

# Reducing Healthcare Costs

*for Employers*

Employee Benefits Series

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## Accountable Care Organizations Show Promise in Reducing Health Costs

As U.S. consumers of health care try to control costs while improving health quality, some experts are turning to the Accountable Care Organization (ACO) as the delivery model with the potential to meet both objectives.

ACOs are designed to provide financial incentives for providers to improve quality, eliminate waste and control the cost of health care. Under the ACO model, spending targets are set to reflect the expected costs of caring for the patients, and quality-of-care targets are set. When the ACO meets or exceeds the targets, stakeholders share in the savings.

After passage of the Patient Protection and Affordable Care Act (PPACA) which endorsed the ACO model for the Medicare program (called the Medicare Shared Savings Program), the number of providers and payers developing ACOs has risen substantially.

See *Accountable Care*, p. 4

## Outcome-based Contracting Realigns Incentives, Reduces Costs

More employers are considering adding elements of value-based design (VBD), which build incentives into benefits design and premium structure to encourage healthy behavior and reduce health care costs. Employers, payers and others can accelerate and maximize the effectiveness of VBD by signing contracts with each other to improve outcomes. VBD is different from traditional cost-based health insurance benefit design because it focuses on health care outcomes to improve the health status of employees and create more predictable and reduced cost trends for employers, according to Cyndy Nayer, CEO of the Center for Health Value Innovation in St. Louis.

Outcome-based contracting enhances and improves the VBD model because it makes both parties to the contract accountable for improving employees' health outcomes, rather than just having the payer or vendor on the hook to improve outcomes. "It's more of a team approach. This is not a one-way contract. If the dividends of reduced health risks and costs are shared across the stakeholders, then everyone wins," explains Nayer.

See *Outcome-based Plan*, p. 2

### In This Issue

Accountable Care Organizations Show Promise in Reducing Health Costs.....	1
Outcome-based Contracting Realigns Incentives, Reduces Costs.....	1
Interim Medical-loss Ratios Might Make Self-insuring More Appealing.....	6
To Achieve Savings, Health Management Uses Several Measures, Incentives.....	7
Stress Management Progress Takes Bite out of Health Expenses.....	9

### Practice Tools

Sample Framework for Outcome-based Contracting for Minimally Invasive Procedures.....	3
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Louisville, Ky.-based Norton Healthcare and insurance giant Humana launched the Louisville region's first commercial ACO in November 2010, according to Kenneth Wilson, Norton's vice president for clinical effectiveness and quality.

### Employers Can Reap Gains From ACOs

Many different forms of ACO have been created, often depending on the local provider market. As a result, whether employers can get in on the shared savings depends on: 1) whether they're self funded or fully insured; (2) what kind of models are being offered in their area; and (3) what kind of business the employer is in. Some of the different opportunities for employers include:

- **Creation of an ACO for one's own employees.** Some employers have created ACOs for their own employees, much in the way that they've created health plans or on-site clinics. Methodist Health, a hospital system in Memphis, is one such employer, according to Christie Travis, CEO of the Memphis Business Group on Health.
- **Direct contracting with an ACO.** Some employers may have the opportunity to directly contract with the provider system that is forming an ACO. Under this model, the employer will not need to use a health plan as a middle man to offer the provider network, says Travis. The ACO will directly provide the continuum of care through its own provider network.
- **Creation/sponsorship of the employer's own ACO.** A self-funded employer could sponsor and organize its own ACO. Some employers may even help a new ACO get off the ground by investing funds to assist it, perhaps for a piece of the projected shared savings, says Blau. "Employers can play an important role in the formation of ACOs. They bring expertise to the table [as to what is effective] and have been incentivizing their employees to take care of themselves," says Wilson.
- **Creation/sponsorship of an ACO using independent payers and providers.** Some employers may be interested in creating and supporting an ACO for their own employee/retiree population. For example, the California Public Employees' Retirement System (CalPERS) launched an ACO in January 2010 for its 40,000 CalPERS members in the Sacramento, Calif., area. The ACO is comprised of Blue Shield of California, Catholic Healthcare West, and Hill Physicians Medical

Group, who all agreed to accept financial risk for the success of the program. The ACO has guaranteed CalPERS five percent in savings, about \$15.5 million, and it appears that the ACO will meet its targets for 2010, says Ken Perez, senior vice president of marketing for MedeAnalytics, a health information technology company based in Emeryville, Calif.

- **Employer accesses ACO(s) in its payer's provider network, and is entitled to some of the shared savings.** This is the model contemplated by Norton and Humana. The pilot ACO program will initially cover only employees of Norton and Humana, but will eventually cover all employers in town, says Wilson. It is anticipated that the participating employers, as well as Norton and Humana, will receive some of the shared savings.
- **Obtaining health benefits from a commercial health insurance payer that includes one or more ACOs in its provider network, but no shared savings.** In this model, the employer doesn't directly share in the savings of the ACO. However, if employees are using the ACO, their services should be less expensive and they should be healthier because the ACO is working to meet quality and cost targets, notes Jordan Bazinsky, vice president for science and technology at Verisk Health, a health data analytics company based in Waltham, Mass.

When considering working with an ACO, employers should consider whether they should create or sponsor an ACO, directly contract with one, or access one via a health insurer. Determine their options.

### ACO Downsides

Of course, there are some drawbacks to using an ACO. The National Committee for Quality Assurance, the private non-profit accrediting organization for health care organizations, hasn't even finalized the criteria it intends to use to accredit ACOs. Several legal issues still need to be resolved, such as how an ACO can incentivize its providers to keep costs down and share savings without running afoul of federal anti-kickback, antitrust and other laws. Some ACO models may turn out to be less effective. "An ACO that's just glorified capitation and under incentivized to provide good quality care won't be good," warns Bazinsky.

Some ACOs may also not succeed for financial reasons. There's a tremendous amount of expense in forming an ACO, including creation of the infrastructure to collect data, coordinate care, and measure performance,

See *Accountable Care*, p. 5

the provision of clinical integration to reduce waste and inefficiencies, and installation of health information technology, which may doom many nascent ACOs, notes attorney Daniel Mulholland with Horty Springer in Pittsburgh.

There's also a concern about the long-term viability of ACOs, which in the first few years may successfully reduce costs by increasing efficiencies and reducing expensive care but after a while may have hit the limit and can't cut more to keep up the profits.

But the risks are minimal for most employers, since they won't be financially on the hook, notes Wilson.

- 1) **Look at ACO design.** Determine which ACO best meets the company's operational needs. For instance, some companies may allow patients to go out of network for care; others may not. Some may assign employees to a particular ACO, while others will let employees choose which ACO to be affiliated with, says Travis. A good ACO will have sufficient numbers of primary care providers engaged in leadership and management, and the major physician and hospital partners should have a track record of working together effectively, says Wilson.

### **Outcome-based Plan** (continued from p. 1)

When considering the use of outcome-based contracting, employers should:

- 1) **Consider adding outcome-based contracting concepts to contracts with disease management, pharmacy benefit and other vendors.** Self-insured employers may want to contract with providers or provider networks, says Hayes.
- 2) **Be prepared to offer something in return.** For example, an employer may change the benefit design of its health plan to incentivize employees who engage in the outcome-based program being offered and improve communication to employees to increase employee enrollment.
- 3) **If fully insured, ask your payer what kind of outcome-based contracting they're implementing, if any, and how it may affect you.** A number of private payers are adding this concept to their benefit programs, says Nayer. "Demand the [better] outcome from the plan. Employers need to stop accepting what's offered," says Nayer. Employers can use their business coalitions for added clout in asking payers for this, suggests Hayes. 🏠

- 2) **Make sure the ACO meets applicable criteria.** For example, it needs to have a network of providers that is adequate for employee populations, and articulated quality goals. Ask what providers are in the ACO, and if your workforce has established relationships with them, says Wilson. "If 70 percent of your employees go to hospital A, you may want to use the ACO that hospital A is part of," he suggests.
- 3) **Ask if employers will be involved and/or will see any shared savings.** If the employer is not creating its own ACO, it can still receive some of the shared savings, and should ask how savings will be shared if the ACO is successful. If you don't ask who benefits from the generated savings, the insurer will benefit. At the very least, employers should ask payers how premiums might be affected if the employees use the payers' ACO.
- 4) **Make sure there's a robust measurement system to see if the ACO is really improving quality and reducing costs.** Clearly this is important if the employer is a stakeholder in the ACO. However, it's also important even if the employer's workforce uses an ACO simply because the ACO is part of a payer's provider network. "You need to know which ACOs are better, so you can drive employees to providers that provide better care," explains Bazinsky. 🏠

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