

## Special Audio Report Transcript

Headline: Health Care Providers Gearing Up To Roll Out Accountable Care Organizations in California

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Publication: *California Healthline*  
Date Posted: May 11, 2011

### TEXT:

Several new accountable care organizations are ready to roll out across California. But many health care providers still have questions about whether the new Medicare shared savings models are economically feasible. This is a special report for *California Healthline*, a daily news service from the California HealthCare Foundation. I'm Deirdre Kennedy.

In March, CMS announced proposed regulations for creating ACOs as mandated under the federal health reform law. The overhaul requires federal health programs to begin contracting with ACOs starting in January 2012. HHS estimates that the new coordinated care model could save Medicare up to \$960 million by 2015.

Under the three-year contracts, ACOs that meet federal goals for cutting health care costs would share in those savings. Those that don't would face a penalty.

In its first year, the ACO created by Blue Shield, Catholic Healthcare West and Hill Physicians has already saved CalPERS \$15.5 million. The program serves some 40,000 CalPERS members in and around Sacramento.

Kristen Miranda -- Blue Shield's vice president for provider network management -- says in order to meet their targets, the partners had to stop operating in a siloed way and share their business practices with each other.

***(Miranda): "So we shared, with Hill and CHW, a great deal of information about our pricing model with CalPERS and about how these savings that were being generated from this partnership would be reflected into premiums. We shared a huge amount of data across all three organizations and I think folks are a little uncomfortable at first; it's really a paradigm shift."***

She says choosing partners with strong financial and organizational resources is key to creating a successful ACO.

***(Miranda): "So, for example, Blue Shield has got a whole medical informatics team of folks and they've done a lot of the data analytics, along with obviously clinical leaders from CHW and Hill. Hill brought on***

***an extra case manager, CHW brought on a project manager to oversee this work."***

By coming up with a comprehensive discharge plan that closes the gaps in care between hospital, home and health care provider visits, they were able to cut readmission rates by 17%.

***(Crane): "That is fascinating and significant development..."***

That's Don Crane, president and CEO of the California Association of Physician Groups. He says CAPG members are in a good position to take part in ACOs because they already provide capitated coordinated care for about 13 million Californians. But, Crane says, many groups aren't sure the business model will work for them.

***(Crane): "Let's look at the economics. First, they're stingy. So there's the two payment methodologies. Each is subject to a cap. Track one is just gain sharing on the top side for at least two years. And then in track two, there's shared savings or penalty, depending on whether you meet the benchmark or spend higher than the benchmark, or lower than the benchmark. Whatever payments are made, you're subject to a 25% withhold."***

CAPG would like to see a smaller withholding and a larger share of the overall savings going to the ACO, rather than the 50% to 60% CMS is proposing. And much faster payments. Crane says as they're written, the regulations would leave ACOs with a cash flow problem.

***(Crane): "If, if, IF the group does well on the quality metrics which are required. Then, in that event, it will be very delayed. It will be two or three years delayed. So where is the capital going to come from to pay the upfront costs associated with staffing up and scaling up for the new population of patients?"***

CMS estimates startup costs at between \$130 million and \$263 million. Miranda says much of the extra work it took to start the CalPERS ACO was covered by existing staff at Blue Shield, Hill and CHW. The partners split the additional costs; which, she says, were far outstripped by the resulting savings.

Leah Newkirk is the director of health policy for the California Academy of Family Physicians. CAFP represents about 7,000 doctors, most of whom are in rural or small practices. She says many of the group's members would like to be able to participate in ACOs -- but the CMS requirements are prohibitive.

***(Newkirk): "The regulations are extremely complex ... and we think exclusive. So we are going to be requesting that they simplify and strip out all but the basic requirements, to make the program more accessible for smaller groups."***

Providers around the state will be watching closely when Blue Shield rolls out two new ACOs with the city and county of San Francisco in July. And Anthem-Blue Cross just launched a new pilot ACO with Sharp Community Medical Group and Sharp Rees-Stealy Medical Centers that will serve Anthem PPO members in San Diego County. Anthem is also working on a pilot with Irvine-based Monarch HealthCare and Torrance-based HealthCare Partners.

CMS is accepting comments on its proposed regulations until June.

This has been a special report for *California Healthline*, a daily news service from the California HealthCare Foundation.

If you have feedback or other issues you'd like to have addressed, please email us at [CHL@CHCF.org](mailto:CHL@CHCF.org). I'm Deirdre Kennedy. Thanks for listening.