Sharp HealthCare ACO drops out of Medicare's Pioneer program

By **Bob Herman** | August 26, 2014

Fleury

Another Medicare Pioneer **accountable care organization** has exited the program, renewing questions about its long-term sustainability.

Sharp HealthCare, a five-hospital system in San Diego, said in its **third-quarter financial statement (PDF) (http://emma.msrb.org/EA633820-EA495957-EA892388.pdf)** that it dropped out of the Pioneer ACO program. Sharp notified the **CMS** and its **Center for Medicare and Medicaid Innovation** on June 20. Twenty-two Pioneer ACOs remain from the original 32. Last summer, **nine other Pioneers (http://www.modernhealthcare.com/article/20130716/NEWS/307169945/cms-names-acos-leaving-pioneer-program)** said they were leaving. Several of them switched to Medicare's less financially risky Shared Savings Program.

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Sharp's ACO, which covers 28,000 Medicare beneficiaries, is transitioning those patients to other care-management programs. The limited liability company that

encapsulates the ACO will also be unwound.

The Pioneer ACO Model, developed and administered by the CMS Innovation Center, has been one of the government's most widely watched efforts to reform healthcare payment and delivery under the mantle of the **Patient Protection and Affordable Care Act**. The Innovation Center chose 32 organizations across the country to participate because they were deemed ahead of the curve on the infrastructure and experience required to coordinate care and manage financial risk.

Under the contracts, they **could be on the hook to return Medicare dollars (http://www.modernhealthcare.com/article/20130706/MAGAZINE/307069976)** to the feds if they don't meet quality benchmarks and reduce costs.

That risk turned out to be too lofty for Sharp, which has concluded the program's payment methodology is flawed. “Because the Pioneer financial model is based on national financial trend factors that are not adjusted for specific conditions that an ACO is facing in a particular region (e.g., San Diego), the model was financially detrimental to Sharp ACO despite favorable underlying utilization and quality performance,” Sharp's disclosure states.

Alison Fleury, CEO of Sharp's ACO, said the system essentially broke even in the first two performance years—2012 and 2013—as it reduced readmission rates and utilization while improving its performance on quality metrics. But she said the organization was at a “significant risk of writing a check” back to Medicare this year. Two main factors came into play.

The CMS' financial benchmarking model for the Pioneer program is based on national measures and does not incorporate regional payment rates. For example, Pioneers don't receive higher or lower Medicare payments based on the **area wage index (http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/wageindex.html)**, which the government calculates every year. Fleury said that from 2012 through 2014, San Diego's area wage index went up 8.2%—but the Pioneer methodology does not account for that, leaving systems without those enhanced regional payments.

Sharp was negatively affected by the way the Pioneer program calculates **Medicare disproportionate-share hospital (PDF) (http://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network**

and-Education/Medicare-Learning-Network-MLN/MLNProducts/downloads/Disproportionate_Share_Hospital.pdf) payments to reflect the financial burden of large numbers of Medicaid patients, Fleury said. California hospitals have seen much higher rates of Medicaid patients thanks to expanded eligibility under the Affordable Care Act.

With Sharp's exit, the attention shifts to the 22 Pioneers still enrolled. John Gorman, founder of healthcare consulting firm Gorman Health Group, thinks more will drop out. And he attributes the skepticism to the CMS' payment benchmarking.

“What's driving all these health systems nuts is it's CMS' own methodology that's causing them to lose under this demonstration,” Gorman said. “It's not their lack of performance.”

Fleury said the CMS understands the problems and she expects the agency to make changes to the model for 2015 that would incorporate regional benchmarks and address some of the other concerns. The agency did not comment by deadline. “I'm hopeful they'll get it to a benchmark that does make it sustainable,” Fleury said.

In the first nine months of Sharp's fiscal year, ended June 30, the system's operating surplus increased 2.2% to $178.4 million. Sharp's total surplus, which factors in investment income, rose more than 25% to $264.9 million. Revenue inched upward to about $1.99 billion, giving Sharp a 9% operating margin—the same as the nine-month period in 2013.

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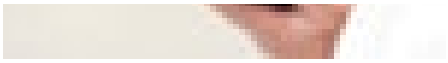

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