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January 27, 2009

Contact: Deborah Kimbell, Dartmouth  
(802) 236-6934  
Brynn Barnett, Brookings  
(202) 797-6140

## Shared Savings: Payment Reform that Promotes High-Quality Care and Reduces Medicare Spending Growth

Washington, DC – Medicare could save money and improve health care quality by providing financial incentives to providers for coordinating patient care through a shared savings program, according to a new paper from the Dartmouth Institute for Health Policy and Clinical Practice and the Engelberg Center for Health Care Reform at the Brookings Institution.

Research by Elliott Fisher, Mark McClellan, and colleagues demonstrates that such a program, implemented with the establishment of Accountable Care Organizations (ACOs), would benefit patients, payers, and providers. The ACO shared savings concept would eliminate waste, reduce overuse and misuse of care, and support the development of health systems that can deliver high quality, affordable care, they write in a January 27 *Health Affairs* Web Exclusive.

“Our current payment system rewards overuse and often penalizes those who improve care. The ACO shared-savings model supports and rewards those who improve care and lower costs,” said Dr. Fisher.

ACOs can take diverse forms – local networks of physicians, hospitals, and their affiliated physicians or fully-integrated health systems. The key ingredient is their willingness to become responsible for improving the quality and controlling the costs of care for the patients they serve.

Under the proposal offered by Fisher and McClellan, a voluntary and incremental program would be put in place to foster widespread development of ACOs. Medicare would establish spending targets for each ACO that reflected the predicted costs for their patients. ACOs that met quality standards and held costs below the spending targets would receive bonus payments including a portion of the savings achieved.

Dr. McClellan, former head of the Centers for Medicare & Medicaid Services and the U.S. Food and Drug Administration, sees the ACO approach as critical to long term reform of the delivery system. “Every reform step being considered right now – such as health IT payments, medical homes, and performance measurement – could and should be aligned to speed the development of accountable care,” said Dr. McClellan. “Linking new investments in health care to demonstrated improvements in health and medical costs creates a win-win: providers and patients can get more support for real improvements in care, and we all benefit from lower costs.”

Based on an analysis of 2001-2005 Medicare data, the authors show that most physicians and hospitals could form ACOs by building on their current practice patterns. The analysis also shows that, with only modest changes in practice, Medicare would have seen real savings overall and successful participating providers would have received roughly \$300-400 per patient per year (based on a Medicare patient population of at least 5,000 per ACO). The Congressional Budget Office recently concluded that a proposal similar to the one presented in this paper could

reduce Medicare costs; linking it to other reforms to promote coordinated care could allow larger participation and savings sooner.

While other savings proposals such as cuts in payment rates, bundled payments, and capitated health plans have faced opposition, the authors write, “a voluntary payment reform designed around ACOs and shared savings offers an incremental and promising middle ground that could meet the interests of providers, beneficiaries, and taxpayers better than the competing alternatives.”

To further explore the ACO model, Dartmouth and the Engelberg Center at Brookings will host a joint conference on March 11. A series of panels will discuss the technical details of implementing the model and how it can impact the future of payment reform.

Elliott S. Fisher is Director of the Center for Health Policy Research at the Dartmouth Institute for Health Policy and Clinical Practice. Mark B. McClellan is the Director of the Engelberg Center for Health Care Reform and Leonard D. Schaeffer Chair for Health Policy Studies at the Brookings Institution. Co-authors are John Bertko, Steven M. Lieberman, and Julie L. Lee of the Engelberg Center at Brookings; Julie L. Lewis of the Dartmouth Institute for Health Policy and Clinical Practice; and Jonathan S. Skinner of Dartmouth College.

The Engelberg Center for Health Care Reform at the Brookings Institution is committed to producing innovative solutions that will drive reform of our nation’s health care system. The Center’s mission is to develop data-driven, practical policy solutions that promote broad access to high-quality, affordable, and innovative care in the United States. The Center conducts research, makes policy recommendations, and facilitates the development of new consensus around key issues and provides technical support to implement and evaluate new solutions in collaboration with a broad range of stakeholders. Learn more about the Engelberg Center’s priorities and projects at [www.brookings.edu/healthreform](http://www.brookings.edu/healthreform).

The Dartmouth Institute for Health Policy and Clinical Practice is a dynamic force within Dartmouth College, dedicated to improving health care through education, research, policy reform, leadership improvement, and communication with patients and the public. More information is at <http://tdi.dartmouth.edu>

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