Accountable Care Organizations: How Prepared Are We?

Executive Summary:
Accountable Care Organizations (ACOs) are the single hottest topic in the healthcare industry these days. ACOs are being extensively covered by the media and consuming a tremendous amount of attention by providers, but in all reality are healthcare organizations prepared to become an ACO? This research conducted on behalf of Waller Lansden Dortch & Davis, LLP explores the challenges ahead for ACO participants including identifying costs of creating and operating an ACO and funding strategies.

This ACO Research was conducted by Modern Healthcare's Custom Research team on behalf of Waller Lansden Dortch & Davis, LLP. Of the respondents to this custom survey, approximately half (49%) of the participants worked for a not-for-profit hospital. An additional 23% worked in medical clinics, and 13% were employed by for-profit hospitals. Nearly half of the respondents (48%) were senior management with another 18% in financial management, 17% in clinical management and 11% in operations management.

Objectives of the research included:
• Identifying the level of participation in selected activities in preparation for participation in an ACO
• Gaining knowledge of the perceived obstacles presented by a list of selected parameters
• Gaining insights into the estimated costs of creating and operating an ACO
• Learning how participants planned to fund the creation and operation of an ACO

ACOs: How Prepared Are We?
The survey asked respondents to identify the activities that they have already taken in preparation for participation in an Accountable Care Organization (ACO) and the actions that they plan to take prior to Jan. 1, 2012. Overwhelmingly, respondents indicated that they have or plan to develop information systems (88%) and increase alignment with primary care physicians (83%).

On average, 62% of all respondents reported that they have already taken actions or plan to in preparation for participation in an ACO. For 4 of the 16 listed activities, the majority of participants reported having already taken some form of action including:
- Increased alignment with primary care physicians 63%
- Aligned with physicians through employment 60%
- Developed information systems 59%
- Gained experience through participation in an integrated delivery system 50%

And for more than half of the listed activities, between 40% and 45% reported having already taken the stated actions.

Overall, 22% of survey respondents indicated that they plan to take actions prior to Jan 1, 2012 to prepare for participation in an ACO. Of these respondents, areas identified include gaining experience through an accountable care organization pilot (40%) and gaining experience through a bundled payment program (30%)

The remaining survey participants (38%) have yet to take any form of action for some or all of the listed activities and do not plan to take actions in the future.
ACOs: The Obstacles Ahead

Access to Capital
Many factors are viewed as obstacles to creating and operating an ACO but the most prevalent challenge is facing is access to capital. Over 20% of survey respondents indicated that access to capital is a very serious obstacle – and 66% indicated that it is in fact an obstacle. Only 7% did not see access to capital as an obstacle.

Lack of Primary Care Physicians
The second most serious obstacle indicated is the insufficient number of primary care physicians and specialists. While these stated challenges ranked very high, other staffing issues such as a lack of access to nurses and other personnel do not appear to be as substantial of a concern.

Cultural Differences
Not to be overlooked are the cultural differences of participants of these newly formed ACOs. Respondents indicated strong concerns over how they will overcome these hurdles to create fully integrated and effective care delivery.

ACOs: Where Will the Financing Come From?
The premise of an Accountable Care Organization is to make providers jointly accountable for the health of their patients providing substantial incentives for cooperating and in turn leading to a reduction in unnecessary expenses while still meeting quality standards set in place.

Start Up Costs
If an ACO is unable to save money, it could end up losing money due to the initial start up costs such as adding staff and investing in new technology. On average, survey participants estimated the cost of creating and operating an ACO to be slightly higher than $3 million. Therefore, these initial costs can be a deterrent to organizations with limited access to capital.

Estimated Cost for Creating & Operating An ACO

To offset the initial investment, a large percentage of respondents indentified that they will have to tap into their operating capital and reserves or turn to joint ventures with other healthcare organizations for gain-sharing models and cost savings arrangements.

Additional areas identified as planned financing include: grants, fundraising, bonds, loans and contracting with payors. Reducing costs as well as improving operational efficiencies are other ways that providers are expecting to fund the cost of creating and operating an Accountable Care Organization (ACO).

To see the complete survey data, please visit WallerLansdenCustomLandingPage