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Shared Savings

Educational briefing for providers

What is a shared savings contract?

Shared savings is a risk-based payment model designed to reward providers for improving the total cost and quality of care for a defined patient population. Under shared savings, providers receive standard fee-for-service payment. If providers successfully reduce total spending below a set target and meet quality benchmarks, they can also share in the payer's savings and earn bonuses. In contracts with downside risk, providers are penalized for exceeding cost targets. Success under shared savings agreements hinges on reducing spending growth.

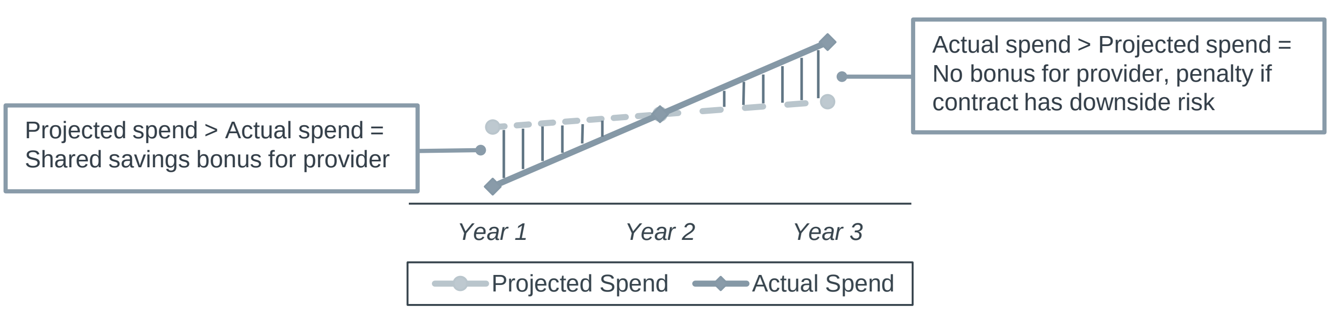
How does shared savings payment work?

1. One or more providers contract with a payer (Medicare or private insurance company) to **form an ACO** or similar legal entity that agrees to take on financial risk and manage care for a defined patient population.

2. A **risk-adjusted spending benchmark** is set for the attributed population based on historical utilization. This benchmark determines savings and losses in each contract performance year. Payers work with providers to set a target using spending levels from previous years and projected growth rates. The goal is to project what unchecked spending levels would be and then set an achievable spending limit below that projected cost level.

3. At the end of a set time period, **actual health care spending is compared to the benchmark** for attributed beneficiaries, and ACO performance is evaluated on a set of quality indicators. If the provider successfully spends below the benchmark and meets clinical performance indicators, they receive a bonus payment. In downside risk models, if the provider exceeds the benchmark, then they are also responsible for returning some of the payment.

How savings and penalties are calculated



Updated November 2018.

Source: Advisory Board research and analysis.

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Educational briefing for providers (continued)

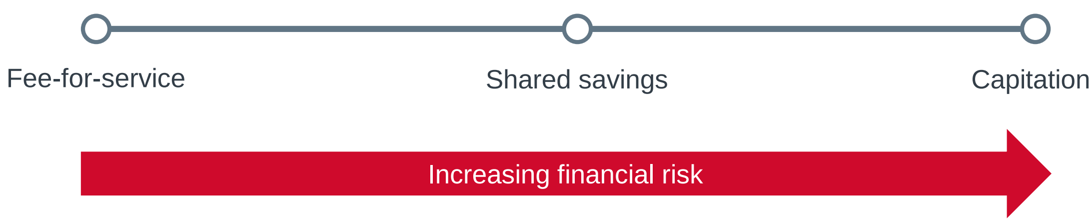
Why are shared savings contracts a key issue for medical groups?

- **Shared savings contracts hold providers accountable for reducing total cost of care:** Groups can assume two major types of financial risk under shared savings. The first type is “upside risk”—meaning that providers will receive bonuses if they successfully reduce health care spending to meet shared savings goals. The second type is “downside risk”—providers in these contracts will also share in any potential losses with payers.

- **Ambulatory providers are attractive partners for inclusion in shared savings contracts:** Shared savings contracts incentivize reduction of unnecessary and costly utilization. As a result, hospitals must look to their ambulatory partners to avoid downstream spending. As higher-quality, lower-cost providers, independent groups are well-positioned to succeed in shared savings, giving them greater leverage in their relationships with hospitals.

- **Shared savings is a potential revenue opportunity for groups transitioning to value-based care:** Shared savings is often viewed as a middle ground between the current fee-for-service model and full risk of capitation. Groups who can successfully and consistently reduce total spending can make significant money under shared savings contracts.

Continuum of risk-based payment models



Additional Advisory Board research and support

To learn more about shared savings and crafting your group’s risk strategy, read our research report: [Medicare Risk Strategy: ACO programs, Medicare Advantage, and the future of risk-based payment.]

You can also contact your group’s Dedicated Advisor or email pprresearch@advisory.com for more research on this topic or other strategic priorities for your group.

Source: Advisory Board research and analysis.