**FACT SHEET: MEDICARE SHARED SAVINGS PROGRAM**

**ACCOUNTABLE CARE ORGANIZATIONS (ACOs)**

## Background

The Patient Protection and Affordable Care Act (ACA) enacted in March 2010, spawned new initiatives to control the cost of health care in the United States. One major cost driver is Medicare, care for the elderly and disabled. As the ‘baby boomer’ age group reaches retirement age, the cost of Medicare continues to rise for the federal government. In November of 2011, the Centers for Medicare and Medicaid Services (CMS) finalized new rules under the ACA to help lower the cost of Medicare, including a number of programs to test new delivery and payment models aimed at improving access, reducing costs, and improving quality of healthcare. The Medicare Shared Savings Program (MSSP), which includes Accountable Care Organizations (ACOs), is one of the new programs being tested. Healthcare providers within an ACO are assigned a certain number of Medicare beneficiaries with the responsibility to deliver better coordinated care at a lower cost. ACOs represent a shift in the U.S. healthcare system by creating incentives through rewards and penalties for health care providers to work together, lower healthcare costs, and meet performance benchmarks.

## What Makes an Organization an ACO?

An ACO brings together the different providers of patient care – primary care, specialists, hospitals, home health, etc. – as a legal entity with shared governance in charge of managing the health of an assigned group of patients. The healthcare providers within an ACO are responsible and held accountable for keeping their patients healthy. The goal of an ACO is to meet the benchmarks for delivering coordinated and high-quality care for its beneficiaries. In addition to MSSP ACOs, a number of private ACOs have formed in recent years, which involve arrangements between private insurers and healthcare providers.

**Payment Arrangement**

Under the MSSP program, participatingMedicare providers will continue to receive traditional fee-for-service reimbursement. However, ACOs can choose one of two payment tracks that tie payment to quality and cost savings:

* First Track: ACOs that meet the quality standards and have their health care expenditures below the pre-defined cost benchmark will receive a savings bonus. If the ACO does not meet the quality standards and cost benchmark, no savings bonus is given.
* Second Track: ACOs receive a higher percentage of the savings bonus if they meet the quality standards and if their health care expenditures fall below the cost benchmark. However, if the ACO’s health care expenditure exceeds the cost benchmark, the ACO must pay a penalty charge.

For example, ACO providers are rewarded to work together to provide appropriate care for a diabetes patient and manage the illness. If the patient’s diabetes gets worse and requires more expensive procedures, ACO providers are not rewarded with a savings bonus and may face a penalty.

## What are the Benefits?

ACOs focus on improving patient care, health outcomes, and healthcare costs. Here are a few of the benefits explained:

1. **Care Coordination & Communication**: By connecting providers and institutions across the healthcare system, ACOs encourage collaboration for better care coordination and quality of care. Care coordination is central to the success of an ACO, and an effective care coordination strategy should include a focus on effective health information exchange between participating providers. The benefits of health information exchange and data integration include reducing miscommunication errors and lower administration costs.
2. **Lower Healthcare Costs:** In contrast to only relying on the fee-for-service payment system, ACO providers are responsible for meeting the cost benchmark for each patient and if they succeed, the ACO is rewarded with a savings bonus. Thus, healthcare providers are incentivized to act efficiently and economically while delivering quality care.
3. **Some ACOs are Physician-Led:** A network of physicians can organize and apply to become an ACO through the CMS MSSP, allowing providers on the front-line of healthcare delivery the ability to manage an ACO. According to CMS, nearly 50% of Medicare ACOs are physician-led organizations and the other 50% are hospital-led ACOs[[1]](#footnote-1).

## What are the Challenges?

Many ACOs are facing substantial challenges in operation and sustainability. Here are a few reasons why:

1. **Reporting and Communication Challenges:** An ACO network can involve numerous hospitals, clinics, and organizations. An eHealth Initiative (eHI) survey of ACOs in 2013 revealed that communication through health IT is critical to achieving accountable care; however, health IT interoperability and data collection remain major challenges for health care settings. ACOs may face barriers in communication and quality reporting, leading to an increased administrative burden.
2. **Out of Network Care:** Patients involved in an ACO may choose to consult a physician out of the network, yet, ACOs are still accountable for their care. This concept of “leakage” creates additional risk and obstacles to effectively managing the health of the population.
3. **Physician Barriers:** Establishing an ACO requires healthcare providers to partner with other providers, and share responsibility for the care for the Medicare ACO patients. Some physicians may hesitate to engage in an affiliation with other healthcare provides for shared responsibility of patients.

**Bottom Line:**

As of January 2013, 259 ACOs are participating in the MSSP program nationwide, covering as many as 4 million Medicare beneficiaries1. Poised for further growth, ACOs are being looked upon as the most promising model of change for the U.S. healthcare system.

## How Can I Learn More?

The eHealth Initiative is a leader in understanding how to improve and support Accountable Care with technology. eHI works with multi-stakeholder groups including ACOs, hospitals, health IT vendors, and health information exchanges (HIEs) around the country to work on strengthening ACO programs. For more information on ACOs and other eHealth topics, check out the eHI Resource Center on our website at [www.ehidc.org](file:///C%3A%5CUsers%5Cnadeen.siddiqui%5CDesktop%5CJen%5CFinal%5Cwww.ehidc.org).

1. Center for Medicare & Medicaid Services (CMS) Press Release (Jan 2013) “More Doctors, Hospitals Partner to Coordinate Care for People with Medicare” [↑](#footnote-ref-1)