

An Executive Conference from **THE WALL STREET JOURNAL.**

ECO:nomics

■ ■ CREATING ENVIRONMENTAL CAPITAL

PARTICIPANTS INCLUDE

RAJENDRA K. PACHAURI
Chairman, Intergovernmental Panel on Climate Change

Request an Invitation
Economics.wsj.com

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

See a sample reprint in PDF format.

Order a reprint of this article now

THE WALL STREET JOURNAL.

WSJ.com

HEALTH INDUSTRY | NOVEMBER 28, 2010

Embracing Incentives for Efficient Health Care

By ANNA WILDE MATHEWS

Spurred by incentives in the federal health-overhaul law, hospitals and doctors around the country are beginning to create new entities that aim to provide more efficient health care.

But these efforts are already raising questions about whether they can truly save money, or if they might actually drive costs higher.

In Arizona, Tucson Medical Center is forming a company that the hospital will own jointly with local physicians' practices. The joint venture will aim to sign contracts with insurers and Medicare to earn financial rewards if it saves health-care dollars.

Related Videos

[PM Report: Panel's Tough Medicine on Spending](#)

[Former Health Czar Talks Online Medical Records](#)

[Medicare Changes Are Coming](#)

[Online Data Could Predict Your Lifespan](#)

The venture is an effort to create a new entity called an "accountable care organization." ACOs are health-care providers or groups of providers that are supposed to coordinate and improve the care of an assigned set of patients.

The law says that if the ACO reduces costs for its Medicare patients by a certain percentage below a benchmark, the providers can receive extra

payments drawn from the savings.

The main goal is to help rein in the growth of spending for Medicare, which is widely seen as unsustainable. Medicare cost about \$509 billion in 2009, up nearly 9% from the year before. It covered the health care of around 46 million seniors and people with disabilities.

Medicare's traditional payment structure creates incentives for increased health-care services and spending, because providers are generally paid fees for actions such as administering tests or performing surgeries. The new program retains those fees. But it also is structured to reward reductions in Medicare costs across a group of patients, which are supposed to be achieved by coordinating their care and other means, such as using practices backed by the strongest evidence. The ACO effort is one of several in the legislation that attempt to save health-care dollars.

Some critics are raising concerns that the new organizations may risk increasing costs, particularly when they involve hospitals bulking up through mergers, acquiring doctor practices or hiring more doctors to better coordinate care. Hospitals are often paid more than doctor-owned clinics for certain outpatient services and imaging.

In addition, some researchers and insurers worry that larger hospital-doctor coalitions could use their market clout to extract higher fees from private payers.

"If ACOs are a recipe for more consolidation and price increases, that will take us in the wrong direction," said Karen Ignagni, chief executive of America's Health Insurance Plans, the health insurers' trade group.

An ACO must care for at least 5,000 Medicare beneficiaries, and it must have systems in place to report on quality and cost measures. The Medicare agency is expected to issue a proposal detailing the program by early next year. The program would launch in 2012.

Hospitals and doctors are scrambling to learn about the program and preparing to participate. Efforts to teach providers about ACOs, backed by researchers at the Brookings Institution and the Dartmouth Institute and Premier, a health-care alliance owned by hospitals, have drawn about 180 participants so far, including hospital systems and doctor groups. In a recent survey, 73% of hospital financial executives said an accountable system of care was a vital investment priority, according to the Advisory Board Co., a health-care research firm.

The potential financial impact of the new program isn't yet clear. An earlier Medicare pilot program that may be used as a model had mixed results. It had said that doctor groups that achieved a Medicare spending growth rate at least 2% lower than a benchmark could share up to 80% of the savings beyond that threshold, based on their quality and cost performance.

"We want the program to create incentives, both clinical incentives and payment incentives, that encourage providers to provide better and more low-cost care," said Jonathan Blum, deputy administrator of the Centers for Medicare and Medicaid Services. He said the agency is working "to ensure that our payment rules don't produce unintended consequences for private payers," such as discouraging competition, and he doesn't believe that the ACO program will create incentives for services to move to a hospital setting.

The Billings Clinic, a nonprofit based in Billings, Mont., that includes a hospital, is preparing to position itself as an ACO. Medicare represents around 41% of its \$885 million in annual revenue. In the earlier Medicare pilot program, the clinic says it reduced hospital admissions for around 500 heart-failure patients by 35% to 43%, saving Medicare more than \$3 million over three years. The efforts focused on close monitoring of patients who called in daily to provide measures like their weight.

In the future, the clinic will add similar strategies for other types of patients, including better tracking and standardized processes to ensure people get all their needed tests and treatments. To improve coordination of care, it is increasing its hiring of primary-care doctors and forging closer ties to nursing homes, hospices and home-health agencies. "Those services will be an important part of our success" as an ACO, said Nicholas Wolter, the clinic's chief executive.

Some organizations are starting to incorporate ACO-style payment structures into their contracts with private insurers. Fairview Health Services, a Minneapolis-based nonprofit system that already included hospitals and clinics, is aiming to have all of its insurance contracts include new incentives next year. Bonuses would be tied to Fairview's cost performance, compared with that of competing health-care providers and its own past benchmarks, as well as quality outcomes. In return, Fairview would accept a more limited increase in the traditional fees it charges insurers.

Under the traditional fee-for-service payment system, which rewards volume, "everyone knew we were creating more utilization than we had to," and doctors felt like they were on a constant treadmill, said Mark Eustis, chief executive of Fairview. Fairview's goal is to reduce its total cost of care for ACO patients by 5% to 20%.

To meet its new cooperative goals, Fairview has been reshaping its primary-care clinics, creating teams of doctors, nurses and other providers who work together to better track care. Patients who request an appointment with a doctor may be offered a phone consultation or a meeting with a

nurse practitioner- cheaper options that traditional payment models don't always encourage as insurers pay more for doctors' work.

ACO supporters say that data-tracking tools such as electronic health records should help the ACOs accomplish their goals. "We do have technically a better capacity to support these changes" than in the past, said Mark McClellan, who directs the Brookings Institution's Engelberg Center for Health Care Reform.

Write to Anna Wilde Mathews at anna.mathews@wsj.com

Copyright 2010 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com

