Accountable Care Organizations: Medicare MSSP & Pioneer Options

Presented by

Bill O’Brien, FSA, MAAA
Consulting Actuary
Milliman
Houston, TX
(713) 658-3008
bill.obrien@milliman.com

SEAC/ACSW Annual Meeting
November 17, 2011

• Created by PPACA,
  • eff. April or July 2012

• For Traditional Medicare beneficiaries
  • Based on PGP Demonstration
  • “Open” Network structure

• CMS to share savings with ACO
  • Versus trended previous costs for population
  • Minimum savings threshold
  • Maximum shared savings

• Membership is based on plurality of care
  • Retrospective or Prospective Attribution
### Medicare’s ACO Program Options

<table>
<thead>
<tr>
<th></th>
<th>MSSP Track 1</th>
<th>MSSP Track 2</th>
<th>Pioneer Core</th>
<th>Pioneer A</th>
<th>Pioneer B</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benchmark</strong></td>
<td>Use weights of 60%, 30%, and 10% on the previous 3 years’ claims costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>No. of Members</strong></td>
<td>Min. of 5,000 beneficiaries</td>
<td>Min. of 15,000 or 5,000 if located in rural county</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Risk Score</strong></td>
<td>Calculate the risk score for benchmark years and apply it to performance years</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Min. Savings Rate</strong></td>
<td>2% to 4%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Shared Savings Threshold</strong></td>
<td>2%</td>
<td>2%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Shared Savings</strong></td>
<td>50%, 50%, 60%, 60% all years</td>
<td>60%, 70%, 70%</td>
<td>50%, 60%, 70%</td>
<td>70%, 75%, 75%</td>
<td></td>
</tr>
<tr>
<td><strong>FQHC/RHC exception</strong></td>
<td>Up to 2.5% extra</td>
<td>Up to 5% extra</td>
<td>Doesn’t Apply</td>
<td>Doesn’t Apply</td>
<td>Doesn’t Apply</td>
</tr>
<tr>
<td><strong>Payment Cap</strong></td>
<td>7.5%, 7.5%, 10%</td>
<td>10% all years</td>
<td>10%, 15%, 15%</td>
<td>5%, 10%, 10%</td>
<td>15% all years</td>
</tr>
<tr>
<td><strong>Loss Cap</strong></td>
<td>5% in year 3</td>
<td>5%, 7.5%, 10%</td>
<td>10%, 15%, 15%</td>
<td>5%, 10%, 10%</td>
<td>15% all years</td>
</tr>
<tr>
<td><strong>Shared Losses</strong></td>
<td>Calculated as 1 minus the final sharing rate, minimum of 40% for Pioneers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Case Study: Goal

Evaluate the ACO options available and develop an approach to split risk/gains between hospitals and physicians

**MSSP ACO (2 Options – Final Rule)**

**Pioneer ACO (3 Options – Plus 2 Alt’s)**
Issues

- ACOs start at different DoHM and move at different paces
  - INVESTIGATE: What is the best DoHM to start at and how quickly should an ACO improve their DoHM to maximize ROI?

- Part of the reduced revenue is contribution to overhead costs
  - INVESTIGATE: Do ACOs, specifically hospitals, earn enough shared savings to make up for lost revenue?

Issues

- Effective percentage of Medicare increases
  - INVESTIGATE: Does a net effective increase indicate the program is beneficial?

- CMS's keeps "excess" savings
  - INVESTIGATE: How much does CMS gain from the program?
“Lost Net Revenue”

- Revenue: 2 components
  - Overhead, or Fixed Cost component
  - Variable cost component

- Net Impact to Financial Statements
  Lost Service Revenue – (Variable costs for Lost Service)
  = Fixed Cost component of Lost Service Revenue

Impact of Lost Net Revenue

- If Lost Net Rev. > Shared Savings payment
  - There’s no break-even
  - Creates Cost-Shifting to other LOBs

- If Lost Net Rev < Shared Savings payment
  - Overall, ACO providers have a net gain
  - ACO’s distributions of savings need to reflect differences in hospital vs. physician Lost Net Revenue impact

- Hospitals have higher overhead costs than physicians
  - Hospitals need greater portion of Savings
**ACO Research Project**  
**Healthcare Management Scenarios**

3 Year Performance Period

<table>
<thead>
<tr>
<th>3 Year Benchmark Period</th>
<th>Loose → Moderate</th>
<th>Moderate → Moderate</th>
<th>Moderate → Well</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loose → Moderate</td>
<td>-</td>
<td>Scenario 3</td>
<td>Scenario 4</td>
</tr>
<tr>
<td>Loose → Loose</td>
<td>Scenario 1</td>
<td>Scenario 2</td>
<td>-</td>
</tr>
</tbody>
</table>

**ACO Entity Does Well**

**ACO 3 Year Results: Before Provider Distributions**

10,000 Attributed Beneficiaries

- MSSP Track 1
- MSSP Track 2
- Pioneer Core
- Pioneer Option A
- Pioneer Option B

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Scen. 1</th>
<th>Scen. 2</th>
<th>Scen. 3</th>
<th>Scen. 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of Dollars</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>20</td>
<td>40</td>
<td>60</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>40</td>
<td>70</td>
<td>100</td>
<td>160</td>
</tr>
<tr>
<td></td>
<td>60</td>
<td>90</td>
<td>120</td>
<td>180</td>
</tr>
<tr>
<td></td>
<td>80</td>
<td>110</td>
<td>140</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>130</td>
<td>160</td>
<td>220</td>
</tr>
</tbody>
</table>
Equivalent % of Medicare Fees for Services Provided

3 Yr Avg % Medicare Payment: All ACO Providers

Providers Do Not: Results after including Lost Net Revenue

Health System-wide Gains/Losses (ACO Gains - Lost Net Revenue)
Impact of Lost Net Revenue

Savings - Before and After Lost Revenue
75%/25% Hosp/Phys split of savings
Pioneer Option B

Distributing the Savings Pool

Equal Percentage Change in Net Revenue for Hospital and Physician

Hospital/Physician/ACO Gains

Hospital Variable Cost Percentage

Scenario 1
Scenario 2
Scenario 3
Scenario 4
CMS’s Share

ACO % Shared Savings Earned - 3 Yr Avg

Study Update: New Pioneer Alternatives with Capitation

New ACO Options from CMS
Five Year Cumulative Net Income *
Case Study: 20,000 Attributed Members
Summary of Results

- **Good**
  - Start at “Loosely” managed
  - Increase DoHM at modest pace

- **Not so Good**
  - Start at “Moderately” managed
  - Increase DoHM at rapid pace

- **ACO Model Choices**
  - Final MSSP models are much more favorable than Proposed Rules
  - Pioneer B shows the best results, but has highest risk

- Hospitals must receive nearly all the savings payments to compensate for lost overhead contributions

Summary of Results

- Hospitals must reduce overhead costs faster than decrease in utilization
- Medicare %’s can confuse and mislead
- CMS stands to do very well
  - $1 in Provider Lost Revenue results in approx. $0.80 in savings, of which CMS keeps a part