

National debt is the 'topic du jour'. Greece and the Eurozone, today anyway, appear to have dodged the default bullet. In the Super Committee, charged with deficit reductions, the debate has become about health care. Who will be the winners and the losers?



ALLEXIAN
GLOBAL HEALTH CARE ADVISORS

Massachusetts Alternative Quality Contract Gives Early Pointers on Super Committee Direction and the Potential for ACOs

In the Super Committee, charged with deficit reductions, the debate has become about health care. Who will be the winners and the losers? It is too early to be definitive but the first year results of the Massachusetts based Alternative Quality Contract (AQC) give some pointers. As the discussions around ACOs (Accountable Care Organizations) continue, the AQC (similar in structure to an ACO) gives a glimpse of what an ACO could deliver in terms of savings and quality improvements. Which sectors benefit, who loses and what should their strategies be to stay ahead?

In the Affordable Care Act, ACOs were legislated into being as a panacea to lower the cost of health care and improve quality. The ACO regulations that have followed, the cost of set up and uncertainty have proved too onerous for many providers. These providers are waiting it out on the sidelines. (Sidebar: Today's ACOs in our view, play a useful role in getting the 'lower cost/higher quality' debate front and center but make little practical/operational progress towards significant savings). The Massachusetts AQC provides some insight as to where the Super Committee and others will focus as ACO regulations continue to evolve.

Background

Sep 2011
Volume 3 Issue 9

"AQC (similar in structure to an ACO) gives a glimpse of what an ACO could deliver in terms of savings and quality improvements."

"MA AQC provides some insight as to where the Super-Committee and others will focus as ACOs continue to evolve.."

"Companies that provide therapy, pharmacy services,

In 2009, Blue Cross Blue Shield of MA implemented a global payment system called the Alternative Quality Contract. Global payments are fixed-dollar payments for the care that patients may receive in a given time period, such as a month or year. Global payments place providers at financial risk for both the occurrence of medical conditions and the management of those conditions. Global payments are intended to contain costs and reduce the use of unnecessary services, while encouraging integration and coordination of services.

Provider groups in the AQC system assume accountability for spending, similar to ACOs. These AQC groups are eligible to receive bonuses for quality of care. 321 primary care practices -- 4,000 physicians and 400,000 patients participated in AQCs in 2009. Physicians and hospitals enter into a five year contract that makes global payments for inpatient, outpatient, long term care, rehab and prescription drugs. Providers can receive up to 10% of their budget in the form of pay-for-performance bonuses. In Massachusetts, AQC providers received technical help from Blue Cross Blue Shield of MA with spending, utilization and quality metrics.

The MA AQC is the closest model we have to see how an (two-sided) ACO will function, the results it could deliver in quality improvement, savings and utilization reduction.

Results

The year one results show a modest savings of 2% (versus a control group).

Over 80% of the savings came from three areas:

- Lower expenditures on procedures, imaging and diagnostic testing
- Highest risk patients
- Shifting outpatient care to lower cost facilities.

In aggregate these savings grossed 2% versus the control group. However, support services provided by BCBS of MA and pay-for-performance quality bonuses of 3% meant an overall increase in the cost of care in year one. This is not surprising. The AQC is a five year experiment. As price competition increases, lowering costs, and as the bar is raised on quality bonuses and the support expenses reduce, savings will likely increase.

Quality of care metrics for chronic diseases improved 2.5%.

Implications

Quality of care in a reduced spend, pay-for-performance environment increased! Global payments increase price competition, specifically with referrals from higher cost to lower cost outpatient facilities. Utilization of care services remained unchanged -- we expect utilization to decline slowly over time.

Winners and Losers

diagnostics including lab and many others, need to consider their own strategy to mitigate this very real exposure."

"The year one results show a modest savings of 2% (versus a control group)."

"Over 80% of the savings came from three areas: lower expenditures on procedures, imaging and diagnostic testing; highest risk patients, and; shifting outpatient care to lower cost facilities."

"Quality of care in a reduced spend, pay-for-performance environment increased!"

"Imaging and diagnostic testing companies, traditionally high fixed cost organizations, in a global payment/ACO type model will likely suffer from lower unit volume as duplicative testing and imaging is eliminated."

Allexian delivers operational

Imaging and diagnostic testing companies, traditionally high fixed cost organizations, in a global payment/ACO type model will likely suffer from lower unit volume as duplicative testing and imaging is eliminated. Companies in these sectors need to be ruthless in finding new operating efficiencies that lower the cost of delivering care, specifically their fixed costs. Market leaders will be at an advantage to smaller players by spreading their fixed costs across more unit volume. Market share gains will be critical. Sales and marketing functions will have a bigger role to play.

High cost outpatient providers will lose share to lower cost competitors. This will be a race to the finish line. The providers that have the lowest unit cost per service provided, while maintaining reasonable quality, will win. A drive toward eliminating fixed costs and tough supply chain management will define the winning strategies.

Insurers win by holding premiums rates steady while lowering their reimbursement rates. We think that, like rental prices in real estate, insurance premiums are rigid downwards, giving the insurers sustained profitability.

Patients win with better quality of service, particularly in the chronic disease management.

Afterword

A 2% impact on the national budget for health care implies \$20 billion in savings. It's a start. If this is what ACOs can do, it's not nearly enough. We welcome the ACO 2.0 structure and new disruptive health care models that can lower costs by 80% and improve care dramatically. Quietly, these companies are receiving funding and are growing.

Please feel free to forward this email to interested colleagues. If you have trouble reading this, [click here](#) to download from our website.

Improvement and strategy focused on bottom line and value creation.

As former CEOs we assist health care companies with planning and execution.

We are experienced in performance improvement, strategy, M&A due diligence, interim management and technology planning and organizational change.