characteristics of successful ‘super ACOs’

Although the number of acute care hospital mergers declined from 94 transactions in 2012 to 79 in 2014, the development of new regional partnerships, collaborations, and joint ventures that can accomplish some of the same goals as mergers is accelerating. The most important of these new alliances can be described as “super” accountable care organizations (Super ACOs)—i.e., collaborations involving two or more health systems for the purpose of jointly managing population health over an expanded geography.

We named these new alliances Super ACOs in 2013, when we first wrote about them in HFM.

At the time, there were only a handful, involving about 30 health systems and fewer than 100 hospitals. Two years later, we have identified more than 30 Super ACOs nationally, comprising more than 150 health systems and almost 800 hospitals.

The development of Super ACOs has occurred in all regions, from New England to the West Coast, but has been strongest in the Midwest, where many of the premier players in the region are involved in various alliances. Examples include BJC HealthCare in St. Louis; Saint Luke’s Health System in Kansas City, Mo.; the Cleveland Clinic and Mercy Health Partners in Ohio (in separate Super ACOs); and, in Wisconsin, Aurora Health Care and Froedert and the Medical College of Wisconsin (also in separate Super ACOs). Super ACO development has been particularly strong in Ohio and Wisconsin, with each state having two major alliances covering most of the state’s hospital beds and many of its practicing physicians.

To understand how Super ACOs are organized, the initiatives they are pursuing, and the outcomes they are experiencing, we conducted a series of phone or in-person interviews in recent months with leaders of 11 Super ACOs that are located in California, Georgia, Maryland, Michigan, New Hampshire, Ohio, Pennsylvania, and Wisconsin. Here are some key insights we took away from those interviews.

Characteristics of Super ACOs

Super ACOs are not aimed at shoring up financially challenged healthcare organizations. Instead, most were launched by market leaders committed to expanding their reach. Super ACOs do not appear to be substitutes for hospital mergers, given that many have formed in markets or regions where substantial consolidation is

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occurring or already has taken place. In fact, many of the major participants in Super ACOs already are highly consolidated. Super ACOs appear to provide a path for large health systems to come together to create even larger systems focused on specific initiatives and activities. One Super ACO leader described the structures as horizontal organizations—partnerships organized around processes rather than hierarchies.

Most Super ACOs are organized as for-profit LLCs with equal ownership. Some have gone through one or two expansion waves, and in these cases, late joiners may have less ownership than founding systems.

The overarching goals of Super ACOs vary, although most would agree with the general aim expressed by Health Innovations Ohio of piloting and establishing new models of integrated care to reduce fragmentation while delivering improved quality, patient experience, and cost. Other Super ACOs have more specific goals, including accessing patients throughout their combined service areas with new, competitively priced health plan options.

The pace of development also varies significantly. Some have moved quickly to pursue joint initiatives, while others have remained in the planning stages. (The latter group is reminiscent of 1990s-era strategic alliances, which hospitals often joined to keep tabs on each other and avoid being excluded from joint initiatives.)

The more activist and successful Super ACOs appear to share a number of common characteristics.

**Minimal market overlap.** Most Super ACOs picked participants that have complementary market positions in separate geographies. Competition in overlapping markets makes collaboration difficult.

**Small number of participants.** A maxim in the M&A world is that the fewer the participants, the greater the probability of success. Likewise, minimizing complexity is important in any Super ACO launch. The BayHealth ACO in San Francisco, for example, started as an alliance between John Muir Health (also an integrated system, including a hospital system, an integrated medical group, and a specialty independent physician association); the University of California, San Francisco (UCSF) Medical Center and its faculty departments; Dignity Health; and Hill Physicians. When these organizations first came together to form an ACO serving the entire Bay Area in 2010, the complexity of the planning process (plus some overlapping markets) made for difficult decision-making. As a result, Muir and UCSF decided to launch the BayHealth ACO...
themselves, and plan to add other partners once the initiative gains traction.

We heard this “Keep it simple” theme from several of the Super ACO leaders we interviewed. On the other hand, a strong leader can sometimes have success with a larger number of members. For example, Integrated Health Network of Wisconsin (IHN), which now includes eight health systems, has managed complexity and grown into a broad provider network capable of managing a large, geographically dispersed patient population.

**Experience in accountable care and/or risk contracting.** Most participants in Super ACOs have some experience with accountable care or risk contracting. Such experience is helpful, given that value-based contracting is central to population health management. Joining a Super ACO is not the best way for health systems to get educated about the basics of value-based care. Building momentum is difficult when participants have very different skill sets and experience.

**Commitment to engaging physicians.** Several successful Super ACOs are building jointly sponsored clinically integrated networks (CINs) that give physicians considerable control over the direction of the Super ACO’s population health management efforts. IHN is developing a statewide CIN that features common metrics and shared-savings contracts with a number of health plans, including agreements with Humana and UnitedHealthcare. Together Health Network, a joint venture of Trinity Health and Ascension Health, is uniting two Michigan-based CINs around a common set of care management initiatives, risk contracts (including employee health plans and a commercial contract with Blue Cross Blue Shield of Michigan), and a product strategy. Together Health leaders believe physician leadership will be critical to the Super ACO’s success.

**Initial focus on market-facing initiatives.** As we wrote in 2013, market-facing initiatives are among the most powerful initiatives Super ACOs can pursue. The possibilities include:

- Joint employee health plan development
- Risk-sharing contracts and/or “private label” products with health plans
- Joint-venture Medicare Advantage plans
- Risk-sharing contracts with self-insured employers

By attracting outside funding, initiatives such as these create clear “wins” for a Super ACO, convincing people inside and outside the organization that it can create real value.

**Up-front financial commitments.** Most of the Super ACOs we studied expect partners to contribute capital to the effort. However, there is a big difference between a token commitment (for example, $1 million to $2 million) and a material commitment ($15 million to $20 million).

Material commitments command attention, helping to avoid one of the biggest traps of Super ACO development: the tendency of participants to emphasize internal efforts over ACO initiatives. The BayHealth ACO in San Francisco was capitalized by its sponsors to obtain a limited Knox Keene license, allowing it to take full risk in California. Such a significant capital commitment ensures the Super ACO’s owners will be highly motivated to help it succeed.

**A Winding Road**

In the early stages of their evolution, Super ACOs face many questions about what initiatives they should take on, how they can build value, and how they will develop. How they ultimately address these questions will have a profound and lasting impact on the shape of our nation’s healthcare system.

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