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Hill Physicians Medical Group: A Market-Driven Approach to Accountable Care for Commercially Insured Patients

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Abstract Hill Physicians Medical Group—Northern California's largest independent practice association (IPA)—joined local hospitals and commercial health plans in forming four separate accountable care organizations (ACOs) aimed at improving quality, reducing fragmentation, and lowering the cost of care as a means of retaining business. This profile focuses on the first and largest ACO, which was established in January 2010 to reduce premiums for 41,000 public sector employees and retirees covered by the California Public Employees' Retirement System (CalPERS). The ACO has decreased hospital use and per-member per-month spending in its first three years, resulting in \$59 million in savings to CalPERS or \$480 per member per year. Leaders credit success to developing a mutual understanding of one another's strengths and challenges, which was a prerequisite for improving care coordination, increasing patient education, and reducing unwarranted variations in care.

A Note on This Series

This [case study series](#), which follows up on previous Commonwealth Fund research examining the attributes of high-performing organized delivery systems,¹ describes how three diverse organizations are creating accountable care systems. It focuses on how each organization is building on experience to develop a system for population health management.

IMPETUS FOR ACO FORMATION AND DEVELOPMENT

Hill Physicians—Northern California's largest independent practice association (IPA)—operates in a highly consolidated market that includes Kaiser Permanente, an integrated delivery system with a 40 percent market share in Northern California.² To compete more effectively with Kaiser and avoid losing a very large customer base in the Sacramento market—namely, the California Public Employees' Retirement System (CalPERS)—Hill Physicians joined with Dignity Health, a large Catholic hospital system, and Blue Shield of California, a state-wide nonprofit health insurer, to form an ACO for 41,000 public sector employees and retirees covered by CalPERS and enrolled in Blue Shield's health plan in

Sacramento. The ACO partners aimed to collectively reduce spending and bring Blue Shield's premiums for CalPERS members below those of Kaiser's.

To achieve this goal, the partners set a target of reducing spending by \$15.5 million in the first year using several strategies: data analysis and physician education to reduce variation in and overuse of health care services; coordination of care to improve transitions between inpatient and outpatient settings and reduce hospital readmissions; chronic care management, patient education, and use of palliative care and home visits to improve outcomes; reducing drug costs through patient education and purchasing contracts; and the exchange of information among partners to increase efficiency and improve quality of care.

BUILDING A SYSTEM FOR POPULATION HEALTH MANAGEMENT

Care redesign. As a result of its long-standing involvement in capitated managed care agreements, Hill Physicians has worked over many years with its physician–members to enhance the quality of primary care services.³ For instance, Hill Physicians shares performance data on individual physician

Exhibit 1. At-A-Glance: Hill Physicians Medical Group's Commercial ACO Contracts

Entity type	An independent practice association (IPA) of physicians in private practice ^a
Service area	10-county area in Northern California, including San Francisco, the East Bay, San Joaquin, and Sacramento
ACO program	Four commercial ACOs
ACO partners (starting year)	2010: Hill Physicians, Blue Shield of California, and Dignity Health, the largest hospital system in California. This ACO serves 41,000 CalPERS beneficiaries in the Sacramento, Calif., market. 2011: Hill Physicians, Blue Shield of California, University of California-San Francisco Medical Center, and Dignity Health. This ACO serves 6,000 employees of the city and county of San Francisco. 2012: Hill Physicians, Health Net, and Dignity Health. This ACO serves 10,000 University of California employees. 2014: Hill Physicians, Dignity Health, and Blue Shield. This ACO serves almost 15,000 residents of San Joaquin County covered by Blue Shield HMO, including more than 10,000 CalPERS beneficiaries.
ACO patients	About 72,000 patients are served across Hill Physicians' four active ACO contracts, out of approximately 300,000 total Hill Physicians patients
Physicians	The Hill Physicians network has more than 3,800 primary care physicians and specialists, of whom more than 600 practice in the Sacramento area
Hospitals	Hill Physicians maintains relationships with 38 hospitals
EHR systems	Hill Physicians offers financial incentives and technical support to its physician practices to encourage the use of electronic health records. While most practices now use EHRs, adoption is not yet universal and many practices use systems other than the medical group's preferred vendor, NextGen.
Financial arrangement	In the CalPERS ACO, risk and savings are shared among the medical group, hospital system, and the health plan, commensurate with each partner's ability to bear risk and influence spending
Governance	A governing board made up of four to eight senior executives, with at least one representative from each of the partners

^a Hill Physicians Medical Group was organized and is managed by Pri-Med Management Consulting Services. On August 29, 2014, the founding owners of Pri-Med, Steve McDermott and Darryl Cardoza, sold their ownership to a group of new and existing investors, according to a news report. Under the new ownership arrangement, Dignity Health and Hill Physicians each own one-third of Pri-Med. Two insurers, Anthem Blue Cross of California and Blue Shield of California, each own 50 percent of the remaining one-third stake in the company. See: C. Rauber, "Hill Physicians' Founders Steve McDermott, Darryl Cardoza Cash Out," *San Francisco Business Times*, Sept. 3, 2014, <http://www.bizjournals.com/sanfrancisco/blog/2014/09/hill-physicians-founders-sell-stakes.html>.

practices with all the physicians in its network to spur quality improvement. In 2012, Hill Physicians adopted the patient-centered medical home model in several primary care practices in the Sacramento area, resulting in improved quality of care for patients with chronic diseases. This strong foundation of primary care delivery allowed the IPA to focus its ACO activities on enhancing other aspects of care management and delivery.

For the Sacramento ACO, Hill Physicians partnered with Dignity Health and Blue Shield to establish a patient care transition team composed of hospitalists, inpatient nurses, primary care physicians, inpatient and outpatient care managers, and social workers to determine best practices for discharge planning and follow-up care. Their work led to a standard hospital discharge practice that calls for connecting inpatient and outpatient care managers, scheduling follow-up primary care appointments, and enhancing the education patients receive prior to discharge. The partners also forged stronger links with skilled nursing facilities and in-home management services, among other ancillary providers, to improve care transitions. For example, Hill Physicians deployed physicians to Sacramento-area skilled nursing facilities to monitor patients and intervene when necessary to avoid admissions.

Care management for patients with costly, complex needs. Hill Physicians, Dignity Health, and Blue Shield focused their attention on improving care for 5,000 patients with chronic illness who accounted for 75 percent of overall costs. They instituted an integrated referral process to ensure that patients in need of case management services—including those with congestive heart failure, diabetes, and cancer—receive services from the most appropriate of the three partners, thus avoiding duplication in services. Hill Physicians also created virtual care teams composed of a pharmacist, social worker, health coach, and nurse case manager to help primary care physicians manage the complex clinical and psychosocial needs of patients with chronic conditions. An analysis found that patients supported by a virtual care team experienced lower hospital use compared to those without such assistance.⁴

Integrated data and analytics. Blue Shield is working to create a comprehensive data repository to allow all its ACO partners, including Hill Physicians, to review financial, quality, and utilization management metrics. Until that occurs, the IPA is combining its own claims data on professional and pharmacy services with facility data supplied by Dignity Health for shared ACO patients to more accurately identify high-cost patients in need of case management services. Hill Physicians had previously used predictive algorithms for this purpose, but lacked inpatient data. The IPA also relies on a twice-daily review of hospital census data to identify and intervene with their ACO patients hospitalized at Dignity facilities. Once stabilized and when appropriate, patients admitted at non-ACO hospitals are transferred to a Dignity hospital.

“The kinds of things that we’re doing in the [ACO] settings are not rocket science. They’re not radical new technologies or ways of taking care of members. They’re really the basic blocking and tackling of following up, closing gaps in care, planning for discharges, avoiding unnecessary emergency room visits, and doing effective disease management...”

David Joyner, COO, Hill Physicians

To further improve care, the IPA uses its data to identify patterns of unnecessarily complex care, such as invasive hysterectomies or specialty care referrals that were inconsistent with best practices. Where such problems are identified, Hill Physicians staff and the IPA’s regional medical directors engage in a coaching relationship with physicians to help them develop corrective action plans.

To support these data analytics capabilities, Hill Physicians is making a four-year, \$60 million investment in information technology. While adoption of EHRs is under way, the majority of the IPA's physicians use an online portal, RelayHealth, to complete electronic prescriptions and referrals, view laboratory test results, and engage in secure electronic messaging with patients.

Supportive payment model and financial incentives. The Sacramento ACO partners convened a cost-of-health-care team to oversee development of their new financial agreement, which is a shared-risk model layered on top of existing reimbursement arrangements. The team included staff from the finance, clinical operations, analytics, marketing, legal, and contracting departments of the partner organizations. After agreeing upon a first-year savings target of \$15.5 million, the team calculated an allowable per-member per-month (PMPM) capitation budget across seven cost categories: partner hospital, out-of-area nonpartner hospital, other nonpartner hospital, professional, mental health, pharmacy, and ancillary care services. If partners spend over their budgets, risk-sharing varies across the seven cost categories, depending on the partner's size and ability to influence spending in each category.⁵ For example, Dignity Health accepted greater risk for hospital facility costs since its hospitals have the strongest influence over this spending, while Hill Physicians accepted greater risk for professional services. If total savings for the year exceeded the targeted amount, the additional savings would be shared among the three ACO partners.

Hill Physicians uses its capitation budget to pay providers on a fee-for-service basis, with base reimbursements to primary care physicians set at 85 percent of fee-for-service Medicare rates. Performance-based bonuses enable top-performing physicians to earn as much as 150 percent of Medicare rates, while average performers earn around 120 percent. In 2013, Hill Physicians paid \$45 million in performance bonuses to its physicians for meeting quality and efficiency goals, representing 9 percent of the IPA's net revenue of \$505 million.⁶

RESULTS

The Sacramento ACO reduced spending by \$20 million its first year, of which \$15.5 million was used to achieve zero growth in Blue Shield's premiums for CalPERS members. The remaining savings, nearly \$5 million, was shared among the three partners. The first-year savings resulted equally from reducing the use of services as well as the rate of increase in the unit cost of services. There was a 20 percent reduction in PMPM hospitalization costs—reflecting a 15 percent reduction in 30-day readmissions, a 15 percent reduction in inpatient days per 1,000 members (including a 50 percent decrease in inpatient stays lasting 20 days or longer), and a 12.8 percent decline in the average length of a hospital stay for ACO patients from 4.05 to 3.53 days.⁷

At the end of the Sacramento ACO's second year, premium reductions for CalPERS members totaled \$37 million, plus the ACO partners shared another \$8 million in savings for beating the premium cost target.⁸ As a result, the annualized growth in PMPM spending for the ACO population was around 3 percent—lower than increases in Blue Shield premiums statewide and less than half

“If you really want to manage care, if you really want to improve affordability, you identify the patients that are the most vulnerable, the most fragile, that require the most care. You grab on to them and you don't let go. You don't worry so much about them getting care that they might not need. You make sure that they're getting the care that they need when they need it in the setting that's most efficacious for them.”

Darryl Cardoza, CEO, Hill Physicians

the annualized growth rate in Blue Shield premiums over the previous decade. Over three years, the Sacramento ACO reduced Blue Shield premiums for CalPERS beneficiaries by \$59 million, or \$480 per member per year.⁹ According to Hill's CEO Darryl Cardoza, Blue Shield's 2014 HMO premium for CalPERS members in Sacramento is "substantially below Kaiser's—the widest gap that we've been able to create yet."

LESSONS LEARNED

Enabling factors. Each of the partners in the Sacramento ACO had a sizeable share of the same local market. This operational scale raised their attractiveness to one another, since they were already caring for many of the same patients, and to CalPERS because of the ACO's expansive care network and ability to manage large populations. In addition, Hill Physicians had a reputation in the market for emphasizing affordability and access while improving quality—goals that were aligned with those of the other partners in the ACO.

Competition from Kaiser Permanente created an incentive for all the ACO partners to collaborate in reducing premiums. Kaiser is a closed system with its own hospitals and physicians; therefore, any loss of Blue Shield health plan members to Kaiser would result in a loss of patients for Dignity Health and Hill Physicians. Moreover, CalPERS structured its benefit offerings to encourage beneficiaries to be cost conscious in choosing a health plan, which meant that the health plan offering the best perceived value—in terms of premium cost and quality—could retain members and gain new enrollees.¹⁰ In effect, these price-sensitive consumers and the market competition they fostered helped to ensure the ACO partners would realize mutual benefit if they worked together as a virtually integrated delivery system to reduce spending.

Challenges. Forming and operating the ACO required that the partners establish a common business model that ensured return on investment accrued to the party making the investment. The ACO aligned incentives among partners to avoid the adversarial characteristics common in the traditional marketplace, where insurers, medical groups and hospitals operate with conflicting incentives.

Such negotiations require trust, which develops over time. Across its many ACO ventures in California,¹¹ Blue Shield has seen that providers want to ensure the health plan will not use information on savings opportunities to bargain against them in separate fee-for-service negotiations, says Kristen Miranda, vice president of strategic partnerships and innovation for Blue Shield of California. Likewise, the health plan has needed to gain confidence that ACO provider partners are serious about helping to reduce costs. In the Sacramento ACO, consistent meetings and an understanding of their mutual dependency to preserve and gain market share led the ACO partners to become more transparent with one another. In doing so, the partners could see where each was at risk of financial losses.

Sharing clinical information has been hindered by partners' nonintegrated data systems and legal issues surrounding data ownership. The ACO's leaders also believe that a lack of effective technologies for providers to use at the point of care has limited advances in efficiency and data analytics to improve care.

Advice and insights. The ACO engaged the senior leadership of each organization, which led to middle managers' willingness "to do things differently, takes risks, and share information," says David Joyner, Hill Physicians' chief operating officer. This was critical in reaching early goals. Having a payer at the table was also important. Before that, says Joyner, "I think it was invisible to the providers that they were slowly losing market share to Kaiser. By bringing Blue Shield into the room, the

connection between price increases and what that meant for market share and membership became much more real.”

Miranda of Blue Shield recommends that those exploring similar ACO opportunities choose partners wisely. Partners need not only a strong interest in transforming health care delivery but also the capacity to do so. Conducting a readiness assessment of each organization’s governance, leadership, care management, quality management, information technology, and risk management capabilities is critical at the outset, she says. At the medical group level, Cardoza says that changing physician behavior requires that the IPA manage its network carefully. Because participating physicians see patients who are covered by several health plans, each of which is seeking to influence physician behavior, the IPA attempts to concentrate its patients so that they represent a critical mass of each participating physician’s patient panel (e.g., five or six per day) to ensure the physician’s engagement with the IPA and ACO’s programs and goals.

Next steps. The success of the Sacramento ACO led Hill Physicians to join in developing three more commercial ACOs, some involving other local partners. Together, the four ACOs cover more than one-third of Hill’s commercially insured patients. In the most recent arrangement, Hill Physicians, Dignity Health, and Blue Shield developed an ACO organized around a geographic region (i.e., San Joaquin County) rather than a discrete employer population. This venture has involved moving to a population-based payment model that more closely resembles full capitation—rather than other ACO contracts that layer shared risk and savings over existing payment arrangements. This change increases both the potential risk and reward for the ACO partners, while expanding their collective autonomy to design clinical and financial systems to lower spending and improve quality and population health.

NOTES

- ¹ T. Emswiler and L. Nichols, *Hill Physicians Medical Group: Independent Physicians Working to Improve Quality and Reduce Costs* (New York: The Commonwealth Fund, March 2009); D. McCarthy and K. Mueller, *Organizing for Higher Performance: Case Studies of Organized Delivery Systems* (New York: The Commonwealth Fund, July 2009); and D. McCarthy and S. Klein, *The Triple Aim Journey: Improving Population Health and Patients' Experience of Care, While Reducing Costs* (New York: The Commonwealth Fund, July 2010).
- ² D. McCarthy, K. Mueller, and J. Wrenn, *Kaiser Permanente: Bridging the Quality Divide with Integrated Practice, Group Accountability, and Health Information Technology* (New York: The Commonwealth Fund, June 2009).
- ³ Emswiler and Nichols, *Hill Physicians Medical Group*, 2009.
- ⁴ Hill Physicians Medical Group, *2013 Annual Report*, <http://www.hillphysicians.com/AboutUs/Pages/Annual-Report.aspx>.
- ⁵ P. Markovich, "A Global Budget Pilot Project Among Provider Partners and Blue Shield of California Led to Savings in the First Two Years," *Health Affairs*, Sept. 2012 31(9):1969–76.
- ⁶ Hill Physicians, *2013 Annual Report*.
- ⁷ Markovich, "A Global Budget," 2012; Blue Shield of California, "An Accountable Care Organization Pilot: Lessons Learned," https://www.blueshieldca.com/employer/documents/knowledge-center/features/EKH_ACO%20Lessons%20Learned%20Case%20Study.pdf.
- ⁸ Markovich, "A Global Budget," 2012.
- ⁹ Hill Physicians Medical Group, *2012 Annual Report*, <http://www.hillphysicians.com/AboutUs/Pages/Annual-Report.aspx>.
- ¹⁰ The most recent California Health Care Quality Report Card finds that both Hill Physicians and the Permanente Medical Group earned three of four stars for clinical performance and patient ratings of care in Sacramento County; see: State of California, Office of the Patient Advocate, *Medical Group Report Card, 2014 Edition*, <http://reportcard.opa.ca.gov/rc/medicalgroup-rating.aspx?county=SACRAMENTO> (accessed Aug. 15, 2014).
- ¹¹ By 2015, Blue Shield of California plans to have 20 ACOs across California. For more information on Blue Shield of California's ACO activities, see <https://www.blueshieldca.com/bsca/about-blue-shield/health-reform/our-involvement/healthcare-quality-value/aco/home.sp>.

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