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Integrated Healthcare Association Studies
California's Accountable Care Organization Experience –
Identifies Valuable Lessons for State and National Health Reform Leaders

Study highlights how ACO proponents must grapple with consumer choice, payment, regulation, and cost containment concerns.

OAKLAND, Calif., Oct. 25, 2010 – California's unique 30-year experience with physician organizations that coordinate care for defined patient populations offers valuable lessons – both positive and negative – for health care leaders who are now creating Accountable Care Organizations (ACO) as described under federal health reform legislation. According to a report released today by the Integrated Healthcare Association (IHA), California's health care system is a robust laboratory for understanding ACOs and answering crucial questions about their potential to promote higher quality and more efficient health care delivery in the United States.

"ACOs have become a focal point for helping our health care system transition from one that's based mainly on volume to one that's focused on delivering real value," said James C. Robinson, PhD, the report's co-author and Kaiser Permanente Professor of Health Economics, University of California, Berkeley. "California's unique managed care history has resulted in extensive experience among hundreds of physician groups that have been coordinating care for patients in partnership with hospitals, other providers and health plans for many years. They've gained valuable insight into what works and what doesn't."

The lessons are derived from a careful examination of questions surrounding five key features of the California ACO experience: organizational structure; payment methods; relations with health insurance plans; maintenance of consumer choice; and public policy and regulation.

“California physician groups have learned that creating an effective ACO takes more than a structure and payment mechanism. Underlying organizational values, alignment of financial incentives, a willingness to be held accountable for quality and efficiency, as well as sensitivity to consumer choice are among the critical issues that require careful attention,” said Bart Asner, MD, CEO of Monarch HealthCare and IHA Board Chair.

The IHA report points out that the California and national trends toward consumer-driven health care options and open-choice PPO networks, and away from coordinated managed care, are potential hurdles for ACOs. ACOs are based on the ability of physicians and hospitals to share information, align incentives, and coordinate patient care over time and a broad range of services. Another barrier has been the retreat from global capitation payments with their strong incentives to manage all aspects of care, particularly the most costly.

“The ACO debate has centered on how to restructure care delivery for Medicare beneficiaries, but there are major implications for private health insurance plans,” said Tom Williams, executive director of IHA. “The lessons in this report take into account the obstacles ACOs would have to overcome to attract patients in a commercial market dominated by PPOs with broad physician networks, little care coordination, and even less regulation.”

The ten lessons derived from the five key features and described in detail in the report are:

1. A variety of organizational structures are effective at delivering high quality coordinated care; at least as important to success as structure are an organization’s capabilities, culture, and infrastructure, as well as the alignment of goals between the organization and its individual physicians.
2. In California, a range of relationships exist between physician organizations and hospitals. Alignment of incentives between physician organizations and hospitals offer important opportunities for performance improvements across the entire continuum of care.
3. As a method of payment, capitation can be effective at encouraging coordinated care, but payment methods should vary across ACOs depending on an organization’s ability to assume risk. Fee-for-service payment with shared savings has not proven a successful incentive for the efficient delivery of care.
4. Health plans acting in concert on payment methods and performance measurement helped facilitate the growth of California’s provider organizations, and should also play an integral part in fostering ACO development nationally.

5. ACOs are not a panacea for health care spending control. Some large provider organizations have gained bargaining power and raised prices. Capitation payment and consumer cost sharing partially offset tendencies toward raising prices.
6. ACOs must be agnostic to insurance type; most provider organizations in California have focused on commercial, Medicare, and Medicaid HMO plans for their patients, but for ACOs to be viable across the country, mechanisms must be found to encourage PPO and traditional Medicare and Medicaid patients to use their services.
7. Balancing patient choice with the desire to decrease costs and effectively coordinate care is difficult. California's experience underscores the challenge of promoting care coordination in an environment of unrestricted provider choice.
8. Regulation of the financial solvency of provider organizations is important to ensure market stability.
9. Consumer protections from capitated provider organizations need to be balanced, not overburdening.
10. Special attention must be given to establishing ACOs in geographic areas with identifiable social and economic challenges. Some California ACOs have been very successful at managing care for Medicaid patients, despite low payment rates from the state.

The report was funded by IHA and co-authored by James C. Robinson and Emma L. Dolan, a graduate student in public health and public Policy at UC Berkeley. The complete report is available at www.iha.org.

About the Integrated Healthcare Association (www.iha.org) – IHA is a multi-stakeholder leadership group that promotes quality improvement, accountability and affordability of health care in California. IHA is a nonprofit association working to actively convene all healthcare parties for cross sector collaboration on health care topics. IHA administers regional and statewide programs and serves as an incubator for pilot programs and projects, including: pay for performance; value-based purchasing of medical devices; bundled episode of care payments; the measurement and reward of healthcare efficiency; and healthcare affordability.

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