## New analysis helps hospitals choose best Medicare shared savings program

***Premier healthcare alliance releases first detailed financial report on accountable care for shared savings program options***

*CHARLOTTE, N.C. (July 27, 2011)* – Today the Premier healthcare alliance released the first detailed financial analysis of accountable care in a report analyzing the risks and opportunities associated with each Medicare shared savings program.

The report, commissioned by Premier and performed by Milliman Inc., is based on critical variables such as size of the targeted population, potential for down-side financial risk, prospective versus retrospective beneficiary assignment, potential capital needs and current regional medical costs.

Shared savings payments are a fundamental first step toward coordinated accountable care, as they realign the incentives to reward the value rather than the volume of care delivered. Currently, providers wishing to become more accountable for the health of their communities have three options for contracting with Medicare: Track 1 or Track 2 of the Medicare Shared Savings Program (MSSP), or the recently announced Pioneer demonstration program through the Center for Medicare and Medicaid Innovation (CMMI).

"This analysis can be used by providers as a decision support tool to help them decide which shared savings program is best suited to their unique patient populations and business models," said Wes Champion, senior vice president of Premier Performance Partners. "With letters of intent and applications due for the various Medicare programs, the ability to model and understand financial risk is very immediate and essential for anyone contemplating such a large shift in business as usual."

Milliman ran scenarios to illustrate how current costs could affect provider outcomes in the three Medicare shared savings payment models. In the analysis, the MSSP's methodology produces a lower than national trended benchmark for high-cost areas and higher than national trended benchmark for low-cost areas. Pioneer's methodology dampens these trend advantages and the disadvantages. Providers expecting local trends to be lower than national average Medicare expenditure trends are likely to benefit more from the MSSP than the Pioneer program and vice versa.

The analysis also modeled the financial implications of prospective beneficiary attribution, as proposed in the Pioneer demo. The analysis found that prospective attribution could benefit accountable care organizations (ACOs) that are assigned a relatively higher concentration of high-

cost beneficiaries. Moreover, high-cost areas could earn more shared savings in the Pioneer scenario than in the MSSP.

The report models five scenarios for providers across the three Medicare risk sharing options. The results are summarized below.

| Million $<br><br>Scenario | Year | ACO Benchmark[1] | Medicare Expenditure | Medicare Savings[2] | Savings ÷ Benchmark | Shared Savings/Losses | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | MSSP | | |
| | | | | | | Track 1[3] | Track 2 | Pioneer[4] |
| A<br>FFS= 90% of Benchmark | 2012 | $141 | $127 | $14 | 11% | $6 | $8 | $8 |
| | 2013 | $149 | $134 | $15 | 11% | $6 | $9 | $10 |
| | 2014 | $156 | $141 | $16 | 11% | $7 | $9 | $8 |
| | 2012-14 | | | $45 | | $20 | $27 | $27 |
| B<br>FFS= 95% of Benchmark | 2012 | $141 | $134 | $7 | 5% | $2 | $4 | $4 |
| | 2013 | $149 | $141 | $7 | 5% | $2 | $4 | $5 |
| | 2014 | $156 | $148 | $8 | 5% | $3 | $5 | $0 |
| | 2012-14 | | | $22 | | $7 | $13 | $9 |
| C<br>FFS= 100% of Benchmark | 2012 | $141 | $141 | $0 | 0% | $0 | $0 | $0 |
| | 2013 | $149 | $149 | $0 | 0% | $0 | $0 | $0 |
| | 2014 | $156 | $156 | $0 | 0% | $0 | $0 | -$8 |
| | 2012-14 | | | $0 | | $0 | $0 | -$8 |
| D<br>FFS= 105% of Benchmark | 2012 | $141 | $148 | -$7 | -5% | $0 | -$4 | -$4 |
| | 2013 | $149 | $156 | -$7 | -5% | $0 | -$4 | -$5 |
| | 2014 | $156 | $164 | -$8 | -5% | -$3 | -$5 | -$16 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012-14 | | | -$22 | | -$3 | -$13 | -$25 |
| E FFS= 110% of Benchmark | 2012 | $141 | $156 | -$14 | -9% | $0 | -$8 | -$8 |
| | 2013 | $149 | $163 | -$15 | -9% | $0 | -$9 | -$10 |
| | 2014 | $156 | $172 | -$16 | -9% | -$7 | -$9 | -$23 |
| | 2012-14 | | | -$45 | | -$7 | -$27 | -$42 |

1. Assumes 15,000 beneficiaries (minimum size of Pioneer ACO), average member months of 11.3 per year, and average paid PMPM in 2012 = $836 (based on Milliman's 2011 Age 65+ HCGs trended and adjusted for institutionalized, age <65, and dual populations)
2. Medicare Savings = ACO Benchmark – Medicare Expenditure
3. Minimum Saving Rate of MSSP Track 1 = 2%
4. For Pioneer 2014, we assume a capitation budget of benchmark * .95

Please see body of report for explanation of modeling

“The high level models in the report are a good way to start the discussion of ACO financial feasibility,” said co-author Bruce Pyenson, principal and actuary in Milliman’s New York office. “We hope the report encourages organizations to the next step of developing detailed actuarial budgets. In our experience, using these budgets helps organizations prioritize the thousands of issues so they can focus on the most important ones.”

A full copy of the report can be downloaded from Premier’s accountable care website free of charge.

“Without an understanding of how shared savings affect the bottom line, providers are flying blind,” continued Champion. “There’s been a great deal of rhetoric in the public space alleging that shared savings will not work to every provider’s advantange, but scant evidence to support it. This analysis shows that in some circumstances, the Medicare shared savings programs may be a viable opportunity, but providers can only make that decision with the right modeling tools.”

**About the Premier healthcare alliance, Malcolm Baldrige National Quality Award recipient**

Premier is a performance improvement alliance of more than 2,500 U.S. hospitals and 75,000-plus other healthcare sites using the power of collaboration to lead the transformation to high quality,

cost-effective care. Owned by hospitals, health systems and other providers, Premier maintains the nation's most comprehensive repository of clinical, financial and outcomes information and operates a leading healthcare purchasing network. A world leader in helping deliver measurable improvements in care, Premier has worked with the Centers for Medicare & Medicaid Services and the United Kingdom's National Health Service North West to improve hospital performance. Headquartered in Charlotte, N.C., Premier also has an office in Washington. http://www.premierinc.com. Stay connected with Premier on Facebook, Twitter and YouTube.

**About Milliman**

Milliman is among the world's largest independent actuarial and consulting firms. Founded in 1947 as Milliman & Robertson, the company currently has 54 offices in key locations worldwide. Milliman employs more than 2,600 people. The firm has consulting practices in healthcare, employee benefits, property and casualty insurance, life insurance and financial services. Milliman serves the full spectrum of business, financial, government, union, education and nonprofit organizations. For further information, visit www.milliman.com.