Accountable Care Organizations: The Final Rule

October 27, 2011
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Background
Delivery System Reforms:
Trying to Shift from Payment for Volume to Payment for Value

- Accountable care organizations
- Hospital value-based purchasing program
- Physician value modifier
- Medical homes
- Bundled payment initiatives
Medicare Shared Savings Program Statutory Requirements

**ACO must:**
- Enter an agreement with the Secretary to participate in the program for at least three years
- Report and eventually achieve specified quality measures
- Provide care for a minimum of 5,000 beneficiaries
- Be "patient centered"
- Have a sufficient number of primary care physicians

**ACO must not:**
- Cherry pick patients based on risk
- Force patients to stay in the ACO
- Participate in other shared savings programs or demonstrations
ACO Final Rule and Related Documents

The Centers for Medicare & Medicaid Services (CMS) released the ACO final rule on October 20, 2011

- The rule will be published in the Federal Register on November 2nd

Several related documents were released in connection with the ACO final rule:

- CMS’s Center for Medicare & Medicaid Innovation (CMMI) issued a notice announcing an ACO advanced payment model
- CMS and the Health and Human Services (HHS) Office of Inspector General (OIG) released an interim final rule establishing waivers of certain fraud and abuse laws for specified arrangements involving ACOs
- The Federal Trade Commission and the Antitrust Division of the Department of Justice issued a “Statement of Antitrust Enforcement Policy” regarding ACOs
- The Internal Revenue Service issued a notice concerning tax-exempt organizations for ACOs
Final Rule Highlights
Changes in ACO Final Rule

The final rule includes a number of modifications from CMS’s proposed rule aimed at reducing the burden and cost for participating ACOs, including the following:

- Providing greater flexibility in the governance and legal structure of an ACO;
- Reducing the number of required quality measures from 65 to 33 and simplifying quality performance standards;
- Adjusting financial models and shared savings provisions to increase financial incentives to participate;
- Providing greater flexibility in timing for repayment of losses;
- Establishing multiple start dates in 2012; and
- Providing greater fraud and abuse waiver protection for arrangements involving ACOs.
What is the Potential Impact of the Shared Savings Program?

- CMS anticipates that 50-270 ACOs will be established during the first four years of the program
  - Estimates 1-5 million Medicare beneficiaries would align with these ACOs
  - Expects that most ACOs will initially choose Track 1

- Have interested entities found other, more attractive, routes to participation in ACO models?
  - CMS is expected to announce the Pioneer Program participants on November 18
  - Commercial ACOs continue to operate in certain markets (e.g., Norton Healthcare in Louisville, KY; Tucson Medical Center in Tucson, AZ; Monarch HealthCare in Irvine, CA)
Are Certain Providers More Likely to Participate?

- ACOs aligned with hospitals and other larger entities may be better able to offset start-up costs (estimated at $580,000)
  - However, smaller entities may be eligible for pre-payment of savings through Advance Payment Model

- Location could play a role in the financial viability of ACOs
  - Beneficiaries may have more of a choice of receiving care outside of an ACO in larger metropolitan areas, lessening an ACO's ability to control beneficiary care and costs
  - Certain areas may have more “snowbirds” or patients who receive care in multiple areas, lessening control
  - Quality performance determined on a national benchmark
  - National update factor in the benchmark designed to treat preferentially Medicare low-cost areas
Will the ACO Program Reduce Medicare Spending (i.e., will it be a success)?

- Despite the fact that CMS made a number of changes in the final rule designed to make the program more financially attractive to providers, estimates for Medicare savings are actually higher than those based on the proposed rule.
  - More ACO participation among providers is expected under the final rule, thus yielding larger net federal savings.

- Estimates of the overall impact of ACOs on Medicare spending by the CMS Office of the Actuary vary widely, however, due to the many assumptions required.
  - The final rule estimates federal savings of $470 million from 2012 to 2015.
  - Under the most extreme scenarios, however, CMS estimates that the program could produce as much as $2 billion in savings or $1.1 billion in increased expenditures.
Structure and Formation of ACOs
Entities that are Permitted to *Form* an ACO

- Partnerships or joint venture arrangements between hospitals and ACO professionals
- Networks of individual practices of ACO professionals
- ACO professionals in group practice arrangements
- Hospitals employing ACO professionals
- CAHs billing under Method II
- RHCs
- FQHCs
ACOs must be legal entities formed under applicable state, federal, or tribal law and authorized to conduct business in each state in which they operate for the purpose of all program functions, including the following:

- Receiving and distributing shared savings;
- Repaying shared losses or other monies determined to be owed to CMS;
- Establishing, reporting, and ensuring compliance with health care quality criteria, including quality performance standards; and
- Fulfilling other ACO functions identified by CMS

An ACO formed among multiple ACO participants must provide evidence in its application that it is a legal entity separate from any of its ACO participants.
Structure and Formation of ACOs: Shared Governance

- ACOs must establish an identifiable governing body with authority to execute the functions of the ACO and with responsibility for oversight and strategic direction
  - Each governing body member shall have a fiduciary duty to the ACO
  - Governing body must have a transparent governing process and adopt a conflict of interest policy applicable to members
  - Must provide for “meaningful participation” of ACO participants in control and composition of governing body

- Requirements for composition of ACO governing body
  - At least 75 percent of ACO governing body must consist of ACO participants (i.e., physicians and other providers/suppliers)
  - Must provide for beneficiary representation
  - But, the final rule provides some flexibility, for example, in states where law may prohibit or restrict beneficiary participation in the governing body (e.g., states with a corporate practice of medicine prohibition)
Structure and Formation of ACOs: Leadership and Management Structure

- ACO must be managed by an executive, officer, manager, or general partner whose appointment and removal are controlled by the governing body.

- Clinical management and oversight of the ACO must be led by senior-level medical director who is:
  - A physician of the ACO
  - Physically present on a regular basis at an ACO location
  - Board-certified and licensed in one of the states in which ACO operates

- In the final rule, CMS eliminated its proposal to require a physician-led quality assurance committee.
  - Instead, in their applications, ACOs must describe how they will establish and maintain an ongoing quality assurance and improvement program led by “an appropriately qualified health care professional”

- ACO participants and providers/suppliers must demonstrate a “meaningful commitment” to the mission of the ACO.
Quality Performance Standards and Reporting
## Quality Performance Standards and Reporting: Selection of Quality Measures

### 33 Quality Measures in 4 Domains

<table>
<thead>
<tr>
<th>Patient/care giver experience</th>
<th>Care coordination/patient safety</th>
<th>Preventive health</th>
<th>At-risk populations</th>
</tr>
</thead>
</table>

[Source: www.AGHealthReform.com]
CMS will establish a quality performance standard in each performance year

- For performance year 1, the quality performance standard is defined as “complete and accurate reporting” for all 33 quality measures (i.e., “pay for reporting”)

- In subsequent years, the quality performance standard will be phased in such that an ACO will be assessed based on both “pay for reporting” and “pay for performance”

### Number of ACO Quality Measures

<table>
<thead>
<tr>
<th>Performance Year</th>
<th>Pay for Reporting</th>
<th>Pay for Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>33</td>
<td>None</td>
</tr>
<tr>
<td>Year 2</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>Year 3</td>
<td>1</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: CMS, ACO final rule (Oct. 20, 2011), Table 2 (p. 327 of display version)
Calculating the ACO’s Quality Performance Score

CMS scores individual quality measures and determines the number of points that may be earned based on ACO’s performance.

CMS adds the points earned for individual measures within the domain and divides by total points available for the domain.

Domains are weighted equally and scores are averaged to determine ACO’s overall performance score and sharing rate.
ACO Payment Methodology
ACO Payment Overview

- ACO participants will continue to be paid FFS rates under the applicable Medicare payment system.

- In addition, ACOs will be eligible to receive shared savings if:
  - ACO meets quality performance standards, and
  - Costs are below a performance target and minimum savings rates ("MSR")

- Non-ACO participants do not share in savings.

- Each ACO will decide how to internally share savings among participants.
ACO Payment Mechanics: Establishing the ACO Benchmark

1. Calculate payment amounts for Part A and B FFS claims (excluding IME and DSH)
2. Weight benchmark years giving BY 3 the greatest weight
3. Perform necessary adjustments during the agreement period based on addition and removal of ACO participants or ACO provider/suppliers
4. Make separate expenditure calculations for: ESRD, disabled, duals and aged non-duals
5. Determine national growth rates and trend expenditures for BY 1 and BY 2 to BY 3 dollars
6. Adjust expenditures for changes in severity and case mix using HCC risk scores
7. Truncate beneficiary’s total annual Part A and B FFS per capita expenditures at 99th percentile of national expenditures

BENCHMARK
ACO Payment Mechanics: Updating and Resetting the Benchmark

- CMS updates the historical benchmark annually for each year of the agreement period based on the flat dollar equivalent of the projected absolute amount of growth in national per capita expenditures for Parts A and B under the original Medicare FFS program.

- An ACO’s benchmark will be reset at the start of each agreement period.
ACO Payment Mechanics:
Track 1 - Shared Savings Only

Savings Determination
• CMS determines whether expenditures are below the benchmark

Minimum Savings Rate (MSR) Calculation
• CMS uses a sliding scale based on the number of beneficiaries assigned to the ACO to calculate the MSR

Qualification for Shared Savings Payment
• If the ACO meets or exceeds the MSR and meets quality performance standards, it is eligible to share in savings

Calculation of Final Sharing Rate
• Up to 50% of all savings depending on quality performance

Performance Payment
ACO Payment Mechanics: Track 2 - Shared Savings and Shared Losses Calculation

CMS determines whether average per capita Medicare expenditures are above or below the benchmark.

To qualify for shared savings, the ACO’s average per capita Medicare expenditures must meet or exceed the 2% MSR.

Depending upon quality performance, ACO is eligible to share in up to 60% of savings it achieves.

Performance payment

To qualify for shared losses, the ACO’s average per capita Medicare expenditures must by at least 2% above benchmark.

Shared losses are determined based on formula of 1 minus final shared savings rate, not to exceed 60%.

Loss recouacement
## ACO Payment Mechanics:  
### Two Payment Tracks - Summary Table

<table>
<thead>
<tr>
<th>Design Element</th>
<th>Track One</th>
<th>Track Two</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Potential Share of</td>
<td>Up to 50% based on quality performance</td>
<td>Up to 60% based on quality performance</td>
</tr>
<tr>
<td>Savings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Savings Rate</td>
<td>Ranges from 2.0% to 3.9% of the ACO’s benchmark (varies by number of beneficiaries assigned to ACO)</td>
<td>Flat 2% of the ACO’s benchmark</td>
</tr>
<tr>
<td>Minimum Loss Rate</td>
<td>Not applicable</td>
<td>Flat 2% of the ACO’s benchmark</td>
</tr>
<tr>
<td>First Dollar Savings</td>
<td>Yes. ACOs are eligible for shared savings once the MSR is exceeded up to a cap</td>
<td>Yes. ACOs are eligible for shared savings once the MSR is exceeded up to a cap</td>
</tr>
<tr>
<td>Performance Payment Limit</td>
<td>10% of ACO benchmark</td>
<td>15% of ACO benchmark</td>
</tr>
<tr>
<td>Shared Losses</td>
<td>Not applicable</td>
<td>One minus final sharing rate applied to first dollar losses once minimum loss rate is met or exceeded; shared loss rate not to exceed 60%</td>
</tr>
<tr>
<td>Loss Sharing Limit</td>
<td>Not applicable</td>
<td>Limit on amount of losses to be shared is phased in over 3 years, starting at 5% in year 1; 7.5% in year 2; 10 percent in year 3. Losses in excess of annual limit would not be shared</td>
</tr>
</tbody>
</table>
Special Rules for ACOs Beginning April 1 or July 1, 2012

For April 1 and July 1 “starters,” the first year performance will be based on --

- Optional interim payment calculation based on ACO’s first 12 months of participation, and
- Final reconciliation at the end of the first performance year (defined as 21 or 18 months respectively) ending December 31, 2013
Repaying Losses

- CMS requires that ACOs have the ability to repay losses for which they may be liable and other monies that may be owed upon first performance year reconciliation (for April 1 and July 1 starters)
  - The mechanism for repayment must be equal to at least 1 percent of the ACO’s total per capita Medicare Parts A and B FFS expenditures for its assigned beneficiaries based on either expenditures for the most recent performance year or for the benchmark expenditures

- The proposed 25 percent withhold of shared savings earned by the ACO has been deleted from the final rule

- ACOs may demonstrate their ability to repay losses or other monies by:
  - Obtaining reinsurance
  - Placing funds in escrow
  - Obtaining surety bonds
  - Establishing a line of credit
  - Or other appropriate repayment mechanism
Beneficiary Assignment to ACOs
Beneficiary Assignment Timing:
Preliminary Prospective Assignment

- Medicare assigns beneficiaries in a preliminary manner at the beginning of the performance year based on available data.
- Assignment will be updated quarterly based on the most recent 12 months of data.
- Final assignment is determined after the end of each performance year, based on data from the performance year.
Beneficiary Assignment Process

Step 1: Primary Care Provider Assignment

Identify all primary care services rendered by PCPs

Assign beneficiary to ACO if allowed charges for primary care services by physicians who are ACO provider/suppliers in the ACO are greater than those in any other ACO and not affiliated with an ACO

Step 2: Assign remaining beneficiaries as appropriate

Beneficiary will be assigned to ACO if allowed charges for primary care services furnished to beneficiary by all ACO professionals who are ACO providers/suppliers are greater than the combined allowed charges for primary care services furnished by: 1) all professionals who are ACO providers/suppliers in any other ACO, and 2) other physicians, nurse practitioners, PAs, clinical nurse specialists who are unaffiliated with an ACO and are identified by a Medicare-enrolled TIN
Beneficiary Assignment to ACOs

- Definition of “primary care services” is based on a set of services described by certain HCPCS codes
  - Final rule expands the list of primary care services to include the “Welcome to Medicare” visit and annual wellness visits

- Definition of “primary care physician” includes a physician who has a primary specialty designation of:

  - Internal Medicine
  - General Practice
  - Geriatric Medicine
  - Family Practice
ACOs must have at least 5,000 assigned beneficiaries.

ACO must include primary care professionals sufficient for the number of Medicare FFS beneficiaries assigned to the ACO.

If assigned population falls below 5,000:

The ACO will be issued a warning and placed on a corrective action plan ("CAP").

While under the CAP, ACO remains eligible for shared savings and losses during the performance year.

If the population is not returned to at least 5,000 by end of PY, agreement will be terminated.
Application Requirements
Application Requirements: Three-Year Agreement with CMS

- ACOs must submit complete applications to the agency

Content of the application includes:

- Certification that ACO, its participants, and providers/suppliers have agreed to become accountable for quality, cost, and overall care of assigned Medicare beneficiaries
- Documentation that ACO meets eligibility criteria (e.g., information related to governing body and compliance plan)
- Description of how the ACO plans to distribute shared savings
- Selection of track and option for interim payment calculation (if applying for 2012 start date)
- Documentation demonstrating that ACO will have the ability to pay back losses for which it may be liable (e.g., if participating in two-sided model)
Participation Agreement:
Three-Year Agreement with CMS

In order to participate in the program, an ACO must enter into an agreement with CMS for a period of at least 3 years

Term of Agreement

<table>
<thead>
<tr>
<th>Start Date</th>
<th>Length of Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1, 2012</td>
<td>3 years and 9 months</td>
</tr>
<tr>
<td>July 1, 2012</td>
<td>3 years and 6 months</td>
</tr>
<tr>
<td>January 1, 2013 and beyond</td>
<td>3 years</td>
</tr>
</tbody>
</table>
Advance Payment Model
Advance Payment Model (APM)

- CMS announced the APM for certain ACOs participating in the Medicare Shared Savings Program
- The Innovation Center is committing up to $170 million to the APM to test whether:
  - Pre-paying a portion of future shared savings could increase participation in the Shared Savings Program
  - Advance payments increase the amount of and speed at which ACOs can effectively coordinate care to generate Medicare savings
- The application for the APM must be submitted at the same time as the Medicare Shared Savings Program application
APM: Eligibility

- The APM is open to two types of organizations participating in the Shared Savings Program
  - ACOs that do not include any inpatient facilities AND have less than $50 million total annual revenue
  - ACOs in which the only inpatient facilities are critical access hospitals and/or Medicare low-volume rural hospitals AND have less than $80 million in total annual revenue
- ACOs that are co-owned with a health plan will be ineligible, regardless of whether they fall into one of the above categories
- Only ACOs that enter the Shared Savings Program in April or July 2012 will be eligible
Selected ACOs will receive three types of payments:

- An up-front, fixed payment – $250,000 in the first month of the Shared Savings Program;
- An up-front variable payment – payment in the first month of the Shared Savings Program equivalent to the number of preliminary, prospectively assigned beneficiaries times $36; and
- A monthly payment of varying amount depending on the number of Medicare beneficiaries historically attributed to the ACO – each ACO will receive a monthly payment equal to the number of its preliminary, prospectively assigned beneficiaries times $8.

In general, advance payments will be recouped through the ACO’s earned shared savings.

ACOs that meet eligibility criteria above will be scored according to a rubric and will be evaluated based on the quality of their “spend plans”
Fraud and Abuse Waivers
Fraud and Abuse Waivers: Interim Final Rule with Comment Period

- In connection with the ACO final rule, CMS and the OIG released an interim final rule with comment period establishing waivers of the application of fraud and abuse laws to specified arrangements involving ACOs
  - The waivers address the Physician Self-Referral Law ("Stark Law"), the federal Anti-Kickback Statute, and provisions of the Civil Monetary Penalties ("CMP") Law (so-called "Gainsharing CMP" Law and "Beneficiary Inducements CMP" Law)
  - In April 2011, CMS and OIG published a notice with comment period proposing certain waivers and discussing waiver design issues applicable to ACOs under the shared savings program
  - Interim final rule was issued pursuant to HHS Secretary’s statutory authority to waive the application of certain fraud and abuse laws “as may be necessary” to implement the ACO shared savings program
Fraud and Abuse Waivers: 
Waivers in General

The interim final rule outlines five waivers covering different arrangements involving ACOs, which apply provided that certain conditions in the rule are met.

These waivers cover:

- ACO pre-participation: certain ACO start-up arrangements provided by the would-be ACO, its participants, and its providers/suppliers.
- ACO participation: certain arrangements between and among the ACO, its participants, and its providers/suppliers.
- Distribution of shared savings earned by the ACO.
- Arrangements that comply with Stark Law exceptions.
- Certain patient incentives: in-kind items or services provided by the ACO, its participants, or its providers/suppliers to beneficiaries for free or below fair market value.