

# New measure of value can help accountable care organizations deliver better health outcomes for less money

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The Centers for Medicare & Medicaid Services (CMS) is placing a big bet on the future of health care. By 2030, it plans to have all Medicare

beneficiaries in accountable care organizations (ACOs), groups of doctors, hospitals and other service providers who adopt a reimbursement model called value-based care. Currently, ACOs serve nearly half of Americans with traditional Medicare, totaling 13.7 million people.

But there's a significant problem with that bet, says Indranil Bardhan, professor of information, risk, and [operations management](#) and Foster Parker Centennial Professor in Information Technology at Texas McCombs.

The problem is how to deliver actual value: not just better health outcomes, but better outcomes per dollar spent. To date, there has not been a holistic way to measure value, he says, which means that nobody—including the accountable care organizations themselves—really knows how to gauge the effectiveness of the care they're providing.

In new research, Bardhan benchmarks Medicare ACOs against one another to create a standard yardstick to measure value. He finds that with improvements, the average ACO could deliver 24% higher value in its care.

The work is [published](#) in the journal *Health Affairs Scholar*.

The research can aid ACO leaders, because it also pinpoints which areas need improvement. "We can provide you with a prescriptive solution," Bardhan says. "We can tell you on which dimensions you have more room for improvement and which ones you have less room for improvement."

## **Pay for quality, not quantity**

Value-based care is a radical departure from traditional fee-for-service medicine. Instead of paying for the quantity of procedures, it pays for the quality of outcomes delivered based on the level of resources used. ACOs measure a wide variety of patient health outcomes and report them to CMS, which compensates them based on those outcomes. If an ACO keeps patients healthier at a lower cost, it shares in the savings generated.

CMS figures show that ACOs have indeed saved money—\$21 billion for Medicare over the past decade. Some studies have also found improved outcomes in areas such as management of [chronic diseases](#).

But no studies have brought inputs and outputs together to calculate value, says Bardhan. "What we've been lacking is a methodology to measure the bang for the buck."

With Chenzhang Bao of Oklahoma State University, he looked at CMS data on 865 ACOs between 2013 and 2021. The researchers analyzed metrics such as numbers of patients, severity of their conditions, health care spending, and care quality.

To determine value, they rated each ACO against the top performers: the ones that exhibited the best outcomes with the fewest clinical resources. The 18% at the top earned a value score of 1, while the rest scored between 1 and 0.

The average ACO, they found, had room for improvement.

- It operated at 76% efficiency.
- By cutting expenses and increasing care quality, it could reduce annual costs by \$1,000 per patient.
- It could operate with 120 fewer clinicians without worsening outcomes.

The proposed approach can also be applied to measure value among individual hospitals and other health care providers who participate in value-based care delivery.

## **Prescriptions for raising value**

Bardhan's goal is not to criticize ACOs, he notes. It's to help them reach their fullest potential.

In his research, individual ACOs can see how they stack up against others that are similar in demographics and geography. "You can compare your value-based score against your geographical peers and see how much better you need to do," he says.

Comparing two ACOs in Tennessee, he found the lower-performing one could reduce its annual costs by \$389 per patient and improve its preventive health score by 3.7 percentage points.

For the industry as a whole, he says, the ideal is to be "skinny in scale, broad in scope."

Skinny in scale means that ACOs should strive to add new patients without adding too many new physicians and offices, which can make coordination harder.

"Trying to coordinate care across multiple entities might actually reduce your value score," he says. "There are lots of barriers related to information sharing and organizational culture."

One strategy for being skinny in scale is to concentrate operations in a few geographical areas so that the same facilities can serve more people.

By broad in scope, Bardhan means that an ACO needs to strike a balance

between [primary care physicians](#), who provide valuable preventive care services, and specialists, who are needed when patients need specialized care. ACOs that are managed by hospitals have better value scores, he found, because physicians can more easily refer patients to specialists within the network.

"You can't deliver high-quality care just by having primary care," he says. "At the same time, if you have only specialist care but not enough primary care, then you may not get things like cancer screening and other kinds of preventive care exams, which can contribute to higher long-term costs."

## **Think outside the clinic**

Besides focusing on their own operations, ACOs should pay attention to the communities around them, Bardhan says. Their value scores, he found, are affected by social determinants of health in their operational region.

- Higher unemployment rates corresponded to lower value for local ACOs.
- Higher household incomes and access to healthy food options were associated with higher value.

Although an ACO can't change these factors in the short run, it can lobby for changes over the long run.

"ACOs, especially the larger ones, can work with the city and local communities," he says. "They can create incentives to open grocery stores in that area. The city wins, because people with more access to healthy food are likely to require less emergency hospitalization."

To achieve those and other improvements, ACOs will need to raise their

tolerance for taking risks, Bardhan adds.

"CEOs of these organizations need to fundamentally change how they operate," he says. "By taking bigger risks, they could potentially incur a greater share of losses, but they could also keep a greater share of the generated savings."

**More information:** Chenzhang Bao et al, Measuring value in health care: lessons from accountable care organizations, *Health Affairs Scholar* (2024). [DOI: 10.1093/haschl/qxae028](https://doi.org/10.1093/haschl/qxae028)

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