



For Release: November 1, 2011, 1:00 p.m.  
Media Contact: Cindy Ryan Ernst  
(510) 208-1743  
cernst@iha.org

**Integrated Health Care Association Examines Accountable Care Organizations' Principles and Practices for Moving Preferred Provider Organizations (PPOs) from High-Volume to High-Value Health Care**

**OAKLAND, Calif., Nov.1, 2011** – According to a new white paper released today by the Integrated Healthcare Association (IHA), Accountable Care Organization (ACO) principles have captured the interest of health plans and providers that are under pressure to moderate the costs of care and the premiums they are charging employers and individuals.

The report, "Accountable Care Organization for PPO Patients: Challenge and Opportunity in California," describes how California health plans and physician organizations are leveraging ACO principles developed for cost-effective care management, typically associated with HMOs, with their commercial PPO clients. The paper will be released today at the second annual National ACO Congress in Los Angeles, sponsored by IHA and the California Association of Physician Groups (CAPG).

"The principal strategy for PPO premium moderation over the past decade has been increasing copayments and deductibles, but health plans recognize that consumers and employers are not sympathetic to more increases in cost sharing," said James C. Robinson, the report's author and Leonard D. Schaeffer Professor of Health Economics, *University of California, Berkeley*, and the director of the Berkeley Center for Health Technology.

As a result, health plans are developing ACO initiatives that adopt care management principles that are common to approaches that physician groups use to manage care for their HMO enrollees. While most of the ACO initiatives are in the exploratory stage, several health plans including Anthem Blue Cross, Aetna, and Blue Shield of California – and several provider groups including Brown & Toland Medical Group, Santa Clara County IPA, St. Jude Heritage,

and Hill Physicians Medical Group – are engaged in programs that could significantly expand the scope of ACO activity in the commercial PPO sector.

“While adoption of ACOs is moving more slowly for Medicare due to complex legal and regulatory issues, private health plans and physician organizations in California are actively partnering to develop new ACO models to extend care management programs to more patients, particularly those in PPOs,” said Tom Williams, executive director of IHA.

The report examines the challenges and opportunities facing health plans and providers in their efforts to adopt ACO principles and practices for their commercial populations in California. An executive summary of the report’s findings include:

- Linking patients to physician organizations: Aligning patients with an ACO is a challenge because they can seek care from any physician within the insurer’s network, including those outside of the ACO.
- New product designs: ACOs plan design features “low” consumer cost sharing when the patient seeks services from providers within the ACO, “intermediate” for services within the PPO network, and relatively “high” for services outside of the PPO contracted network.
- Payment methods: ACOs currently pay physicians for PPO patients on a fee-for-service basis that rewards volume rather than high-value. A more complex three-part payment system has been developed to enable ACOs to manage patients’ total cost of care and create shared savings incentives.
- Shared responsibility for care management: Delegating authority for care management to a physician group in a PPO is difficult since employers who purchase PPO coverage differ widely in the type of care management programs they elect to purchase.
- Communication with patients: Effective communication between the ACO and its enrollees is vital for engaging consumer cooperation and enthusiasm in the care process, and educating them about the availability of wellness, disease prevention, and other programs.
- Clinical and administrative data exchange: The ability to coordinate care relies on prompt

and complete exchange of patient data between ACO providers and health plans.

- Public policy and regulation: The California Department of Managed Health Care has jurisdiction over ACO risk transfer agreements and may require the ACO to comply with financial solvency and other insurance regulations.

“ACOs represent the opportunity to forge a middle ground between the traditional HMO product, which controls cost at the expense of consumer choice, and the traditional PPO product, which preserves choice at the expense of cost control,” said Robinson. “It is now time to overcome the challenges and fulfill the opportunities presented by the principles of ACOs.”

### **About the Integrated Healthcare Association (IHA)**

IHA is a statewide leadership group that promotes quality improvement, accountability, and affordability of healthcare in California. IHA administers regional and statewide programs, serves as an incubator for pilot programs and projects, and actively convenes all healthcare parties for cross sector collaboration on health care topics. IHA programs and projects include: the California Value Based Pay for Performance program, bundled episode of care payment demonstration, the measurement and reward of healthcare efficiency, administrative simplification, and Accountable Care Organization initiatives. For more information, please visit: [www.IHA.org](http://www.IHA.org).

###