

# Accountable Care NEWS

## Preparing for Success in ACO or CIN Consolidation

by John M. Harris, MBA, and Idette Elizondo, MBA

**C**onsolidation among accountable care organizations (ACOs) and clinically integrated networks (CINs) is increasing, creating both opportunities and challenges. Consolidation could occur through the merger of hospitals or health systems that each has ACOs and/or CINs or through the acquisition of a physician-owned ACO or CIN. In addition, two or more ACOs or CINs may partner to achieve scale for population health management, while the health systems/hospitals involved remain independent.

Regardless of the mechanism, consolidation allows a combined entity to spread the costs of care management and information technology across more covered lives and potentially attract more payer contracts due to a larger patient base.

Consolidation also might help Medicare Shared Savings Program (MSSP) ACOs that are not achieving targeted savings by increasing membership and thereby, lowering required savings. Smaller, under-resourced CINs or independent practice associations (IPAs) might benefit from joining a network with better resources and more experience in population health management and effective care redesign initiatives. For a stronger CIN, consolidation might help strengthen physician alignment and gain scale, provided it can sufficiently improve the performance of an acquired entity.

Regardless of the reasons for ACO or CIN consolidation, the opportunities and challenges are similar. In addition to negotiating a transaction (where required), involved parties need to optimize a governance model, manage the performance of legacy organizations, reconsider strategic goals and improve the operational model.

### Steps to Success

Preparing for a transaction can be complex. It is important to engage physician leadership and the broader physician membership to ensure that they support the change. Depending on the market power of the combined entity, regulators might be concerned about antitrust issues.

In addition, some ACO or CIN transactions, such as the acquisition of an IPA by a health system, must be based on fair market value (FMV). At least some of the owners are likely to be referring physicians, resulting in greater regulatory exposure. A valuation, which could be complex because ACOs and CINs generate revenues by saving money, rather than through patient fees, determines FMV. These organizations tend to distribute most of their surpluses to physician members rather than retaining earnings for owners.

### Optimizing Governance

While it is simpler to merge ACOs or CINs than to merge health systems and hospitals, deciding on a new governance structure can still be quite complicated. A central consideration is whether to keep legacy boards intact under the aegis of a super-CIN (diagram below) or to rely solely on a single centralized board.

In an ideal world, an immediate full merger would be best, allowing for a clear structure and simpler decision making; however, in the real world, a merged governance structure needs to:

- Consider the performance of legacy organizations.
- Maintain physician engagement.
- Reward high-value performance.

When these factors are considered, it is likely that an initial governance structure will be a super-CIN, with a planned shift in functions from local to super-CIN level over time. Initially, a super-CIN board might have representatives from each constituent CIN. As the organization evolves, the board model might shift its focus on the capabilities of board members instead.



Regardless of the structure of a governance board, it is essential that physicians play a leading role, and it is generally desirable that more than half are independent physicians. This is essential to gaining and maintaining the trust of a physician community.

## Managing the Performance of Legacy Organizations

Given the requirement for ACOs to meet a savings threshold, poor performance by one legacy organization in a merger could have an outsized negative impact. For example, if a successful ACO (one that is receiving shared savings) is fully combined with a less successful ACO, the combined organization might fail to meet the savings threshold, and millions of dollars in shared savings that had previously been realized by the more successful organization might be lost.

Therefore, it is critical to pay careful attention to managing the performance of each legacy organization in a consolidated ACO or CIN. This can be accomplished whether each maintains its own legacy board or operates as a division under a centralized board. Driving improved performance in the weaker legacy entities will reduce the negative impact of those entities on the physicians in the higher-performing entities.

### Physician Engagement

As with individual CINs, maintaining and nurturing physician engagement is essential to the success of a consolidated CIN. In the new, broader entity, the physicians might not know or have strong relationships with each other. Maintaining some of the local structure for a period of time creates space for new relationships to grow.

Funds flow design (see “Operational Model” section) could reinforce physician engagement by ensuring that a rewards system is seen as equitable. Superior performance should be rewarded with a significantly higher share of incentive payments.

In addition, some CINs allow physicians to opt out of certain contracts or governmental payers (e.g. Medicaid or Medicare), while others might require all member physicians to participate in all contracts. If a merger eliminates the options that some physicians have had, a portion of them could vote with their feet and leave a merged organization. This can be addressed with a decision by a super-CIN to allow legacy units or even individual physicians to make opt-out decisions within a defined framework and time period.

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### Reconsidering Strategy

The key to long-term success for consolidated CINs is creating a shared destiny. A newly consolidated CIN should reconsider strategy to create a common direction and shared commitment for the merged entity. Completing a strategic plan with facilitated participation by physicians is a great way to build relationships among physicians and develop shared commitment between physicians and health system leadership.

Steps in a good strategic planning process include:

- Establishing a clear picture of a new organization’s strengths and weaknesses.
- Identifying opportunities to pursue and challenges to address.
- Agreeing on well-defined goals and initiatives.
- Creating accountability for implementing initiatives.

One likely aspect of a strategy is determining whether to pursue risk as a combined entity. One CIN’s physicians might have been managing risk-based contracts for years, while another has only dipped its toe into upside-only, shared savings. In some cases, it might be helpful to retain separate physician networks: one for risk contracts, allowing some physicians to pursue advanced alternative payment model bonuses, and one pursuing a slower path to value-based payment.

### Designing an Operational Model

When ACOs or CINs merge, leaders must decide which infrastructure should be centralized and which should be left at the legacy/local CIN level.

Funds can flow from a super-CIN directly to physicians or practices based on their specific performance or to legacy CINs, which then distribute funds to their member physicians. In either case, superior performance must be rewarded with a significantly higher share of incentive payments.

This funds flow decision will affect which functions should be centralized, decentralized or blended. It is generally best to centralize functions in which scale and consistency are most important.

Both for this reason and to be certain that managers and physicians are working in parallel and not at cross purposes, responsibilities for contracting and for care management policies should be placed at a super-CIN level.

Other functions at this level would likely include:

- Payer contracting.
- IT systems.
- Risk management and data analytics.
- Care management policy.

Some functions may be centralized, decentralized or blended:

- Distribution of incentive funds to physicians.
- Care management operations.
- Performance improvement coaching with physicians.

Starting with decentralized coaching often makes sense as those who know physicians best are then responsible for improving their performance. Over time, performance and coaching might be shifted to a super-CIN.

For those merging ACOs or CINs, take the time to reconsider governance, strategy and operating models to optimize performance. Be sure to engage physician membership along the way, taking the organization to the next level.

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