

## **Federal Healthcare Reform Accountable Care Organizations (ACOs)**

### **Issue**

The Accountable Care Organization (ACO) is one of the latest designs for managing Medicare that is gaining traction among policymakers desperate to control costs and boost quality in the system. Proponents of the concept want to see it tested along with such alternatives as patient-centered medical homes, pay-for-performance and payment bundling.

A typical Medicare ACO would include a hospital, primary care physicians, specialists and potentially other medical professionals. Services would still be billed under fee-for-service, but the organization's members would coordinate care for their shared Medicare patients with the goal of meeting and improving on quality benchmarks. Because ACO members are held jointly accountable for this care, they would share in any cost savings that stem from the quality gains.

ACOs that reduce the costs of their patients relative to a spending benchmark would be rewarded with a share of the programmatic savings which would be conditioned on meeting quality targets.

If the ACOs fail to meet certain quality and cost savings targets, the providers in the ACO would face lower payments from Medicare. On the flip side, the ACOs would also be awarded for keeping patients happy and meeting national quality standards such as making sure diabetics get regular foot exams and women get their annual mammograms.

In effect, ACOs are an attempt to build integrated health systems like the Mayo Clinic where none exist. However, Mayo took several decades to become a global destination for health care.

### **Current Status**

Current proposals would authorize a pilot project for voluntary ACOs to test different payment incentive models and would require a detailed report on an approach for bundling post-acute services with inpatient hospital services, as well as expand the existing Acute Care Episode bundling demonstration project. Each ACO would be operated by a group of doctors and hospitals which would be paid by Medicare to care for all the health needs of at least 5,000 elderly or disabled people. Large multi-specialty physicians groups and big hospitals could also form ACOs.

### **SJHS Position**

The System is supportive of ACOs as pilots as long as they are open to all groups. It appears that a strong consensus is forming around the belief that ACOs likely represent a critical step in moving away from purely volume-driven payments to payments based on better health and better care at a lower cost.