JTaylor™

Healthcare Consulting | Valuation

Partner Insight Series:

ACO Primary Care Flex Model

May 15, 2024

www.JTaylor.com

ACO Primary Care Flex Model

Introduction

Accountable Care Organizations (ACOs) were created to address various healthcare challenges such as physician shortages and the increase in demand for care. ACOs are groups of hospitals, physicians, and other health care providers that, together, provide coordinated high-quality care to Medicare patients. Traditional ACO models have been limited in their ability to support primary care, which is an essential component of the healthcare system. Primary care providers are typically the first point of contact for patients seeking medical care. In 2021, the Centers for Medicare & Medicaid Services (CMS) announced a strategic goal to promote value-based, person-centered care. The five strategic objectives connected to this goal include driving accountable care, advancing health equity, supporting innovation, addressing affordability, and partnering to achieve system transformation. Since then, CMS has worked to implement opportunities to partner with physicians to achieve these goals. The ACO Primary Care Flex Model was created in response to these objectives.

Primary Care

According to the Health Resources and Services Administration (HRSA), the primary care workforce in the United States includes around 270,000 physicians, whose main role is to direct patient care. Greater access to primary care has shown improvement in treatment of chronic conditions and increased life expectancy since it is the first line of defense in maintaining patient health. Accessibility to primary care allows patients to focus on preventive care, treat medical conditions earlier, and address chronic issues, so that they do not grow into more serious problems. Because of this, the CMS Innovation Center established a goal of having every Medicare beneficiary in an accountable care relationship by 2030.

The adequacy of primary care physicians (PCP) varies by location, as urban areas generally have more primary care physicians per capita than rural areas. According to the National Center for Health Workforce Analysis, 65.5% of designated primary care Health Professional Shortage Areas (HPSA) are in rural areas. The problem is only expected to worsen. One of the most significant causes of the projected shortage of primary care physicians going forward is the age of current PCPs. According to the Association of American Medical Colleges (AAMC), 42% of the physician workforce is age 55 or older, which could significantly reduce the supply of physicians as these doctors retire. AAMC projects a shortfall of about 20,000 to 40,000 primary care physicians by 2036. The government continues to seek out alternative approaches in an effort to combat this issue.

What is the ACO PC Flex Model?

CMS recently announced a new initiative targeting improved access to high-quality primary care for underserved Medicare populations. The ACO Primary Care (PC) Flex Model is a five-year voluntary model designed to address primary care health disparities. CMS plans to select approximately 130 ACOs to participate in the model. Organizations interested in participating must first apply to the Medicare Shared Savings Program (MSSP) as a new or renewing ACO,

then apply to the ACO PC Flex Model. The application period will open in May 2024 and run through June (MSSP application) and August (ACO PC Flex Model application). The ACO PC Flex Model will focus on investing in low revenue ACOs, which are typically smaller and face greater financial challenges than their larger counterparts. Low-revenue ACOs are defined as ACOs whose Medicare Parts A and B fee-for service (FFS) revenue of its ACO participants is less than 35% of the Medicare Parts A and B FFS expenses for the ACO's beneficiaries for the most recent twelve-month period. Historically, lower revenue ACOs have performed better in the MSSP. These providers typically show stronger potential to improve the quality and efficiency of care provided to patients, resulting in greater cost savings.

The new ACO PC Flex Model has a payment structure consisting of a one-time advanced shared savings payment of $250,000 and monthly prospective primary care payments (PPCPs) to ACOs, which will in turn distribute payments to the participating primary care providers. This payment system will provide ACOs with financial resources required to cover the up-front costs associated with starting an ACO. The new model is expected to result in increased primary care funding for most participants, and will promote competition by providing smaller, independent primary practices a pathway to have adequate financial resources to continue serving Medicare patients while providing an alternative to joining a larger physician group or health system. According to CMS Administrator Chiquita Brooks-LaSure, "People whose primary care provider participates in the ACO Primary Care Flex Model may get care in more convenient ways, like care based at home or through virtual means, extra help managing chronic diseases, and more preventative health services to keep them healthy."

Competition

As more and more physicians are selling their private practices, we are seeing a significant shift in the market that is stifling competition. According to the American Medical Association (AMA), the number of physicians in private practice declined from 60.1% to 46.7% in 2022. Physicians who currently operate their own practices are selling due in large part to the need for leverage in negotiation with payers for higher reimbursement rates. Other factors include regulatory requirements, administrative burden, and the overall cost of owning their own practice. Additionally, many physicians who are entering the workforce are forgoing private-practice ownership altogether and immediately working for large hospital corporations. Consequently, the older physicians then have no succession plan, and are forced to sell.

CMS recognizes the value of competition and is hopeful that the ACO Primary Care Flex Model will provide an avenue for smaller, independent practices to gain access to a revenue stream that makes it more viable for them to remain independent. The ACO PC Flex Model will support competition in healthcare, as smaller ACOs participating in the program will have access to more resources and a more predictable revenue stream. In addition, the prospective payment system shifts reimbursement away from the fee-for-service system and incentivizes innovative approaches to care in a proactive, team-based manner that leads to greater quality and reduced overall cost of care.

Final Thoughts

The ACO Primary Care Flex Model attempts to continue shifting healthcare away from the fee-for-service model in hopes of creating more affordable, accessible, and effective care. In moving

from visit-based payment, the goal is to improve the predictability and amount of primary care funding for ACOs that are historically lower in revenue. This will allow providers to meet the needs of Medicare patients more efficiently and thus improve access to high-quality primary care. The model also encourages private-practice ownership, as the funding available through this program alleviates some of the up-front financial burden that drives physicians away from participating in ACO programs. This model aligns with CMS' vision of improving healthcare through partnering with providers.

Haley Adams, CVA
Partner – Consulting Services
817.546.7039 | hadams@jtaylor.com

Haley leads the firm's physician advisory service line where she serves clients in the areas of compensation valuation, compensation plan design, provider practice valuations, physician transaction related due diligence and general consulting related to hospital / physician arrangements. Her clients include large multi-hospital health systems, rural hospitals, critical access hospitals, physician-owned hospitals, and physician practices. Haley is passionate about helping her clients recruit and retain talented providers by ensuring provider compensation is competitive and compliant with applicable regulations such as the Stark Law and Anti-Kickback Statue.

Resources:

- American Association of Medical Colleges. (21 March 2024.) *New AAMC Report Shows Continuing Projected Physician Shortage.* *https://www.aamc.org/news/press-releases/new-aamc-report-shows-continuing-projected-physician-shortage#:~:text=Physicians%20aged%2065%20or%20older,if%20they%20have%20not%20already*
- American Association of Medical Colleges. (March 2024.) *The Complexities of Physician Supply and Demand: Projections from 2021 to 2036.* https://www.aamc.org/media/75236/download?attachment
- American Medical Association. (29 August 2023.) *3 top reasons why doctors are selling their practices to hospitals.* https://www.ama-assn.org/print/pdf/node/107661
- Center for Medicare and Medicaid Services. (May 2024.) *ACO Primary Care Flex Model: Model Overview Factsheet.* https://www.cms.gov/files/document/aco-pc-flex-fs.pdf
- Center for Medicare and Medicaid Services. (10 May 2024.) *ACO Primary Care Flex Model Frequently Asked Questions.* https://www.cms.gov/priorities/innovation/innovation-models/aco-primary-care-flex-model/faqs
- Center for Medicare and Medicaid Services. (19 March 2024.) *Biden-Harris Administration Announces New Initiative to Increase Investments in Person-Centered Primary Care.* www.cms.gov/newsroom/press-releases/biden-harris-administration-announces-new-initiative-increase-investments-person-centered-primary
- Center for Medicare and Medicaid Services. *CMS Innovation Center Strategy Refresh At-A-Glance.* https://www.cms.gov/priorities/innovation/media/document/strategic-direction-glance
- Center for Medicare and Medicaid Services. (November 2022.) *Person-Centered Innovation – An Update on the Implementation of the CMS Innovation Center's Strategy.* https://www.cms.gov/priorities/innovation/data-and-reports/2022/cmmi-strategy-refresh-imp-report
- HRSA Health Workforce. (November 2023.) *State of the Primary Care Workforce, 2023.* https://bhw.hrsa.gov/sites/default/files/bureau-health-workforce/data-research/state-of-primary-care-workforce-2023.pdf