Remaining Relevant:

How small hospitals can succeed in the world of ACOs

October 12, 2010

STROUDWATER ASSOCIATES

Webinar Agenda

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1. Health reform key components overview
2. Definition of an ACO
3. Your value to an ACO
4. Market segmentation
5. Key strategic initiatives by market segment
6. Concrete next steps for your organization

1. Health Reform Overview

Major elements

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The elements of the Patient Protection and Affordable Care Act (PPACA)* most applicable to today's discussion are:

- A mandate that all US citizens have qualifying health coverage
- Expansion of public programs
- Reform of private insurance industry
- Focus on improving quality and system performance
- Focus on prevention and wellness
- Cost containment

The access, cost, and quality imperatives underlying the PPACA are driving the discussion about and development of Accountable Care Organizations

*For a complete copy of the PPACA http://www.govtrack.us/congress/billtext.xpd?bill=h111-3590

Key “take – aways”

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- Hospitals, physicians, and mid-levels will need to do more with less and eventually, less with less
- Focus on treating the “whole” patient
- Significant push to pay for value
- Providers will be assuming more financial risk
- Everyone will have health insurance which means more choices for patients

Changing incentives will shift the paradigm of which entity is driving healthcare in the community

2. Definition of an ACO

Definition of an Accountable Care Organization

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An ACO is

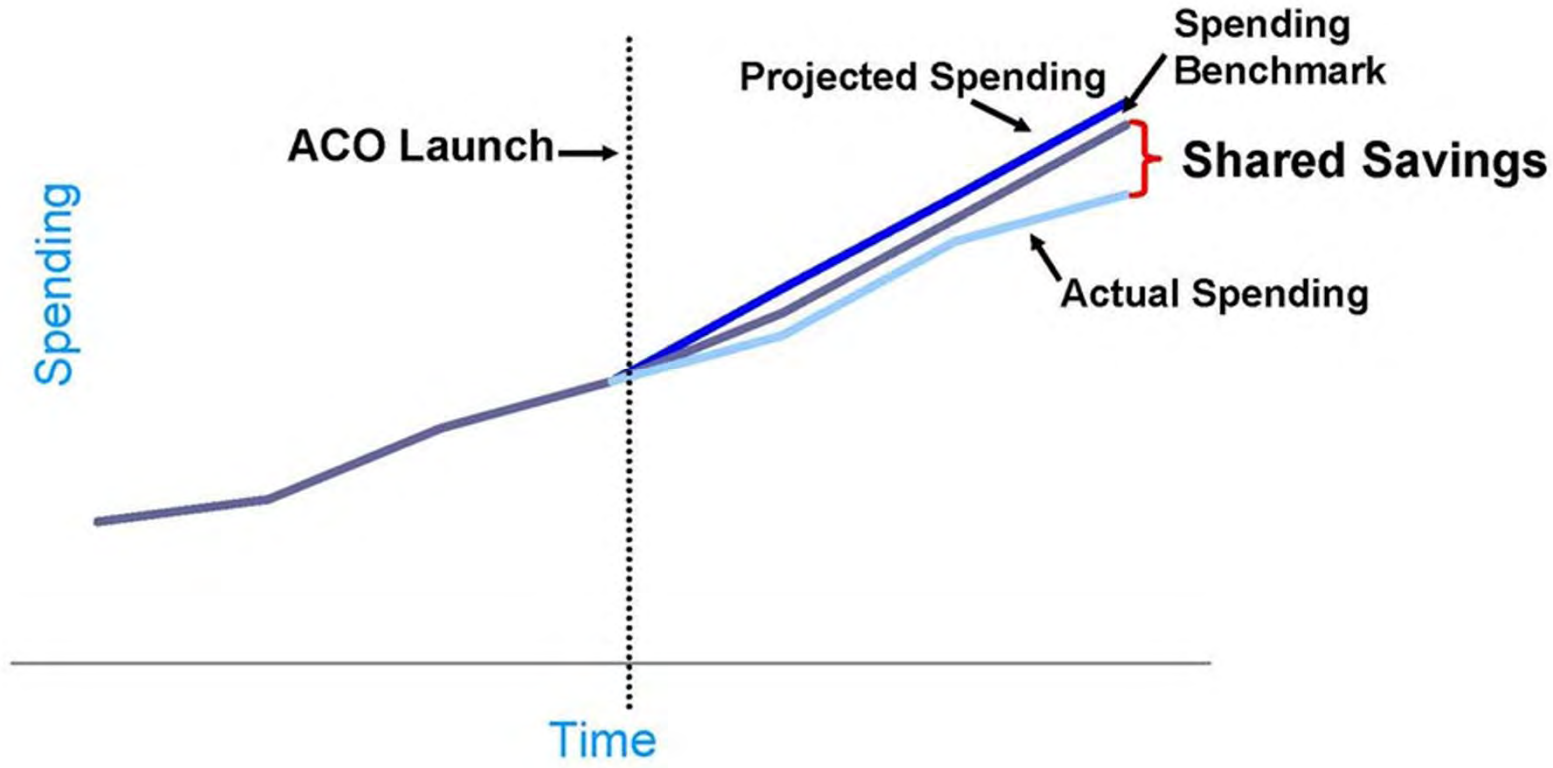
… a local entity and a related set of providers…

…who are held jointly accountable for achieving measured quality improvements and reductions in the rate of spending…

… for the care delivered to a defined subset of program beneficiaries or other populations.

Definition of an Accountable Care Organization

The ACO is "accountable" for specific population spending targets and clinical outcome improvements. When the ACO meets, or exceeds, these targets, it is rewarded with a share of the overall savings. In some proposed ACO arrangements there are also penalties for failing to meet the targets.



A Successful ACO: KEY COMPONENTS

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- Providers of Care
  - Physicians (key role for primary care)
  - Hospitals
  - Home Care
  - Long-term care
- Population health management
  - Managers/Coordinators of Care (in addition to providers)
    - Patient Advocates
    - Patient Educators
    - Health Coaches
- Infrastructure
  - Organizational structure
  - Information systems
  - Insurance function
- Available capital
- Employer support

A Successful ACO: KEY ATTRIBUTES

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- Strong "alignment" among members of the organization
  - Shared aims; "accountable" to the community
  - Physician engagement as leaders
  - Culture of working together across specialties & sites
- Infrastructure for understanding, managing, and improving care processes
  - Committees/teams spanning care continuum
  - Management systems to support data driven decision making and performance
  - Compensation structures to incent/reward success
  - A culture that fosters teamwork and data driven performance
- Resources to fund improvement initiatives
  - Investment in information technology platforms
  - Building the team

A Successful ACO: STRATEGIES TO BUILD

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- "Make" (develop internally)
  - Many healthcare organizations that offer a full continuum of care and/or an insurance function are well-positioned to become an ACO (Geisinger Health System, Kaiser Permanente, etc.)
    - Develop network of components (physician groups, hospitals, etc.)
    - Others may have several necessary components and access to capital to develop the other essential pieces

- "Buy" (purchase externally)
  - Organizations that do not have the capabilities will purchase or lease the necessary components
    - Employing or aligning with physicians/physician groups
    - Purchasing the insurance function from an insurance company
    - Buy home health and other continuum of care providers

3. Your value to an ACO

My role in an ACO

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- Not everyone can or should aim to be the driver of an ACO.

How do you determine what role you should play?

Relevance to an Accountable Care Organization

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- The “relevance” of any organization in an ACO is most influenced by its ability to “deliver” a population for the ACO to manage.

- Keep in mind:
  - Patients tend to most closely associate themselves with their primary care physicians (“I am a patient of Dr. Smith.”)
  - Chronic disease patients may align with specialists
    - Asthmatic with pulmonologist
    - Diabetic with endocrinologist
    - CAD with cardiologist
  - Patients rarely associate themselves with a hospital

Your future value

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- Your ability to remain an active, viable contributor to your community's health depends on:
  - Your organization's characteristics
    - Alignment with your physicians
    - Clinical quality
    - Physician leadership
    - Market position
    - Culture
  - Market characteristics
    - Total population base
    - Competitors in region
    - Number of ACO options in greater region

What role will I/can I play in an ACO?

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- **Full Risk Partner**
  Responsible for the entire "care dollar," managing all utilization, payment for services, and quality initiatives

- **Partial Risk Partner**
  Responsible for managing some portion of the care dollar, (ex. a defined set of services) for a predetermined payment amount (partial capitation, bundled payment, etc.)

- **Vendor**
  A provider of services to ACO's, with little or no financial risk for the services provided, paid on a FFS or modified FFS basis, such as DRGs or RVUs.

YOU MAY SIMULTANEOUSLY PLAY ALL OF THESE ROLES, FOR DIFFERENT ACOs

4. Market Segmentation

Population base requirements for an ACO

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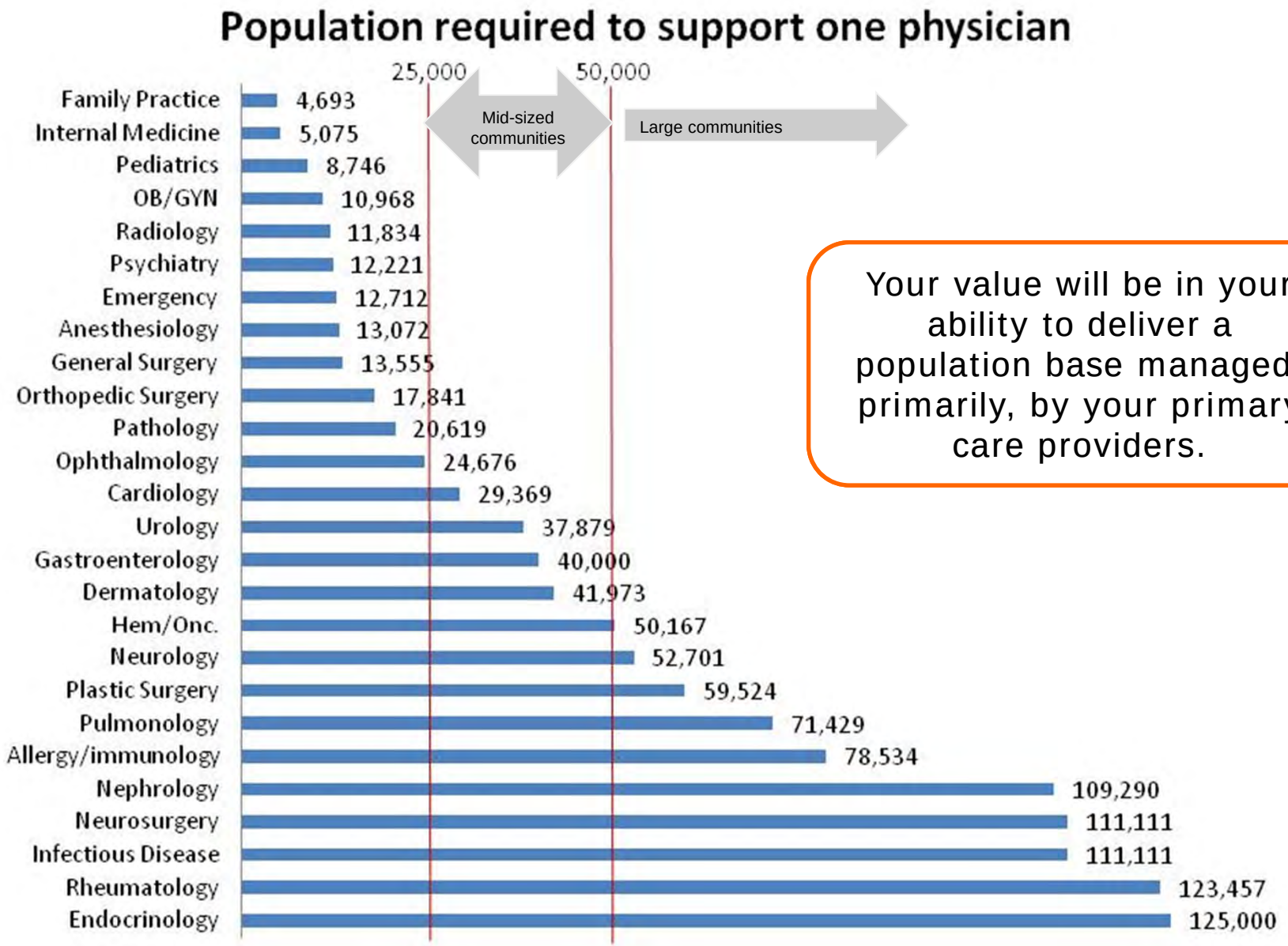

Your value will be in your ability to deliver a population base managed, primarily, by your primary care providers.

Estimates are based on an average of nine physician to population ratios

Market segmentation

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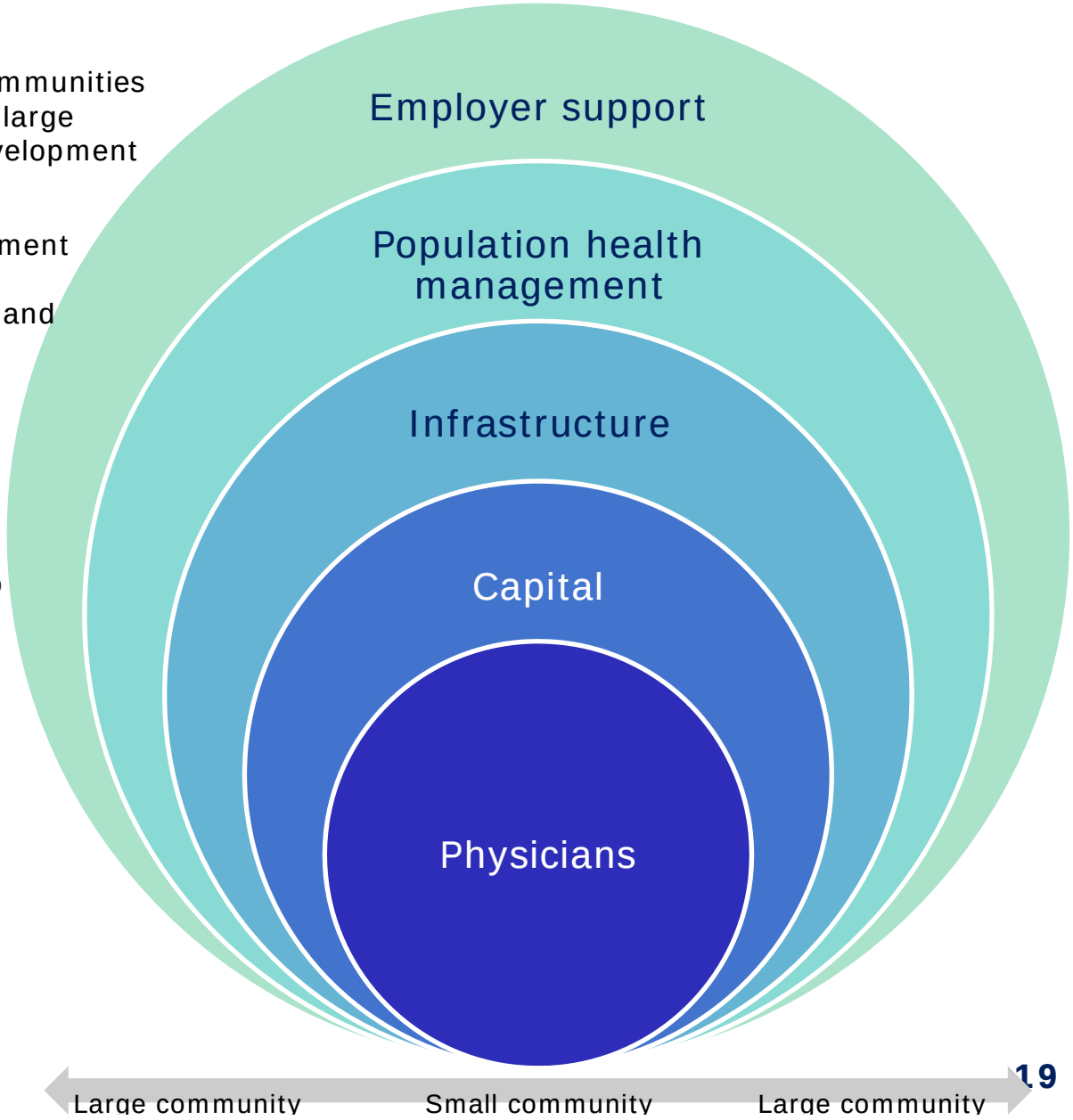
Many smaller and rural communities will not have an employer large enough to support the development of an ACO

Population health management will be difficult without an adequate population base and infrastructure

The *infrastructure*, while critical, may not limit affiliation options

An organization's ability to access *capital* may dictate the role it can play in the market

Successful alignment with *physicians* is critical for hospitals of all sizes



5. Strategic Initiatives by Market Segmentation

ACO: Physician Alignment

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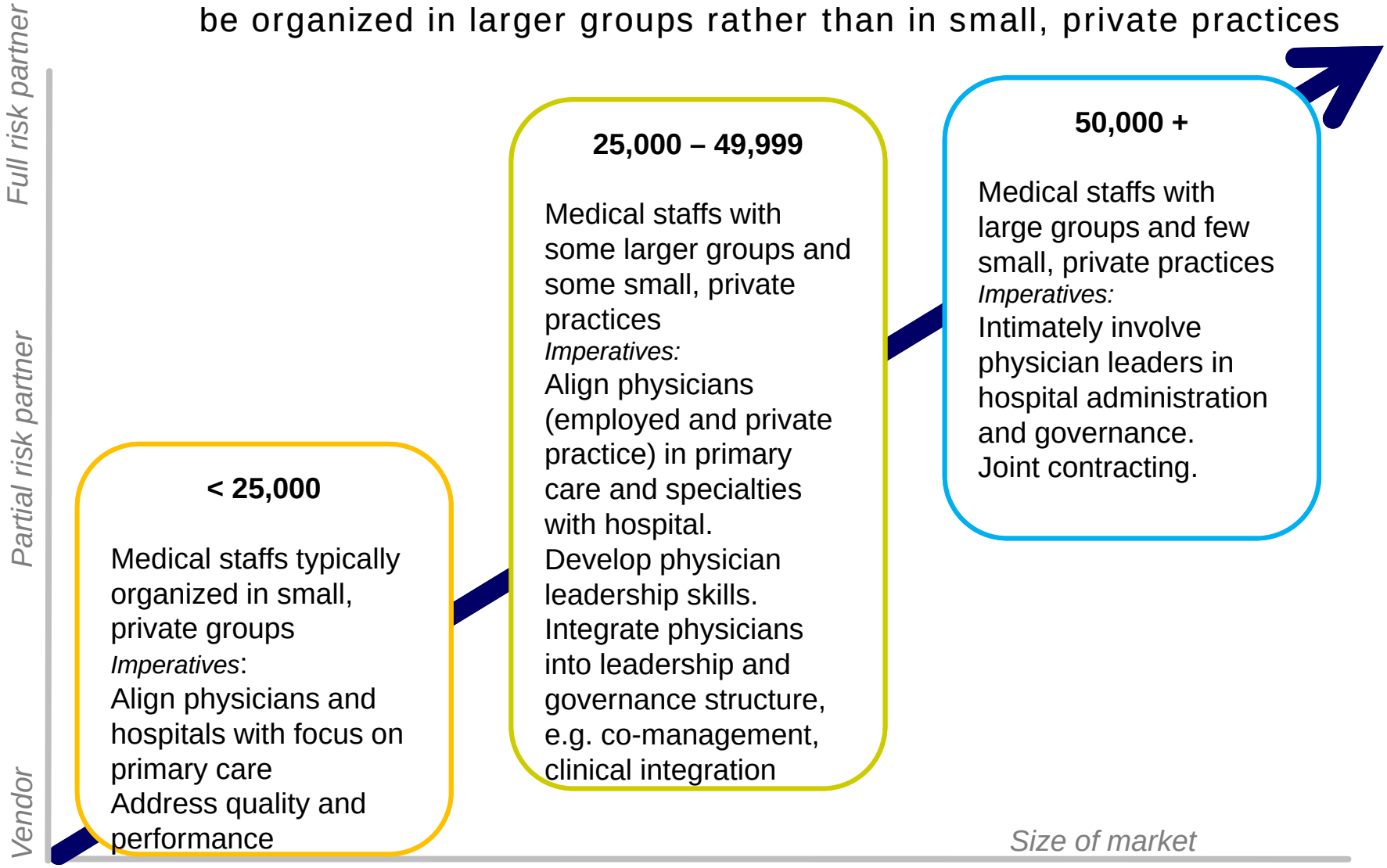
- The larger the population base, the more likely the physicians are to be organized in larger groups rather than in small, private practices



ACO: IT Infrastructure and Capital Needs

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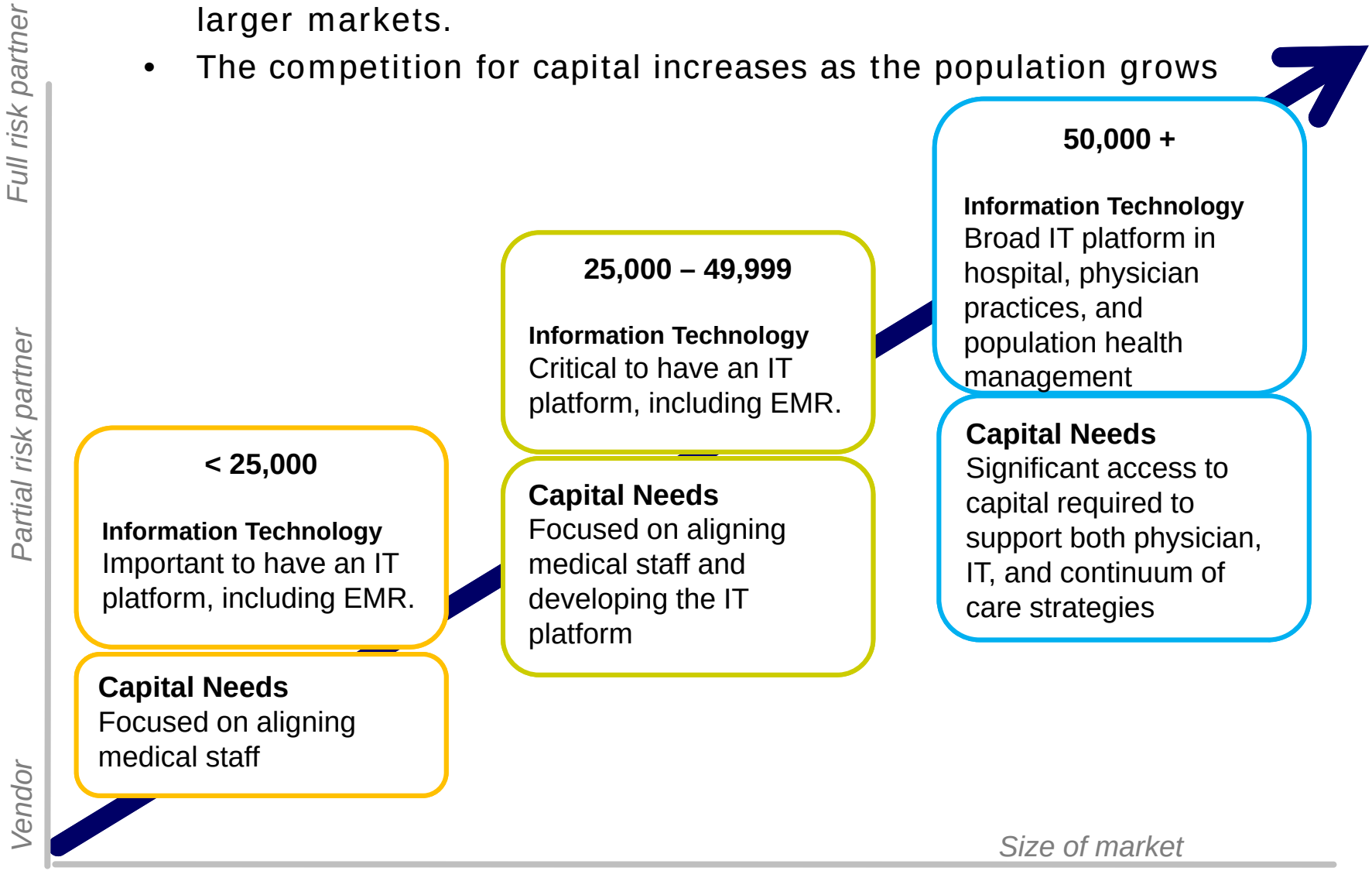
- The functionality of the IT platform will need to be more robust in larger markets.
- The competition for capital increases as the population grows



ACO: Population Health Management and Employer Support

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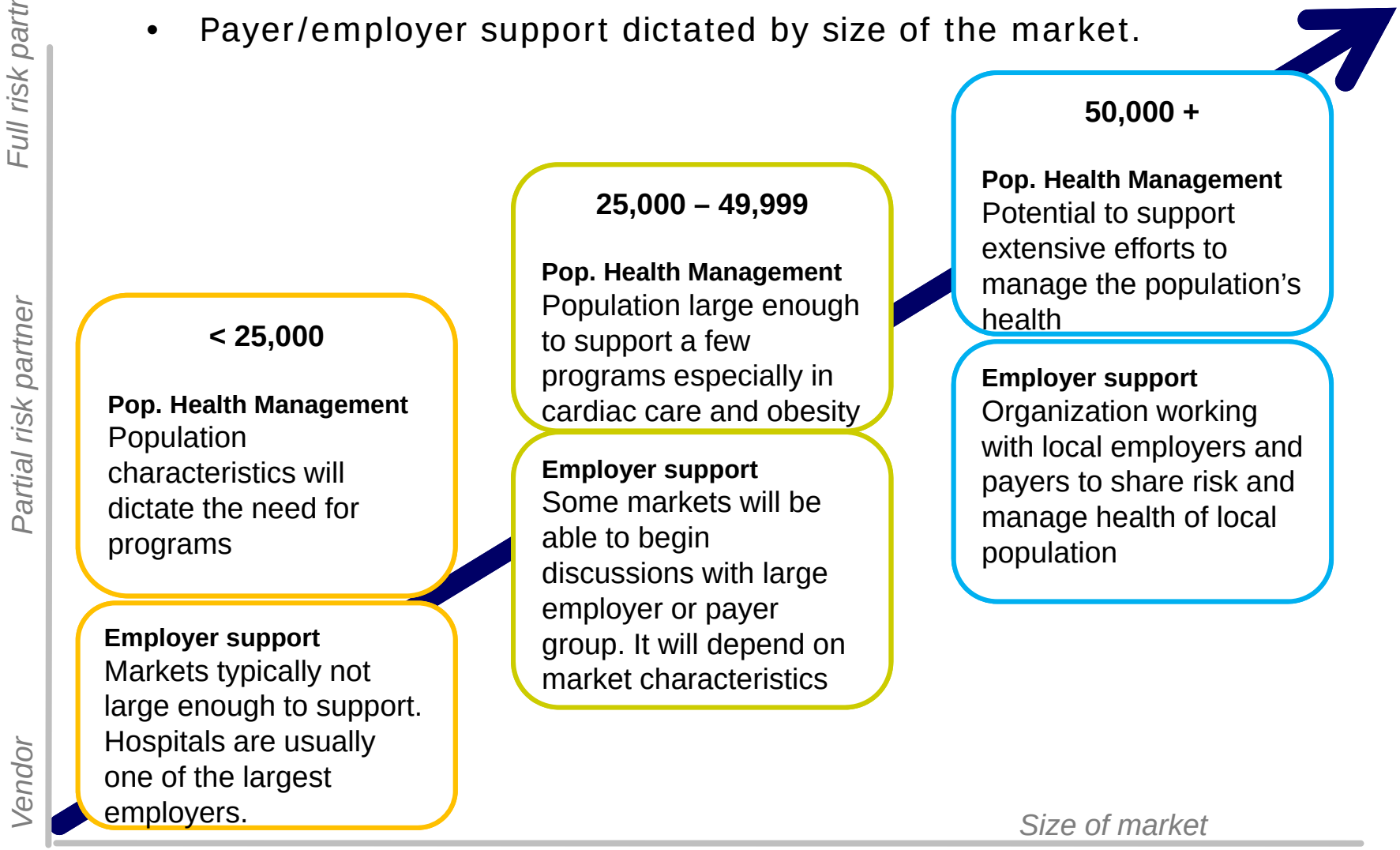
- The ability to establish health management programs will be driven by population characteristics in smaller market segments.
- Payer/employer support dictated by size of the market.



Physician Alignment Models

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- All market sizes require resources and talent to manage and engage the physicians.
- Selecting the appropriate alignment option will be determined by the following factors:
  - Composition of the medical staff
  - Available capital to execute options
  - Physician leadership
  - Culture
  - History of cooperation / collaboration between hospital and physicians
  - Developing the economic imperative to drive alignment

Physician Alignment Models: Employment / Clinical Integration

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	<25,000	25,000-49,999	50,000 +
Employment and contracting (personal services agreements)			
	Good but challenging Difficult to devote required resources to successfully manage practices but may be the only option available	Good Real option. Requires significant talent to manage and engage the physicians. Contingent on physicians willingness to be employed	Good Real option. Requires capital. Contingent on physicians willingness to be employed
Clinical integration			
	Good but challenging Allows hospital to align with private practitioners. Capital intensive.	Good Capital intensive. Legal risks around anti-trust. Aligns both employed and independent physicians.	Good Capital intensive. Legal risks around anti-trust. Aligns both employed and independent physicians. PHO can enter into performance-based contracts.

Physician Alignment Models: Contracting & Joint Venture

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	<25,000	25,000-49,999	50,000 +
EMR support			
	Good Helps to defray costs of technology and tie them to your organization.	Good Helps to defray costs of technology and tie them to your organization.	Good Helps to defray costs of technology and tie them to your organization.
Joint Venture			
	Poor Lack of large capital investments limits opportunity.	Fair Not applicable to primary care base. Could be used to align specialists. A fragmented alignment approach	Poor Not a long term solution for ACOs.

Physician Alignment Models: Co-management / Gainsharing

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	<25,000	25,000-49,999	50,000 +
Co-management			
	Fair/Poor Along specialty service lines. Typically fewer opportunities to use this approach.	Good / High Can be expensive to manage and maintain. Potential to improve quality.	High Can be expensive to manage and maintain. Potential to improve quality.
Gainsharing			
	Fair/Poor High legal and monitoring costs and can be short lived as savings are realized.	Fair/Good Opportunity to incent some physicians on cost savings but risk short term focus once savings have reached a plateau. High legal and monitoring costs.	Good Opportunity to incent larger number of physicians on cost savings but risk short term focus once savings have reached a plateau. High legal and monitoring costs.

6. Concrete Next Steps

Concrete next steps

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- Physician alignment
  - Examine the composition of the medical staff
    - Specialties
    - Organization (large practices versus “onsies and twosies”)
    - Leadership capabilities
  - Assess the ability of your organization and its medical staff to work together
  - Identify physician leaders who can help drive the conversations around collaboration
  - Determine the most appropriate alignment model given your market and medical staff characteristics
  - Drive discussions towards a sustainable alignment model

Concrete next steps

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- Assess your ability to compete for patients who have a choice
  - Are commercially insured patients bypassing your facility?
    - Examine your payer mix relative to the market
  - How are you performing on quality?
    - Compare your outcomes against your competitors (big and small, local and regional)
  - Are there services that you focus on?
    - Examine the local demographics and health status of your population base
    - Determine which basic services are leaving the community

Concrete next steps

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- Partner / affiliate search
  - Work with your board and physicians to:
    - Determine the role your organization would like to play in an ACO
    - Assess your strengths and vulnerabilities
    - Identify the key characteristics your organization would want in a partner / affiliate
  - Evaluate potential partners in the marketplace
    - What investments do you want to make
    - What do you want to “make” versus “buy”?

Questions?

Thank you

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