

RESEARCH

APRIL 2014

ACO UPDATE: ACCOUNTABLE CARE AT A TIPPING POINT

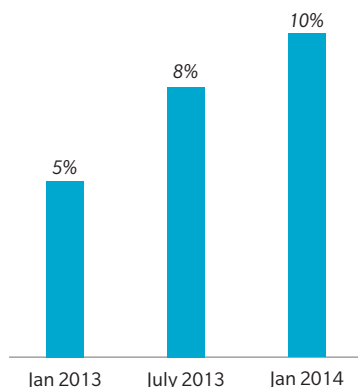
*Seventeen Percent of Americans currently receive their care from an ACO.
Two thirds have access to one*

More than two-thirds of the U.S. population now live in localities served by accountable care organizations (ACOs) and more than 40 percent live in areas served by two or more. The figures come from a new analysis by the consulting firm Oliver Wyman, based on the Department of Health and Human Services' announcement of the latest class of ACOs approved to participate in Medicare's ACO programs. The latest round of approvals in January brings the total of Medicare ACOs to 368, up from 235 in July 2013. Oliver Wyman has identified an additional 150 additional ACOs, bringing the estimated total to more than 520, up from 320 in July 2013 and 260 in January 2013.

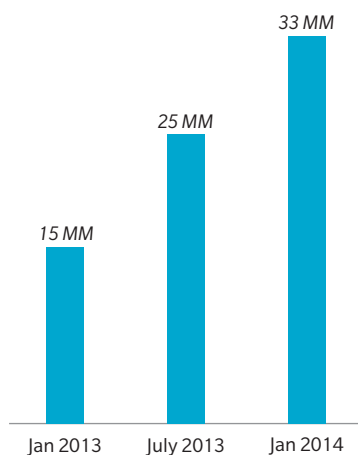
Some highlights of the research:

CMS ACOs: We count as a CMS ACO any healthcare provider participating in the Pioneer ACO program, the Medicare Shared Savings program, a Medicaid

Percent of Medicare beneficiaries covered by ACOs



Number of non-Medicare patients served by Medicare ACOs



ACO, or the PGP Transition program. Numbers are taken from reporting by the Centers for Medicare and Medicaid Services (CMS).

About **5.3 million Medicare beneficiaries**, or about **10 percent of total Medicare beneficiaries**, will now receive their healthcare from ACOs.

The corresponding figures in **July 2013** were **4 million beneficiaries** and **11 percent of total beneficiaries**.

The **number of beneficiaries served has risen by 32 percent** since July 2013 and by a **total of 120 percent** since January 2013.

Non-CMS patients in CMS ACOs: Most Medicare ACOs also serve non-Medicare patients. ACOs will typically start entering ACO contracts with commercial and Medicare Advantage payers soon after they start in a CMS ACO, or apply for Medicare Shared Savings soon after their first commercial contracts. Numbers are estimates based on typical panel sizes and payer mixes of primary care practices.

Medicare ACOs currently serve an estimated **33 million non-Medicare patients**, up from 25 million in July 2013 and 15 million in January 2013.

Non-Medicare ACOs: Non-Medicare ACOs are difficult to count, because there is neither an official list nor an official definition. For our research, we defined a non-Medicare ACO as any provider organization with at least one shared-savings or shared-risk arrangement with at least one commercial payer but not with CMS. Our census of these organizations drew on press releases, news accounts, and other forms of direct research, and though thorough it must be regarded as imperfect.

We currently count **154 non-Medicare ACOs**, compared to 135 in July 2013 and 124 in January 2013. That represents a **growth of 14 percent** since July 2013 and 24 percent since January 2013.

We estimate that these ACOs serve **between 9 million and 16 million patients**, compared to 8 million to 14 million in February 2013.

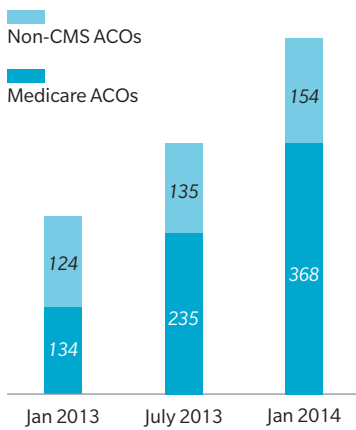
All ACOs: This category includes both CMS and non-CMS ACOs.

We currently count **522 ACOs in the United States**, compared to 370 in September 2013 and 258 in February 2013. This number represents a 41 percent increase since September 2013 and a 102 percent increase since February 2013.

The total number of patients served by these organizations is now between **46 and 52 million** or roughly **15 to 17 percent of the population**.

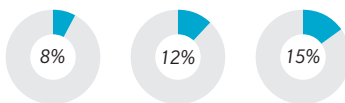
Sixty-seven percent of the U.S. population currently live in a primary care service area (PCSA), compared to 45 percent in September 2013 and 52

Number of ACOs

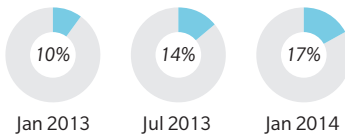


Percent total population covered

LOWER BOUND



UPPER BOUND



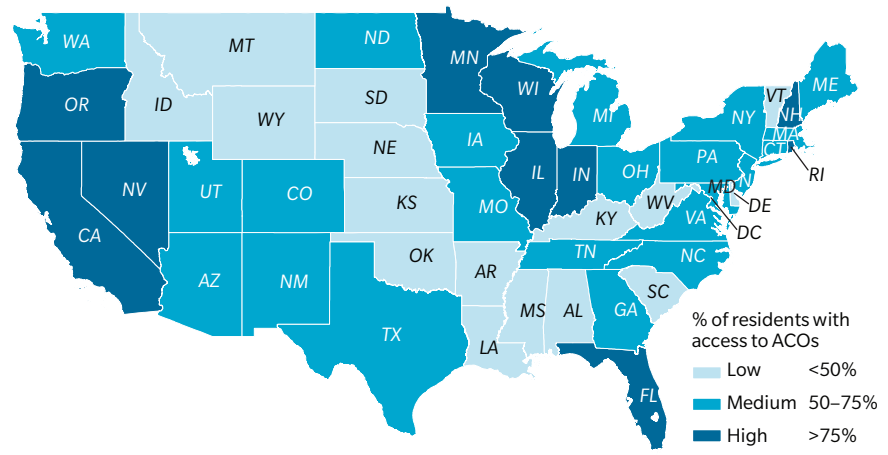
percent served by at least one ACO, in February 2013. Roughly 40 percent live in a PCSA served by two or more ACOs.

“We regard this last number as extremely important,” explains Niyum Gandhi, a partner in Oliver Wyman’s Health & Life Sciences practice group and one of the firm’s ACO experts. “ACOs need to be treated as a triggering mechanism for a revolution in American healthcare. Their reach is at least as important a factor to watch as their current enrollments.”

Current enrollments are problematic, Gandhi explains, because most ACOs are currently at an early stage of development, offering care that differs very little from traditional healthcare providers. But the fact that they are reimbursed differently than traditional fee-for-service providers means that they can begin to profit from eliminating unnecessary services and replacing treatment with prevention—something fee-for-service providers cannot do.

“ACOs were designed to create a new kind of competition in healthcare, with providers taking responsibility for the patient’s total health and competing on the basis of cost and quality,” Gandhi explains. “The idea is that competition will drive them to adopt more effective, cost-efficient ways to deliver healthcare. Those new delivery models already exist, and they work, though they are not widespread and they have proven difficult to scale up. When will we see the kind of competition that leads to meaningful change? That’s the real question. But now that two-thirds of Americans have access to an ACO and more than half have access to two or more, here’s a prediction: Once the fire is lit, it’s going to spread quickly.”

In more than half of states, a majority of people have access to an ACO



Updated as of January 2014

Sources: News releases, company websites, Dartmouth Atlas PCSAs, Claritas, Oliver Wyman analysis

1. ACOs defined as providers participating in Pioneer ACO, Medicare Shared Savings, a Medicaid ACO, PGP Transition, or in a shared savings/risk arrangement with a commercial payer; Prep activity defined as participation in a learning collaborative or providers preparing to become an ACO

ABOUT OLIVER WYMAN

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Oliver Wyman's Health & Life Sciences practice serves clients in the pharmaceutical, biotechnology, medical devices, provider, and payer sectors with strategic, operational, and organizational advice. Deep healthcare knowledge and capabilities allow the practice to deliver fact-based solutions.

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