

Forecasting Your ACO Market Position

Inform your ACO strategy with market stimulation

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Today's Environment

To improve the quality of healthcare while slowing growth in overall costs, Accountable Care Organizations (ACOs) are gaining ground. By definition, an ACO is a set of providers "accountable" for the quality and cost of care delivered to a defined population of patients across the care continuum. ACOs shift the mindset from volume to value, driving new care delivery models and new payment models. They pose some of the most complex problems to negotiate as healthcare organizations determine what ACO strategies make sense for their systems. Although 92 percent of hospital executives are planning an ACO, 48 percent of them don't know how an ACO will affect their organization.*

Point B's Perspective

Any strategic decision with the impact of an ACO merits a rigorously disciplined, robust analysis. It's crucial to avoid the danger of being pulled toward an outcome without understanding the downstream impact. To arrive at the right strategic answers, providers need to address two questions:

1. What is our competitive market position relative to other providers in the market?
2. What is the financial impact of various ACO participation and payment models?

Point B has developed a structured approach to answering these questions in a meaningful way with simulation models that analyze the financial viability and

bottom-line impact of various "what if" scenarios. Knowing that ACO strategy is among the most important decisions our healthcare clients will make in the next few years, our approach helps ensure that it's based on intelligent analysis.

Taking a Structured Approach

Meaningful simulations require meaningful input. We develop this input through a structured approach. The first step: a Market Definition that outlines geographic parameters and the target segments within them. Next, Data Gathering includes external market data (demographics, payer mix, utilization benchmarks) and internal data (utilization cost data and financial performance). This informs a Market Evaluation that helps you understand relative competitive positions in your market, along with market share by service line. In this process, you identify potential partners and gain a better understanding of patient populations. Now you're ready to make some Key Assumptions, which let you define key levers for running your "what if" scenarios. Key levers may include clinical market share, utilization rates, ACO conversation rates, average unit revenue, and shared savings/loss factors.

The Power of Simulation

After you've identified the key levers you want to use, you can run a number of simulations to understand the impact of various ACO participation and reimbursement scenarios.

Why simulation instead of a standard model? A standard model provides a static result from only one

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observation. It fails to depict the variability that you face in the real world. And there's a tendency toward a biased outcome when considering multiple variables.

A simulation, on the other hand, takes into account the combined effect of variability and uncertainty in examining a full range of probable outcomes. You can model for the dynamics of a changing market—looking at both short- and long-term financial impact as the market shifts from fee-for-service to value-based payment. The simulations can move multiple variables simultaneously to create models that show the probability of various outcomes. You get a much better picture of the potential upside and downside. In short, a simulation lets you “see how much you’re missing” when you use a standard model.

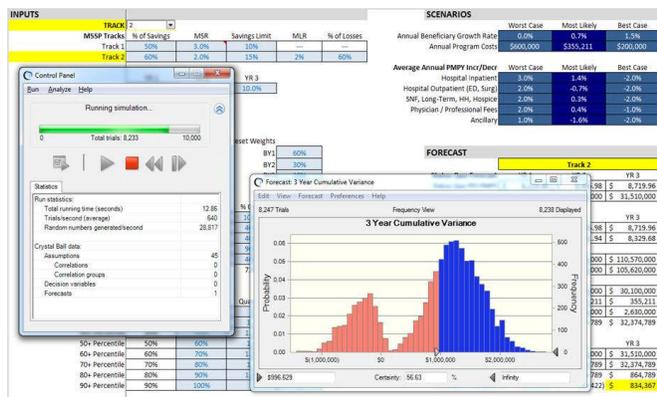


Figure 1: Leverage the Power of Simulation to make more insightful decisions.

What insights will you gain from such market simulations? You can evaluate tradeoffs between incremental market share and potential losses resulting from reductions in inpatient/outpatient utilization. You'll have the information to support payer negotiations for risk-sharing arrangements. You'll be able to assess the financial impact of alternative shared-risk payment models. And you'll have an intelligent foundation to support market service line development.

A Medicare Shared Savings Program Example

Many multispecialty groups want to determine the financial impact of participating in shared savings programs, which are expected to follow the example set by the 2012 Medicare ACO Shared Savings Program (MSSP). We recently ran simulations using that three-year program, in which The Centers for Medicare and Medicaid Services (CMS) holds the ACO responsible for the cost of all services provided to an attributed beneficiary. In this agreement, the ACO is expected to “bend down” costs over the three-year period. If the ACO is able to improve against a reimbursement benchmark, it will share in the savings.

The MSSP offers two tracks: Track 1 shares 50 percent of savings, with no potential losses. Track 2 offers 60 percent of shared savings—but this higher upside comes with the potential downside of sharing 60% of the loss if the provider fails to meet the benchmark.

At first glance, the answer may seem obvious: Choose Track 1, which has only an upside. But when you walk through a simulation using a set of key inputs and assumptions with different distributions, you can compare the probability of financial outcomes for both tracks over the three years.

The results may surprise you. In fact, they may be counterintuitive to the default position—in this case, Track 1, which seems an obvious choice since it has no downside risk. But if your organization is confident about performing against the benchmarks, you may face very little downside risk and higher profitability through the higher shared savings offered in Track 2.

The Bottom Line

To make wise decisions about ACO participation, providers must understand the bottom-line impact of key business drivers under different market participation scenarios. Simulation takes into account the combined effect of variability and uncertainty by examining a range of possible outcomes.