



# Community Hospitals Thrive Under ACO Model

## Introduction

Caravan Health currently supports 164 community hospitals in Accountable Care Organizations, ranging from \$10 million to \$1 billion in annual revenue. A common fear of hospital leadership is that ACO participation will result in fewer inpatient stays, lower revenue and lower profitability. While Caravan Health supported ACOs have reduced hospitalizations substantially, accountable care also drives more local utilization and market share, outweighing the negative effects, which results in overall improved financial health. Cost report data of Caravan Health supported 2014 and 2015 ACO hospital participants was analyzed to determine the impact of ACO participation on gross inpatient revenue, gross outpatient revenue and net patient revenue.

Assuming ACO adopters might be different from other hospitals, cost report data for 2016 participants who reported on the calendar year was used as a control group (n=40) to compare 2014 (n=5) and 2015 (n=18) revenue growth for similar hospitals prior to their entering the program. Average revenue increases and average growth rates between the groups were compared, indicating the percentage of hospitals who had suffered a loss of net patient revenue in each group. Although the data is preliminary, it supports anecdotal information and is consistent across all metrics. Also, as the program became more robust, an increase in positive effects was seen for the 2015 starts (defined as new ACO participants) in comparison to 2014 starts. Preliminary 2016 data (not shown) continues to support these observed trends.

## Results

ACO participants were less likely to suffer a net loss in patient revenue compared to the control group. Comparing 2015 revenue to 2013 revenue, none of the 2014 ACOs saw a decline in net revenue compared to 8% of controls. Only 3 out of 18 2015 ACO starts saw a decline in net revenue, compared to 10 out of 40 controls, as shown in Table 1.

TABLE 1

ACO Hospital Impact	2014 Starts (2015 vs. 2013)		2015 Starts (2015 vs. 2014)	
	2014 Controls (2015 vs. 2013)	2015 Controls (2015 vs. 2014)	2014 Controls (2015 vs. 2013)	2015 Controls (2015 vs. 2014)
<b>% Hospitals with Net Loss Compared to Baseline Year</b>	<b>0%</b>	<b>8%</b>	<b>11%</b>	<b>25%</b>

2014 starts saw a gross inpatient revenue increase of 7% vs. a 9% increase in the controls. Outpatient revenue increased by 1%, but net patient revenue increased 17% vs. 11% for the control group as shown in Table 2. This may be a result of ACO efforts to improve coding and documentation needed for quality reporting, as well as a shift to more profitable outpatient services.

TABLE 2

ACO Hospital Impact	2014 Starts (2015 vs. 2013)	2014 Controls (2015 vs. 2013)	2015 Starts (2015 vs. 2014)	2015 Controls (2015 vs. 2014)
<b>Average Gross Inpatient % Increase</b>	7%	9%	27%	10%
<b>Average Gross Outpatient % Increase</b>	17%	16%	20%	6%
<b>Average Net % Increase</b>	17%	11%	28%	6%

Community hospitals tend to have revenue that ranges from a 50/50 split of inpatient and outpatient to 20% inpatient and 80% outpatient. The ACOs' focus on prevention, wellness and chronic care management drives increased utilization of outpatient services and decreased occurrence of preventable inpatient stays. Corresponding to higher percentage increases of hospital revenue, higher average dollar increases we seen as well, as shown in Table 3. This data may be difficult to interpret, given that the control hospitals were not the same size as the ACO hospitals. Even so, the increased revenue corresponds with the percentage increases found in Table 2.

TABLE 3

ACO Hospital Impact	2014 Starts (2015 vs. 2013)	2014 Controls (2015 vs. 2013)	2015 Starts (2015 vs. 2014)	2015 Controls (2015 vs. 2014)
<b>Average Gross Inpatient \$ Increase</b>	\$3,105,291	\$692,457	\$2,660,407	\$673,880
<b>Average Gross Outpatient \$ Increase</b>	\$18,347,360	\$7,590,309	\$21,247,675	\$3,581,609
<b>Average Net \$ Increase</b>	\$12,465,542	\$3,113,099	\$8,517,275	\$3,113,099

### Discussion and Limitations

The control group for this analysis, Caravan Health supported 2016 ACO starts, were applicants for the ACO Investment Model program which precluded hospitals greater than 100 beds. This is a similar sized group as the Caravan Health supported 2014 ACO applicants, but the Caravan Health supported 2015 applicants included many larger hospitals that are not easily compared to the 2016 control group. Nevertheless, there is no evidence of declining revenue in any of the ACO participant years, and there is substantial evidence of increased revenue and growth. This supports the observations and anecdotal reports received from hospital CEOs and CFOs, and may contribute to the low program attrition rate, which is significantly lower than the national ACO average attrition rate.

