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# **NATIONAL ACO SURVEY**

**CONDUCTED NOVEMBER 2013**

Final January 21, 2014

Washington DC and Bradenton FL

In November 2013 the National Association of ACOs conducted their first short web-based survey on:

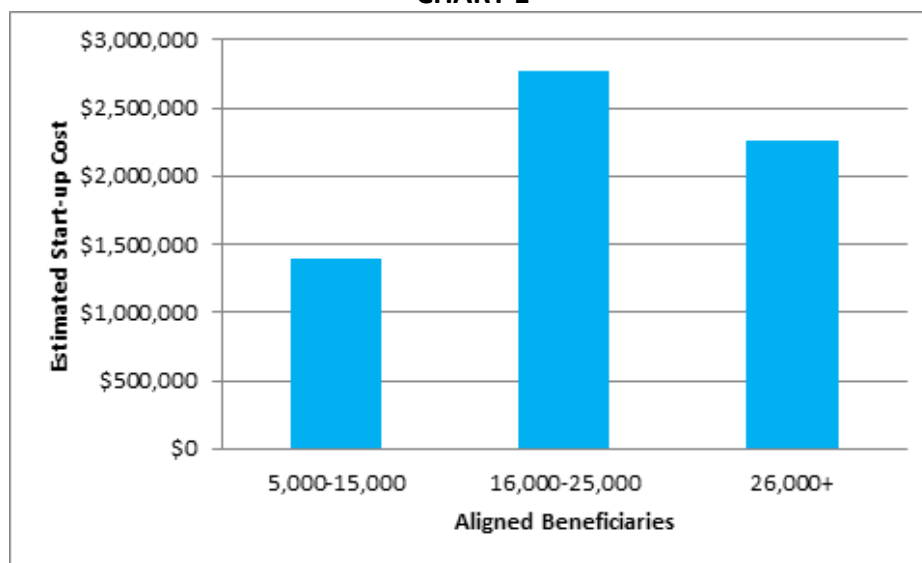
- First year start-up costs
- Financial prospects for the first year of operation
- Operational problems launching the ACO
- Who processes CMS claims data (CCLF)
- Total Cost of internal and external IT services
- Satisfaction with IT services

This was designed to capture vital new information from the April 1, 2012 and July 1, 2012 CMS MSSP ACOs after they finished their first full year of operation. This survey is the first large scale examination of the actual first year start-up costs and IT spending experienced by ACOs. Spending on feasibility studies, CMS application, legal fees or other pre-contract costs were NOT included in the first year costs. There were 11 questions each requiring a multiple choice or text answers. See Appendix A for the questions. Thirty-five ACOs responded and were representative of the size and geographic distribution of the ACO population. Size ranged from 5,100 to 78,000 assigned Medicare beneficiaries.

#### START-UP COSTS

Estimates in the published literature of ACO start-up costs have ranged widely, with \$1.8 million estimated by CMS in the draft regulations being the most often quoted. AHA estimated in 2011 that they would range from \$11.6 to \$26.5 million. The average actual start-up costs of the respondents in the first 12 months of operation were \$2.0 million with a range from \$300,000 to \$6,700,000. Since savings are slow to flow as result of data and complex reconciliation process, ACOs will have almost a second full year of operations until their cash flow can be replenished with shared savings from CMS (if any). This means that the average ACO will risk \$3.5 million plus any feasibility and pre-application costs. We estimate that in total, ACOs on average will need \$4 million of startup capital until there is a chance for any recoupment from savings. First year startup costs vary by size as in Chart 1.

**CHART 1**



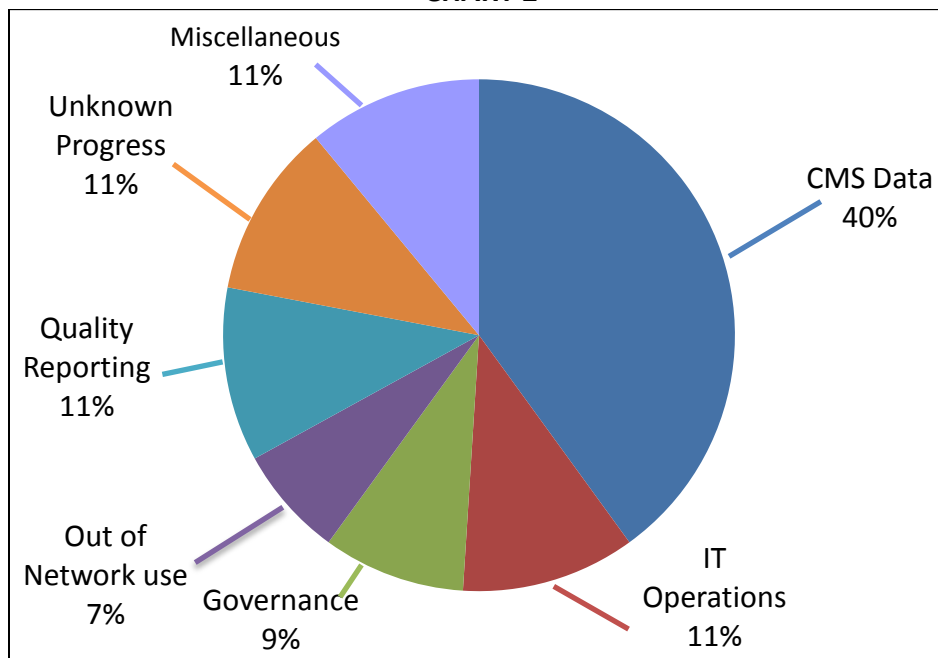
### FIRST YEAR SAVINGS PROSPECTS

The first full year of operations for the April and July 2012 ACO has closed and CMS is providing interim results to each ACO. No overall estimate of results has been released by CMS but NAACOS thought it would be timely and of value to ask each ACO what they believed would be their financial results for the first year of operation. The range of predicted gains and losses was expansive, with estimated gains as high as \$9,000,000 and losses as much as \$10,000,000. About one third (13) estimated a break-even level for the first year. Nine ACOs estimated gains with the average being \$1.3 million. Six estimated losses with the average loss of \$1.3 million. Six ACOs did not know or did not report. Including the breakeven ACOs, total estimated gains would be about equal to the estimated losses so the program as a whole would breakeven. It is important to note that these are estimates before any ACO received interim reconciliation numbers from CMS. We will follow up with each ACO after they have the official numbers to determine how the two compare.

### FIRST YEAR OPERATIONAL PROBLEMS

One of the principle goals of the National Association of ACOs is to assist ACOs in overcoming operational challenges through webinars, conferences, peer-to-peer learning, and policy advocacy. We wanted to know what problem was the most challenging for ACOs in their first year and so we asked an open ended question and then categorized the answers. Our identification of first year start-up problems is the first to be published and is eye-opening. The overwhelming number of responses was about CMS data and learning to access it and process it. They included “finding suitable software”, “meeting implementation schedules”, “delays in getting claims data”, “new skill sets to analyze data”, “addresses of assignees”, “slow stand-up of IT system”, “data inconsistency from CMS”, and “translating the data into actionable information for care managers and providers”. Results are below.

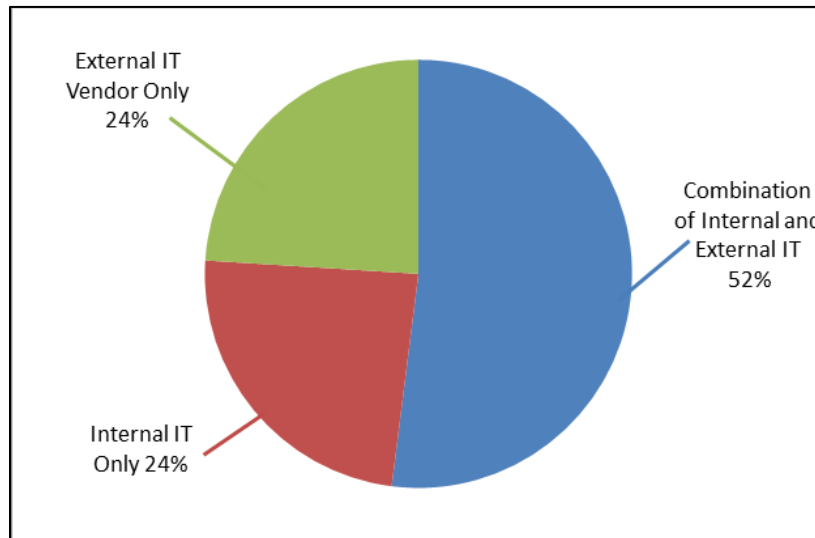
**CHART 2**



### IT SYSTEMS TO PROCESS CLAIMS DATA

We asked ACOs about their way in which they process the Claims and Claims Line Feed (CCLF) data from CMS. Chart 3 shows that about one quarter use internal resources for the claims data, about one quarter use exclusively external sources and about half use a combination.

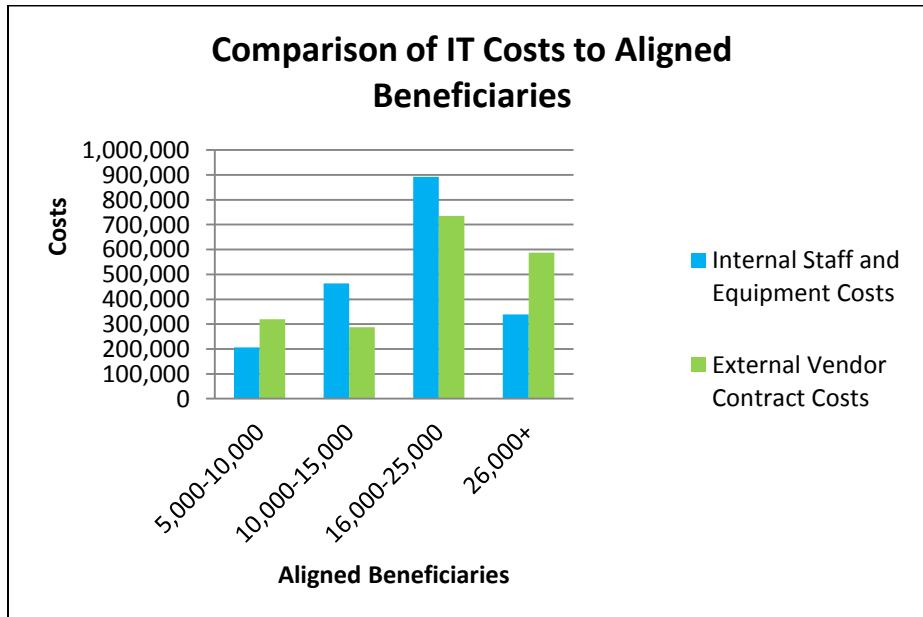
**CHART 3**



### ACO TOTAL COSTS FOR IT SYSTEMS

The survey also asked about the total costs each ACO had for their Internal and External IT functions. Chart 4 shows the IT costs by category and size of the ACO. When it comes to total IT functions, almost all ACOs had both Internal and External costs. Said another way, less than 15% of the ACOs exclusively performed their IT functions internally and less than 10% reported using external vendors exclusively. The overall average for ACO internal costs was \$413,000 and \$443,000 for external vendor costs.

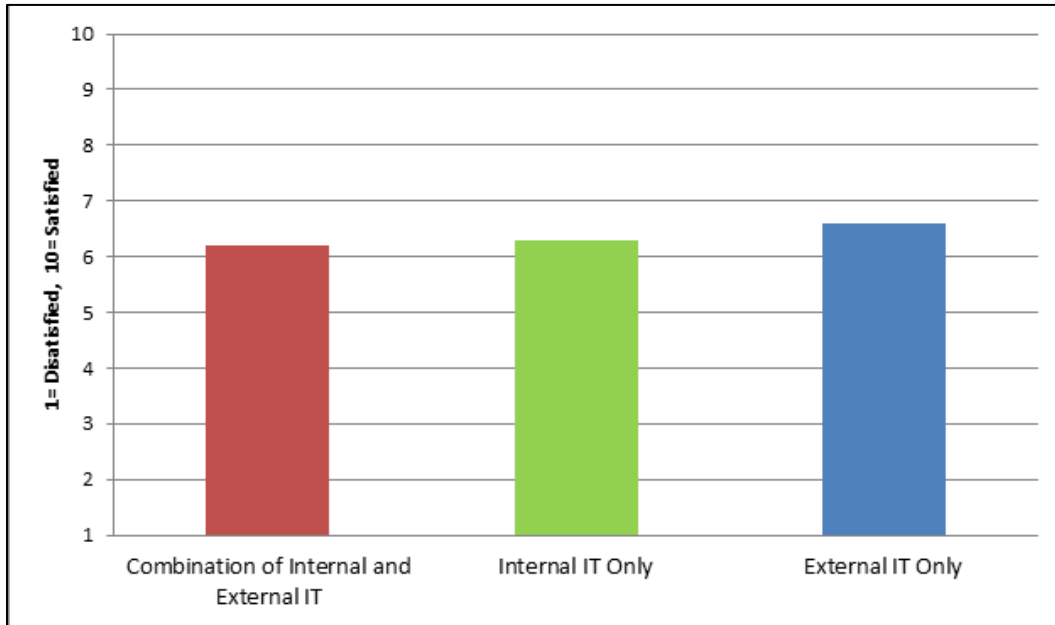
**CHART 4**



### SATISFACTION WITH IT SERVICES

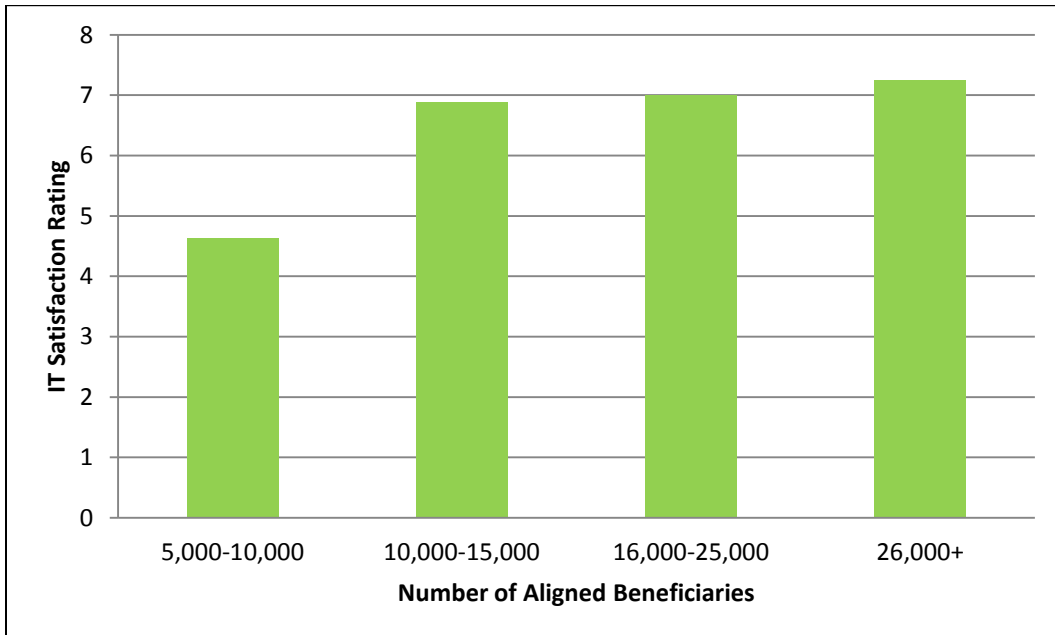
The survey asked each ACO on a 10 point scale how satisfied overall they were with their IT services. The overall satisfaction score was 6.4 on a scale of 10. There was no statistical difference between those who processed their CCLF data.

**CHART 5**



Finally, there was a difference in satisfaction scores by size of ACO, with the smaller ACOs less satisfied. No reason was determined for this difference.

**CHART 6**



## CONCLUSIONS

The NAACOS survey provides a first look at the startup costs for the 2012 MSSP ACOs and finds them to be higher than estimated by CMS but considerably lower than many other estimates. The average first 12 months start-up cost per ACO of \$2,000,000 is strong statements about the high level of risk ACOs are willing to take in order to transform care in their community. Since savings are slow to flow as result of data and complex reconciliation process, ACOs will have to assume the risk of almost a second full year of operations until their cash flow can be replenished with shared savings from CMS (if any). This means that the average ACO will risk \$3.5 million plus any feasibility and pre-application costs until it can see any cash flow relief from possible savings. We did not obtain detail on the source of funds but know that about 1/3 of the ACOs have assumed legal debt to finance their startup. The two cohorts of 2012 ACOs are predicting very mixed financial results from their first year of operation, with the majority predicting break even and the aggregate program losses to offset almost equally the gains. The survey also examined Information Technology practices and costs in the ACOs and found that most ACOs use a mix of internal and external resources and spend about equal amount for each. A small minority of ACOs either conduct their IT exclusively with internal or external resources. The average ACO will spend a total of \$850,000 in the first 12 months of operation. Smaller ACO's were less satisfied with their IT services.

January 17, 2014

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## Appendix A

1. Under which classification does your ACO fall?
2. About how many different legal entities comprise your ACO governance by category?
3. Approximately how many aligned beneficiaries did you have in your first year of operation?
4. What is your estimate of the TOTAL first year costs to launch your ACO? Please include internal administrative and clinical improvement staff as well as contract costs.
5. Have you acquired debt to a bank/loc, owners notes or CMS Advanced Payment recoupment in order to launch your ACO?
6. What do you predict will be your first year financial outcome? Enter zero (0) if break even.
7. What is your best estimate of all IT costs for your first year of operation?
8. How do you process CMS CCLF data?
9. How satisfied are you with your IT services?
10. What is the most vexing or frustrating problem you have encountered in the first year of implementing your ACO?
11. If you had trouble answering any of the questions, please provide explanations that would help us understand your situation.