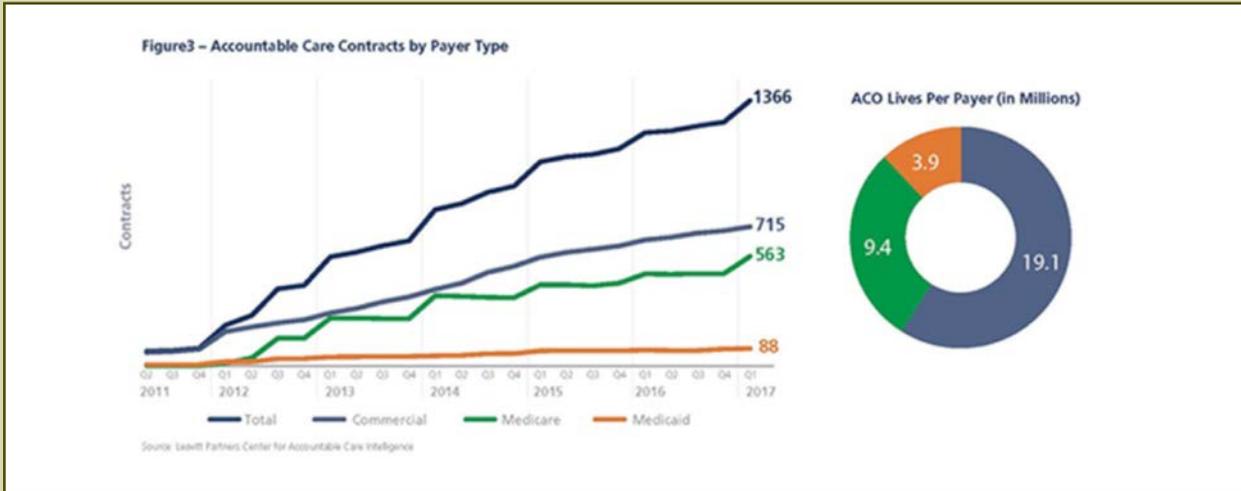
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<sup>2</sup> Banner Health Network sees major gains in quality, returns significant shared savings in year two of Medicare's Pioneer ACO [Internet]. Banner Health - [www.BannerHealth.com](http://www.BannerHealth.com). [cited 2014 Nov 19]. Available from: [https://www.bannerhealth-network.com/about/banner-health-network-sees-major-gains-in-quality-returns-significant-shared-](https://www.bannerhealth-network.com/about/banner-health-network-sees-major-gains-in-quality-returns-significant-shared-savings-in-year-two-of-medicare-pioneer-aco)

[savings-in-year-two-of-medicare-pioneer-aco](https://www.bannerhealth-network.com/about/banner-health-network-sees-major-gains-in-quality-returns-significant-shared-savings-in-year-two-of-medicare-pioneer-aco)

<sup>3</sup> Growth of ACOs And Alternative Payment Models In 2017 [Internet]. Health Affairs. [cited 2017 June 28]. Available from: <http://healthaffairs.org/blog/2017/06/28/growth-of-acos-and-alternative-payment-models-in-2017/>

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population of patients.

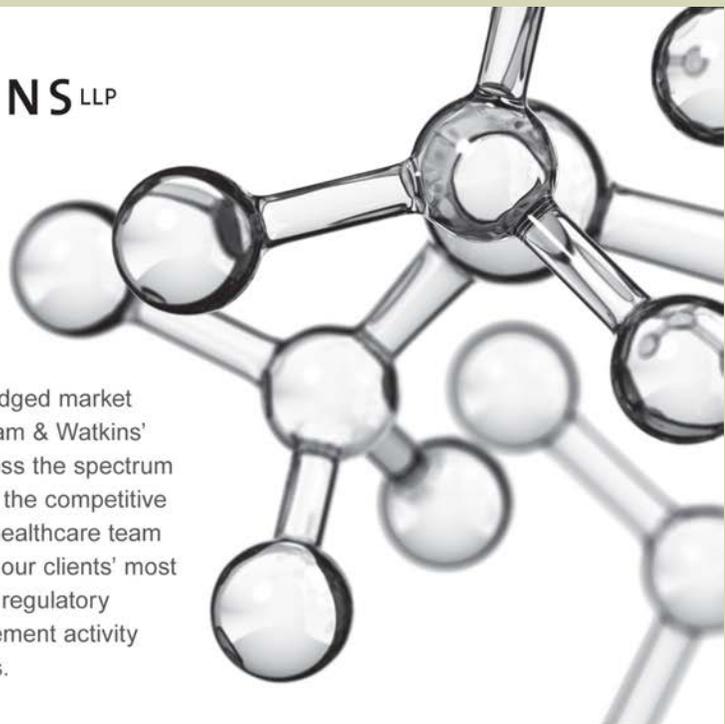
While states like Massachusetts are investing in expanding ACOs, the catalyst to launch ACOs doesn't have to come from the government at all, the private sector can embark on its own initia-

tives. The shift of volume to value is beneficial to the public and private sectors. In order to continue to push this shift farther, there needs to be more access to ACO options for consumers and employees.

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Within the commercial sector, an increasing number of employers are looking into using ACOs. A survey from the National Business Group on Health showed found that 3% of employers are directly contracting with an ACO, 18% are promoting ACOs offered by health plans, and an additional 26% are considering promoting or contracting in 2019/2020.<sup>4</sup> Employers that are promoting the use of ACOs incentivize employees to choose the ACO by giving lower premiums, larger contributions to health saving accounts, free generic drugs, no-copays for primary care visits, and more.

### Conclusion

ACOs help address direct drivers of cost growth, like over-utilization, but also address less direct drivers like social determinants of health and behavioral health comorbidities. By creating more coordinated and integrated care in a risk contract

based environment, ACOs, if done correctly, can reduce costs, improve quality, and help advance the important shift from volume based care to value based care. □

### About the Authors

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<sup>4</sup> Accountable Care Organizations [Internet]. National Business Group on Health. [cited 2017 August 7]. Available from: <https://www.businessgrouphealth.org/topics/health-care-payment-delivery/accountable-care-organizations/>



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