# Protecting and Preserving the Community Hospital - Immediate Action for Future

Presented by Mike Williams,
President & CEO, Community Hospital Corporation

5th Annual Becker's Hospital Review Meeting
Thursday, May 15, 2014

# CHC Corporate Overview

Consulting

Post Acute/ LTACH

Hospital Corporate Member Substitution

CHC Services

Hospital Management

Hospital Lease

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# Healthcare Environment

These factors are unsustainable…

- The size of the federal budget deficit
- The annual increase in the Medicare budget
- The percentage of healthcare spending to GDP
- State Medicaid programs
- The continued shifting of costs to employers and consumers

The business model is changing… this is our opportunity!

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# More Fuel to the Fire

"The healthcare sector is far and away the most inefficient economic driver in the U.S." – Peter Orszag, Director, OMB

- 30% of what we spend adds no clinical value (5% of GDP) – Institute of Medicine
- Nearly 4.4 million hospital admissions totaling $30.8 billion in hospital costs could have been prevented – AHRQ
- Geographic disparities – End of Life Care: UCLA/Hopkins $90K vs. Cleveland Clinic/Mayo $55K – Dartmouth (Wennberg and Fisher)

Source: James E. Orlifkoff, ACHE 2011

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# Why Transformational Change Today?

- 2.6 Trillion
- 37th in health
- 2% of the sickest=25% of resources
- 5% of the sickest=40% of the resources
- 50% of the healthiest =1% of the resources

*Note: Age and Cost curve on next slide*

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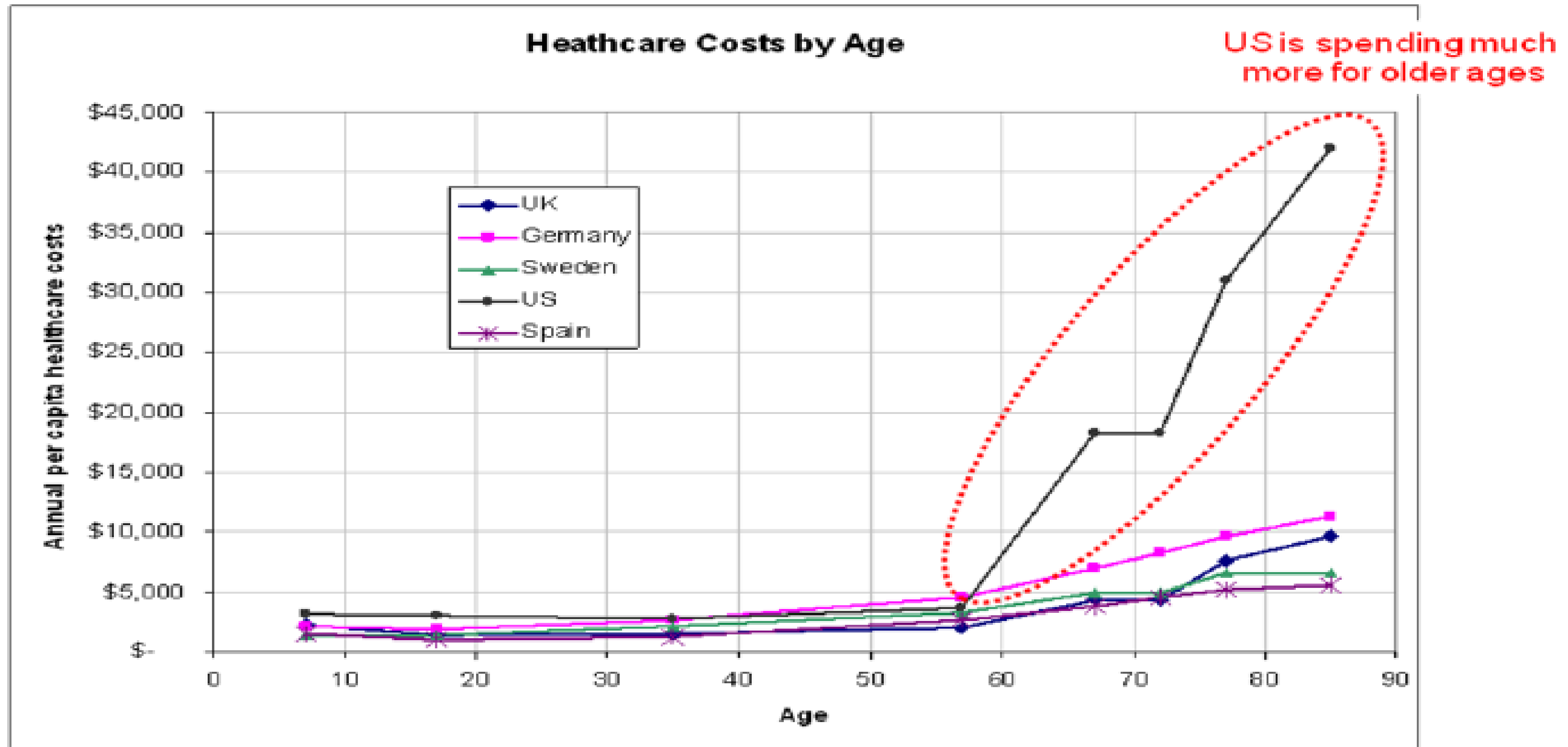
# Current Healthcare Environment




Source: Fischbeck, Paul. "US-Europe Comparisons of Health Risk for Specific Gender-Age Groups."

Carnegie Mellon University; September, 2009.

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# Why Change

- Improve patient care as defined by the IM six metrics: *care is safe, effective, patient-focused, timely, efficient and equitable*
- Improve community health
- Lower cost per outcome
- Move payment from volume (input) to outcome (quality) metrics, i.e., Volume to Value
- Providers--Patients: Care Coordination
- System development—Collaboration—Relationships
- Reduced revenue e.g., Medicare, Medicaid cuts effect on hospitals
- Patient and community expectations
- Disruptive Technology
- Shortages of healthcare providers



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# Eight Top Challenges Facing Healthcare Executives

Here are the plates we're spinning…

- The Post-Reform Environment
- Payment Reductions
- Payment Uncertainty
- Decline of Inpatient Volume
- New Competitors
- Transparency
- Physician Alignment
- Cost Containment



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Challenge #1

# PAYMENT REDUCTIONS

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# Medicare and Medicaid Exposure Grows

- At hospitals in 2012…
  - Medicare and Medicaid accounted for 58% of all care provided by hospitals
- Hospitals depend on governmental forms of payment for more than any other source

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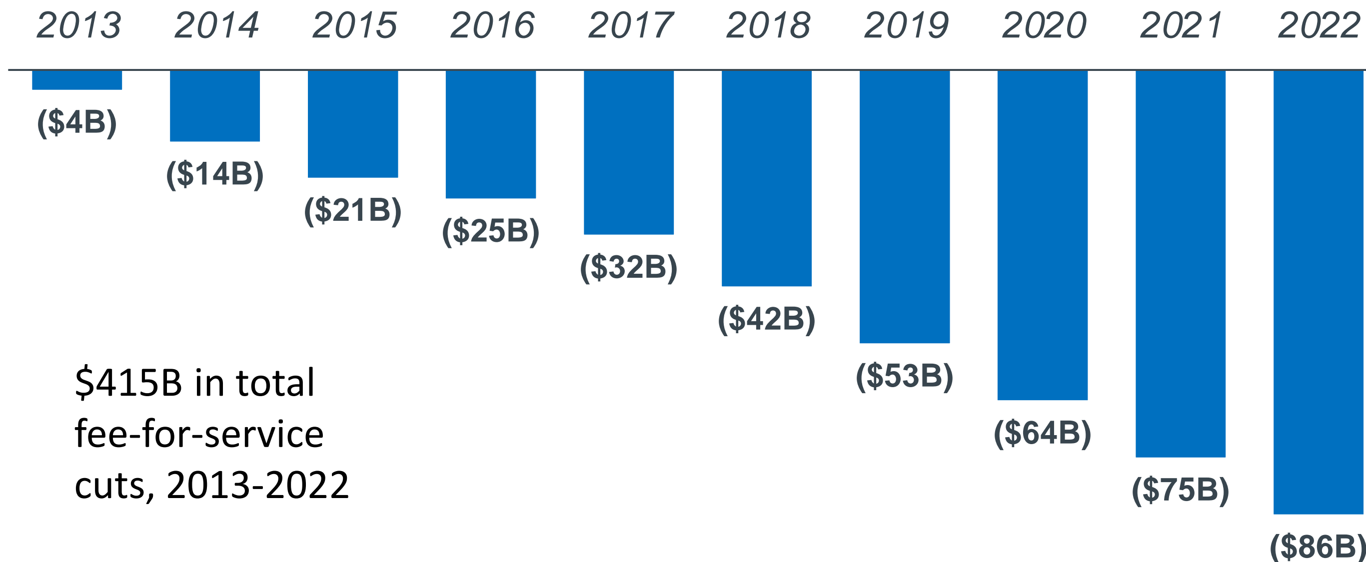
*Source: American Hospital Association, 2014*

# Hospital Reimbursement Cuts in ACA




*Includes hospital, skilled nursing facility, hospice, and home health services; excludes physician services. Source: Advisory Board, 2013*

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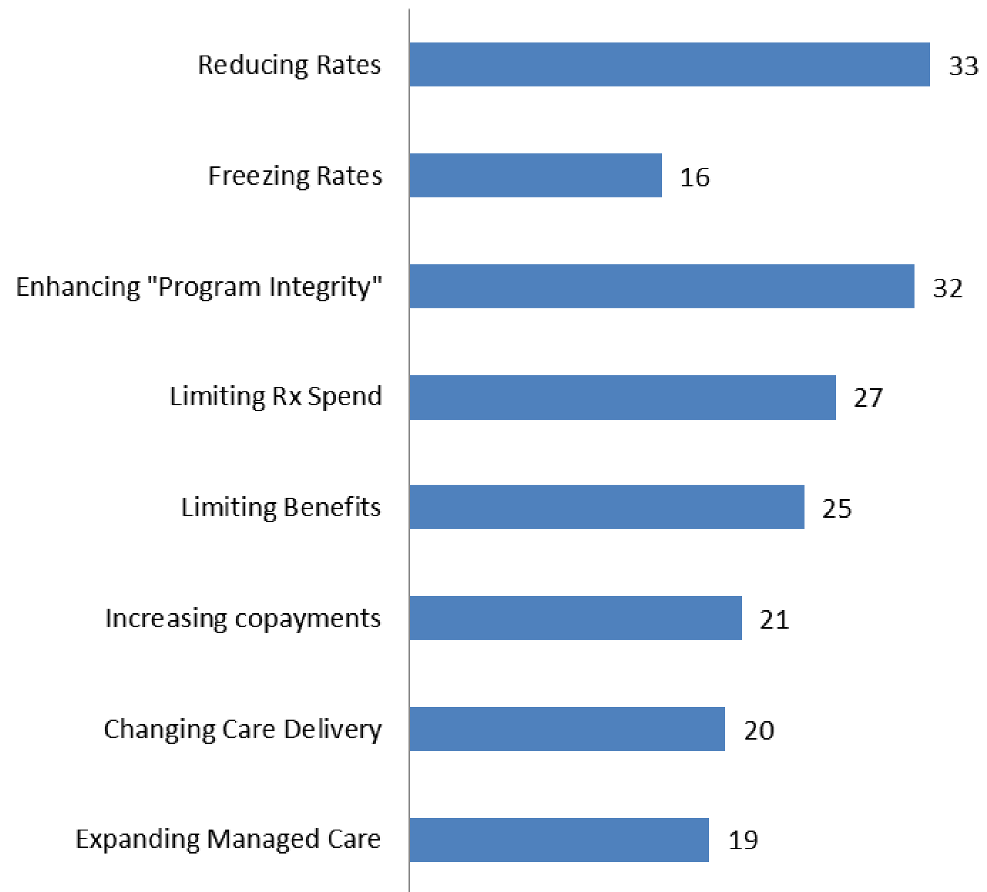
# States Implement Medicaid Cost Controls

- Number of states implementing Medicaid cost controls




*Source: Advisory Board 2011*

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# Underpayments from Medicare & Medicaid

- Underpayment = Amount by Which Payment is Less than Costs
- Combined underpayments rose from $3.8 billion in 2000 to $56 billion in 2012
- For Medicare, hospitals received payment of only 86 cents for every dollar spent in 2012
- For Medicaid, hospitals received payment of only 89 cents for every dollar spent
- 69% of hospitals lose money on Medicare; 68% lose on Medicaid

*Source: AHA, Underpayment by Medicare and Medicaid Fact Sheet, 2014*

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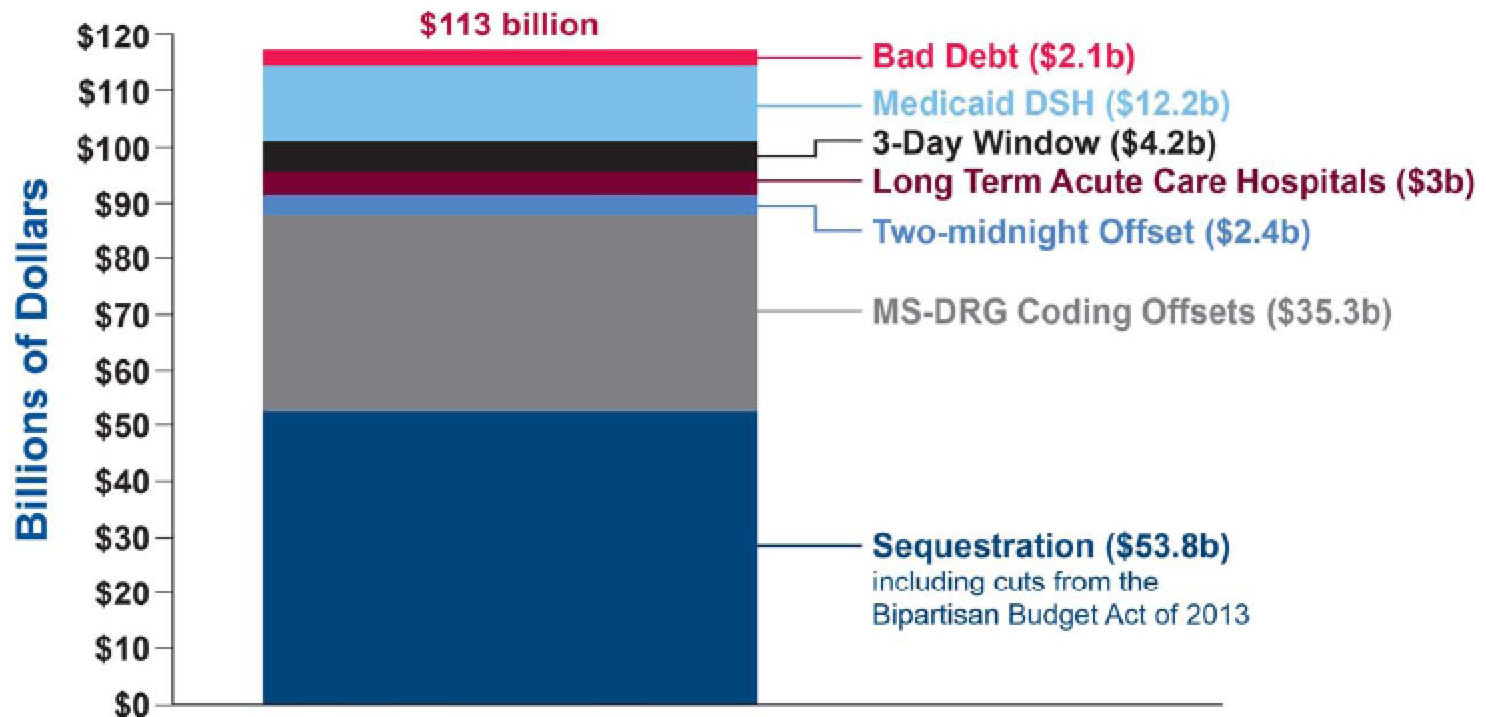
# Hospitals have absorbed $113 billion of new cuts since 2010.




[1]Bad debt included in Middle Class Tax Relief and Job Creation Act of 2012 (MCTRJCA); Medicaid DSH cuts included in MCTRJCA, American Taxpayer Relief Act of 2012 (ATRA) and Bipartisan Budget Act of 2013; 3-day window cut included in Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010; MS-DRG coding cuts included in ATRA as well as CMS regulations (estimate of excess cuts based on hospital analysis); offset for two-midnight policy included in FY 2014 Final IPPS Rule; sequestration amount estimated from CBO Medicare Baseline, includes extension in Bipartisan Budget Act of 2013. Long Term Acute Care Hospital payment cut from Bipartisan Budget Act of 2013. Excludes ACA-related reductions.

American Hospital Association.

# As Medicare Margins Decrease…

- Commercial insurance companies will attempt to offload their reform costs (preexisting conditions, no lifetime caps) to hospitals in the form of lower reimbursements
- Traditional cost-shifting potential will be limited
- Focus on cost structure will be essential for hospital success
  - *Do we make money on Medicare reimbursement??*

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Challenge #2

# WHERE HAVE ALL THE INPATIENTS GONE??

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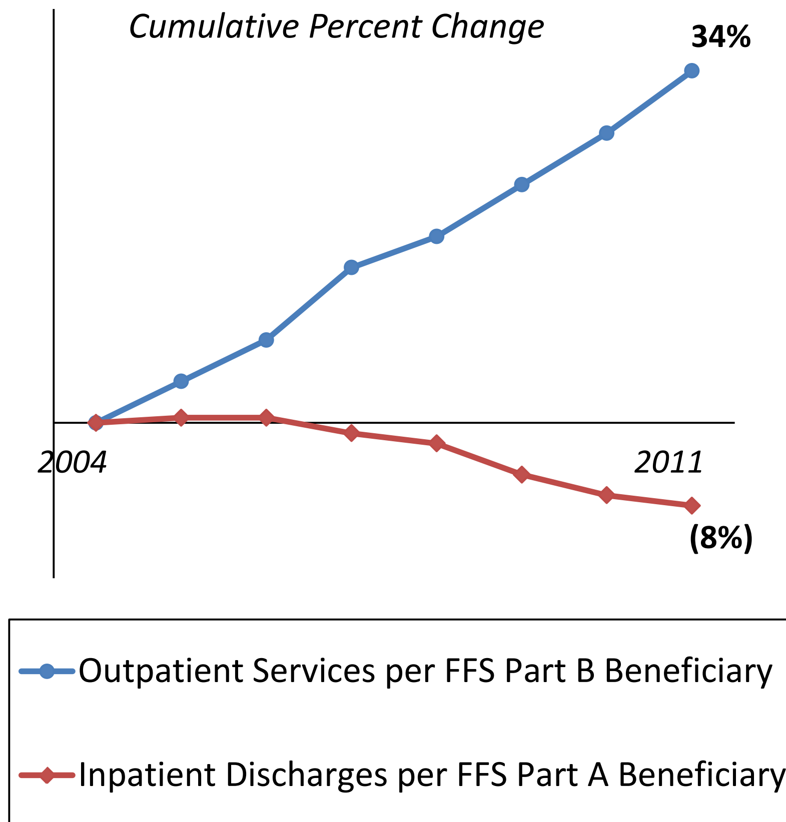
# Persistent Inpatient Declines




- Total inpatient admissions to community hospitals have declined by 2.6% from 2008 to 2011
- Inpatient days dropped by 5 % from 2008 to2011
- Inpatient utilization per 1,000 insureds declined 2.9% just between 2011 to 2012
- Shift from inpatient to outpatient procedures contributing to decline

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*Source: Kenneth Kaufman, Kaufman Hall blog, January 23, 2014; Advisory Board 2013*

# A New Business Model?

"…transforming the delivery system from hospital-centric *sick* care to a super outpatient model that will emphasize community-based care."

*Source: York, Kaufman, Grube. Where Have All the Inpatients Gone? Health Affairs Blog, healthaffairs.org/blog, 1/6/14*



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Challenge #3

# TRANSPARENCY

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# Health Care Transparency

- On the national agenda… to measure and publish quality information
  - Proliferation of "report cards" – from HealthGrades to AHRQ to state-sponsored reporting
  - Purpose is to allow the consumer to understand and compare quality across hospitals
- Hospital Compare – CMS' online site for quality reporting
  - *Welcome to Hospital Compare. This tool provides you with information on how well the hospitals care for all their adult patients with certain conditions or procedures. This information will help you compare the quality of care hospitals provide. Talk to your doctor about this information to help you, your family and your friends make your best hospital care decisions.*

Challenge #4

# PHYSICIAN ALIGNMENT

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# "Changing with the times"

## Specialists in short supply take different approaches to balancing services, costs

Paul Cary used to examine up to 30 patients a day at his senior-focused internal medicine practice in Dallas – until he began charging them $1,500 a year to secure a spot in his schedule.

The fee cut his workload significantly, but Cary isn't complaining. From his perspective, he traded quantity for quality.

"It brings back more day-to-day pleasure to doing medicine," he said.

*Dallas Morning News*, July 25, 2010

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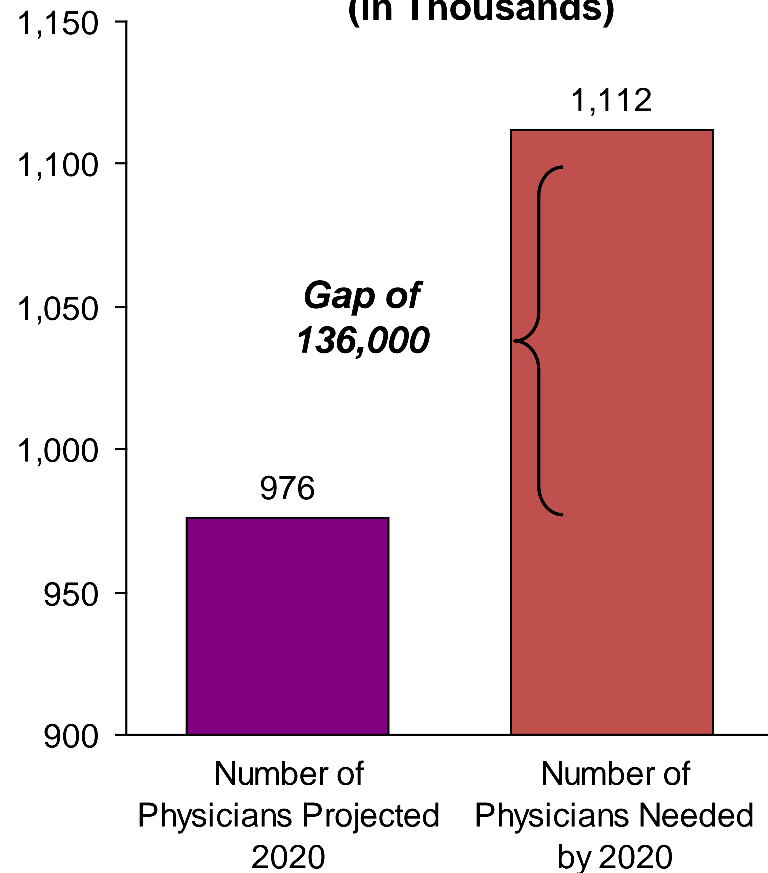
# Expected Shortage of Physicians by 2020

- 1 in 3 practicing physicians in U.S. is over age 55
- 6 in 10 physicians say it is likely many colleagues will retire in the next one to three years
- By age 65, about two-thirds of senior citizens have at least one chronic disease
- 20% of 65+ see 14 or more physicians each year
- More than 10,000 Americans turn 65 each day






*Source: U.S. Department of Health and Human Services Study "Physician Supply and Demand: Projections to 2020"; Becker's Hospital Review, 1/14/14*

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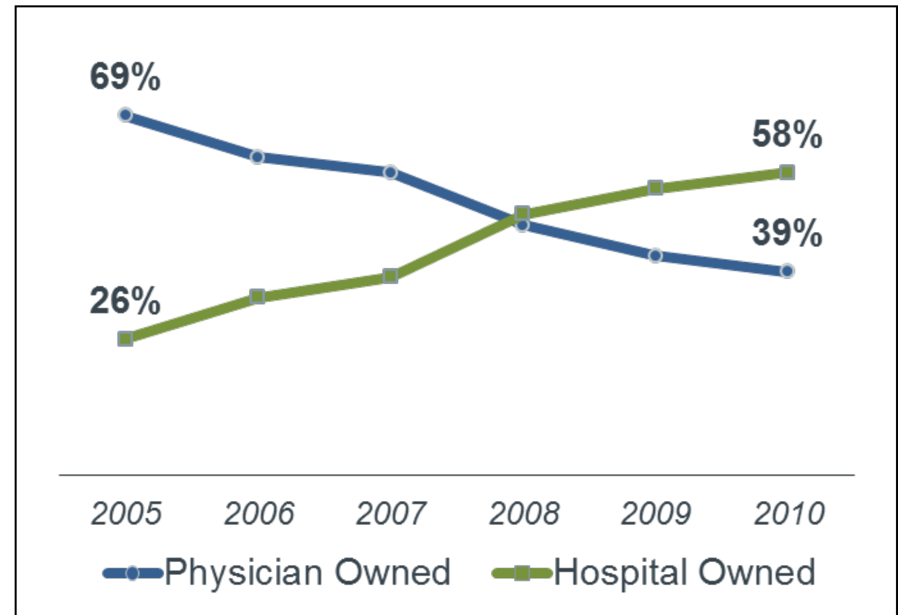
# Physician Employment Grows

- 48% of physicians are currently employed by hospitals or under contract
- 70% of hospitals report an increase in physician employment requests
- Physicians "just want to treat patients"

**Medical Group Ownership**




*Source: Advisory Board, 2014*

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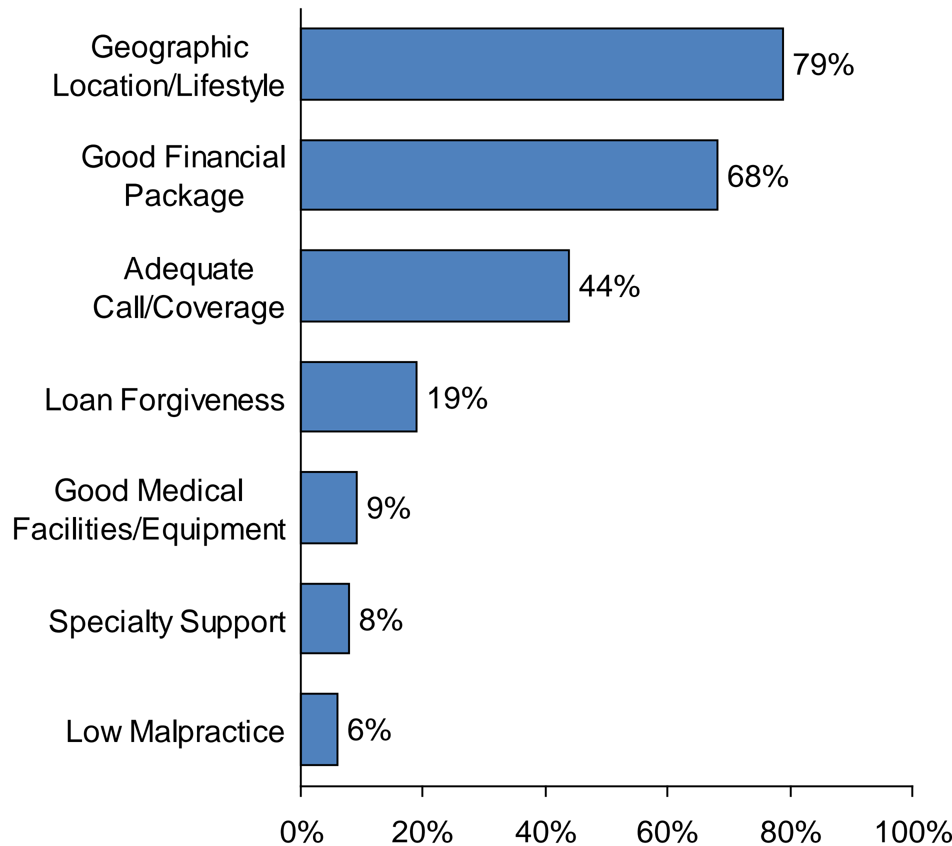
# Quality of Life Issues are Important to New Recruits




*Source: 2006 Survey of Final Year Medical Residents; Merritt, Hawkins, & Associates*

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# Clinical Integration

"The essence of clinical integration is the interdependency among health care providers. Put simply, each provider must have a vested interest in the performance of the other providers such that their financial and other incentives are closely aligned to meet common objectives."

– Nathan S. Kaufman, Managing Director and Founder of Kaufman Strategic Advisors, LLC.

# Hospital-Physician Mantra

*When you are interdependent, the need to cooperate is obvious. Failure to cooperate doesn't remove the interdependence. It makes it toxic.*

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Challenge # 5

# CONTAINING COSTS

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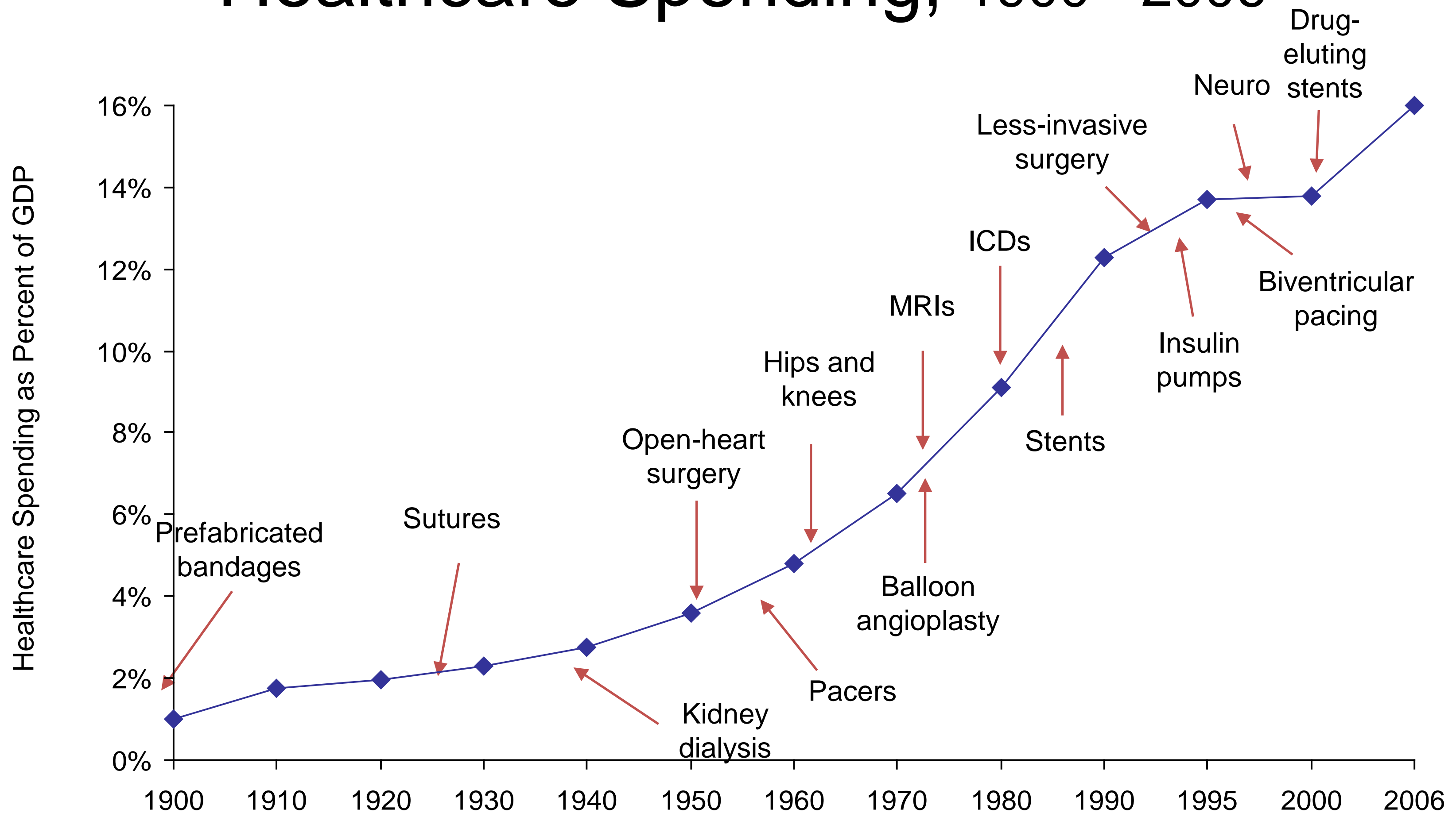
# Introduction of Medical Devices and Rise of Healthcare Spending, 1900 - 2006




*Source: Percent GDP Data From Centers for Medicare & Medicaid Services, Office of the Actuary. Data released January 7, 2008. Medical Device Introduction from Kurt Kruger. Presentation to Wharton School, November 2005. Reprinted in Future Scan Healthcare Trends and Implications, 2007-2012*

# New Core Competencies Required

- Physician Integration
- Financial Strength
- Payer Relationships
- Risk Management
- Market Necessity
- Care Coordination
- Information Technology
- Service Distribution
- Cost Effectiveness

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# The Assessment Process

- Operational Assessment
  - Productivity, supply chain, clinical quality analysis
- Financial Analysis
- Medical Staff and Leadership Interviews
- Market Analysis
  - Demographics, market share
- Findings & Recommendations
  - Partnering opportunities

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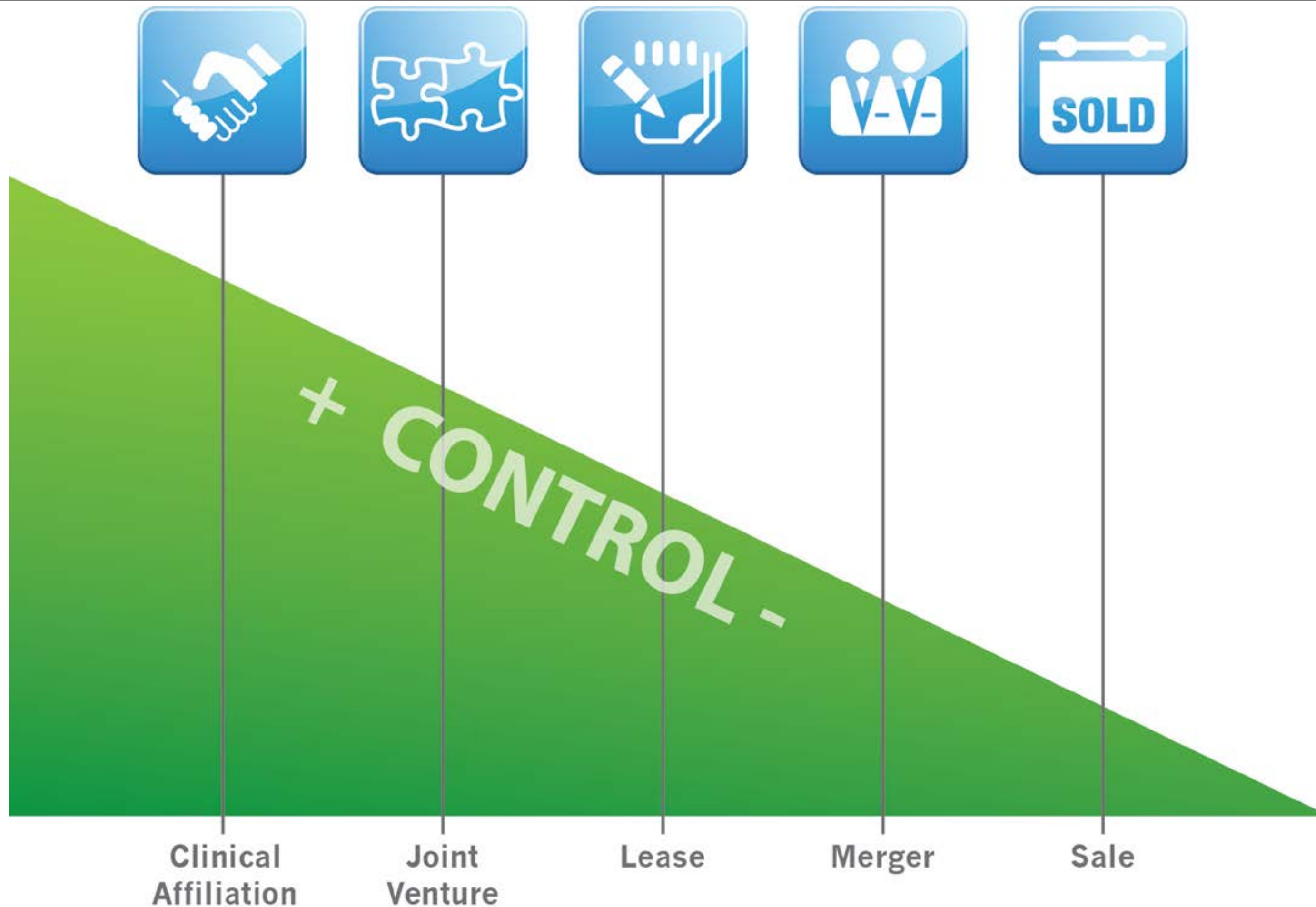
# Partnership Options

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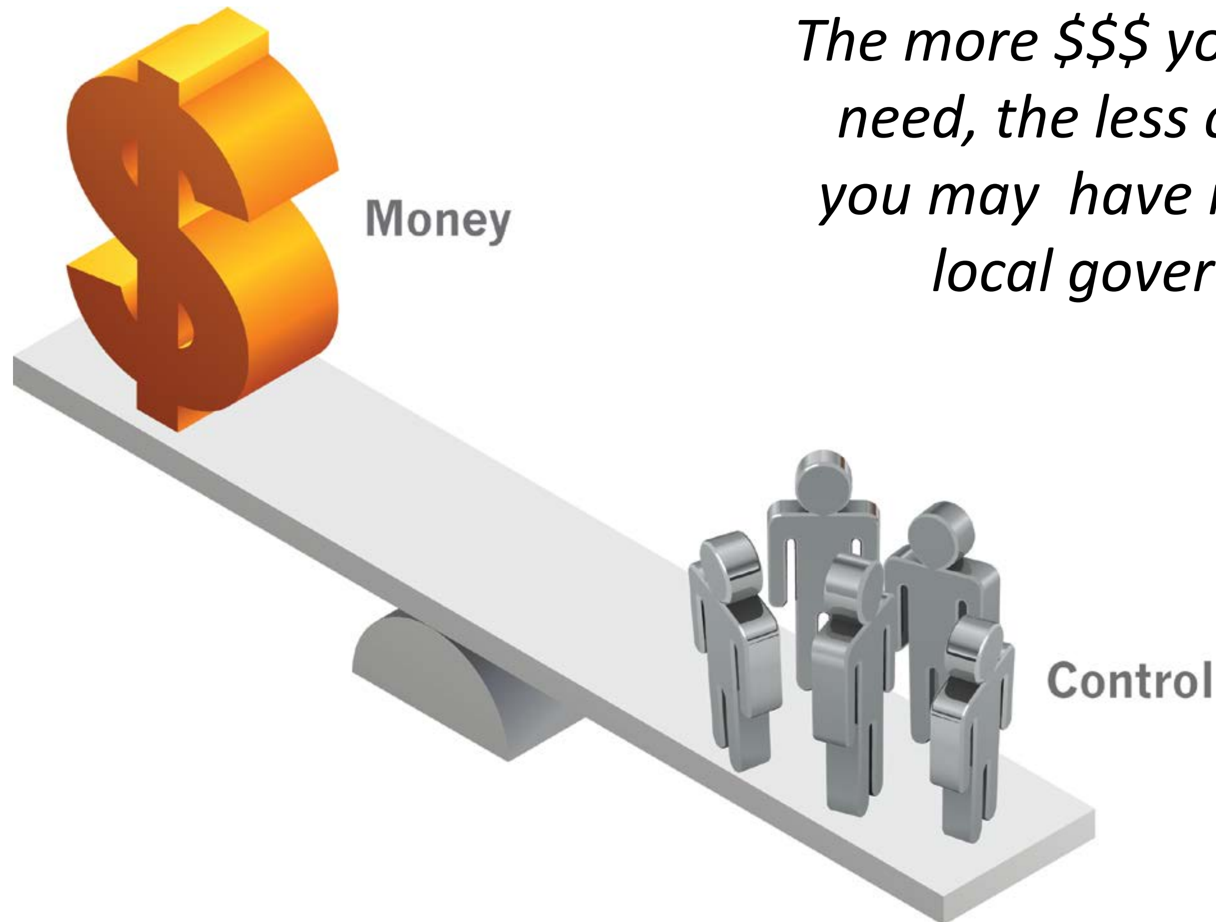
# Partnership Considerations




*The more $$$ you may need, the less control you may have in your local governance.*

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# Partnership Considerations

Responsible action is more favorable than the last possible moment.

- Think proactively
- Board dynamic is critical
- Define your optimal terms



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# Summary

- Assess the future
- Be optimally efficient, clinically sound, geographically essential and mission-focused
- Community hospitals are an essential provider in the continuum of healthcare services

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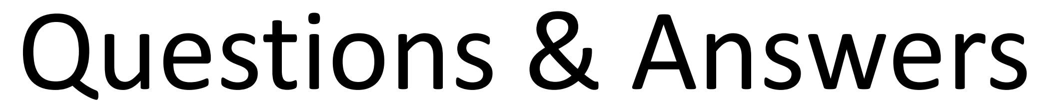




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# Thank You!

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