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NEW STUDY FINDS THE START UP COSTS OF ESTABLISHING AN ACO TO BE SIGNIFICANT

CMS underestimates the investment needed to create an ACO

Washington D.C. – May 13, 2011 – Today the American Hospital Association (AHA) released a study that looks at the start-up investment required to establish and sustain an Accountable Care Organization (ACO). The study found that the costs of the necessary elements to successfully manage the care of a defined population is considerably higher – \$11.6 to \$26.1 million – than the \$1.8 million estimated by the Centers for Medicare & Medicaid Services (CMS) in its proposed rule for start-up and one year of ongoing operations. The AHA sent a letter to Donald Berwick, Administrator of CMS, to highlight these findings.

“CMS’ estimate falls short of the mark,” said Rich Umbdenstock, president and CEO of the AHA. “The shared savings rate with ACOs should be adjusted to reflect these costs in order to encourage and enable participation in this important program.”

This study identifies a total of 23 different capabilities that must be developed across four categories to achieve the desired transformation in care delivery:

- network development and management
- care coordination, quality improvement and utilization management
- clinical information systems
- data analytics

The information gathered from four case studies was used to create two hypothetical examples to estimate the start-up and ongoing costs of establishing an ACO. The first represents a single free-standing hospital, 80 primary care physicians and 250 specialists. The second example includes a five-hospital (1200 bed) system, 250 primary care physicians and 500 specialists.

The study was prepared for the AHA by McManis Consulting of Greenwood Village, CO, and is based on a series of case studies of organizations that have already taken steps to manage the care of a defined population in a manner similar to that of an ACO. This work was completed prior to the release of the proposed rule; therefore it does not include estimates of the costs of meeting requirements specific to the Medicare Shared Savings Program. The individual case study reports can be found at www.aha.org/ACOCasestudies. A second white paper addresses the management and strategic issues involved in establishing ACOs.

Estimate of ACO Investment	Average*
CMS (based on a range of an estimate of 75-150 ACOs)	\$ 1,800,000
AHA** (200-bed, single hospital system)	\$11,600,000
AHA ** (1200-beds, 5-hospital system)	\$26,100,000

*Average amounts represent estimated costs for the start-up and ongoing costs for year 1.

**Draft estimates based on pending case studies. Includes start-up and ongoing costs for a typical year. Some costs may have already been incurred or be allocable to other budgets.