Children's Hospital Boston Joins the Alternative Quality Contract

Hospital and physicians agree to rate freeze for 2012

BOSTON — January 24, 2012 — Blue Cross Blue Shield of Massachusetts (BCBSMA), Children's Hospital Boston, Children's Physicians' Organization, and the Pediatric Physician Organization at Children's (PPOC) today announced an agreement to a new contract that marks the first pediatric-only hospital to sign the *Alternative Quality Contract* (*AQC*). The contract includes a 0% rate increase for 2012 and modest increases below general inflation through the remainder of the three-year contract. Introduced in 2009, the *AQC* is a modified global payment model designed to slow the growth in health care spending and improve patient care by helping physicians and hospitals redesign their care to emphasize quality and value over volume.

"The agreement with Children's Hospital Boston—the first ever pediatric-only hospital and physician group to join the *AQC*—is a significant milestone in our efforts to make health care more affordable while improving our members' care," said Andrew Dreyfus, BCBSMA's President and CEO. "It validates that our payment model can work for a variety of provider organizations—hospitals, specialty groups and smaller physician practices—that want to collaborate to improve quality and outcomes while slowing the rate of spending."

"The agreement with BCBSMA is aligned with our ongoing efforts to both improve quality and reduce costs," said Sandra Fenwick, President and COO, Children's Hospital Boston. "Building on the $32 million Children's and its physicians returned to BCBSMA through rate and price givebacks in 2010 and 2011, the new agreement adds another $83 million for a total of $115 million in savings between 2010 and 2014 to benefit employers and consumers."

Children's Hospital Boston and its primary care physicians and specialists are adopting the newest version of the *Alternative Quality Contract*, known as *AQC 2.0*, and will manage the growth in health care spending to a level that falls below BCBSMA's pediatric network average expense trend or risk giving back some of the money paid by BCBSMA.

The agreement maintains the standard *AQC* structure, which combines a per-patient global budget with significant performance incentives based on nationally endorsed quality measures tied to quality, health outcomes, and patient experience. However, the contract with Children's and its primary care physicians and specialists includes a first-in-the-nation set of measurements developed uniquely for a population entirely composed of children and adolescents and benchmarked with appropriate national comparators.

Several of the new measures focus on important clinical outcomes for children. For example, the hospital, specialists and pediatricians will be measured on how well they help children with cystic fibrosis maintain good lung function, on preventing complications after appendectomies, and on preventing blood stream infections in patients in the cardiac, neonatal and medical/surgical intensive care units.

Fenwick added, "Since 2009, Children's and its physicians have pursued an aggressive strategy of reducing its overall cost trend. For the third year in a row, Children's has kept its rate of inflation below the Medical Consumer Price Index (CPI-M), and has budgeted a similar rate for the current year. Through a combination of rate and price reductions, institutional efficiencies, care delivery innovations, moving care to lower cost settings and better care integration, Children's has taken more than $125 million out of the health care system to benefit insurers, employers and consumers."

This agreement brings 1,238 new physicians (279 PCPs and 959 specialists) into the *AQC* who care for more than 35,000 of BCBSMA's in-state, pediatric, HMO members.

Current *AQC* Participation

	***AQC* Participation**	**Total Participation**	***AQC* Participation Rate**
PCPs	4,000	6,200	65%
Specialists	10,300	15,000	69%
Members	629,000 (in-state HMO/POS membership)	991,000 (total in-state HMO/POS membership)	69%

Recent independent studies conducted by Harvard Medical School, published in the *New England Journal of Medicine*, and Brandeis University, published in *Health Affairs*, found that the *AQC* is achieving its twin goals of improving care and slowing costs.

These studies found that in the first year of the *AQC*:

- Medical spending was nearly 2% lower among physicians and hospitals participating in the *AQC* compared with those working in traditional fee-for-service contracts. Importantly, for physicians and hospitals with no previous experience in a global payment model, spending was 6% lower than that of providers in traditional fee-for-service contracts.[1]

- Quality of care among *AQC* providers was significantly higher than that of non-*AQC* providers in the BCBSMA network, especially for adults with chronic illness and for children.[1] Groups identified coordination of care for high-risk patients as a top priority and implemented several different initiatives to help reduce avoidable hospital admissions, readmissions and emergency department visits.[2]

- All groups identified quality improvement for patients as a top priority because the*AQC* offers much greater financial rewards for high quality than typical pay-for-performance programs.[2]

- The first year of the *AQC* was a financial success for participating medical groups.[2]

Blue Cross Blue Shield of Massachusetts (www.bluecrossma.com) is a community-focused, tax-paying, not-for-profit health plan headquartered in Boston. We are committed to working with others in a spirit of shared responsibility to make quality health care affordable. Consistent with our corporate promise to always put our 2.8 million members first, we are rated among the nation's best health plans for member satisfaction and quality.

Children's Hospital Boston, founded in 1869 as a 20-bed hospital for children, has been ranked as one of the nation's best pediatric hospitals by *U.S. News & World Report* for the past 21 years. Children's is the primary pediatric teaching hospital of Harvard Medical School and the largest provider of health care to Massachusetts children. In addition to 395 pediatric and adolescent inpatient beds and 228 outpatient programs, Children's houses the world's largest research enterprise based at a pediatric medical center, where its discoveries benefit both children and adults. More than 1,100 scientists, including nine members of the National Academy of Sciences, 11 members of the Institute of Medicine and nine members of the Howard Hughes Medical Institute comprise Children's research community. For more information about the hospital visit: www.childrenshospital.org/newsroom.

1. *New England Journal of Medicine*, "Health Care Spending and Quality in Year 1 of the Alternative Quality Contract," July 13, 2011.

2. *Health Affairs*, "Medical Group Responses to Global Payment: Early Lessons from the 'Alternative Quality Contract' in Massachusetts," September 2011

3. Includes contracts signed in 2011 that begin in 2012 (Cooley Dickinson Hospital and Cooley Dickinson Physician Hospital Organization and Partners HealthCare)

For further information: CONTACT: Sharon Torgerson 617-246-2357 Sharon.Torgerson@bcbsma.com