Institute for Continued Learning
Willamette University

Health Reform and its Impact on Hospitals and Delivery Systems

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Objectives:

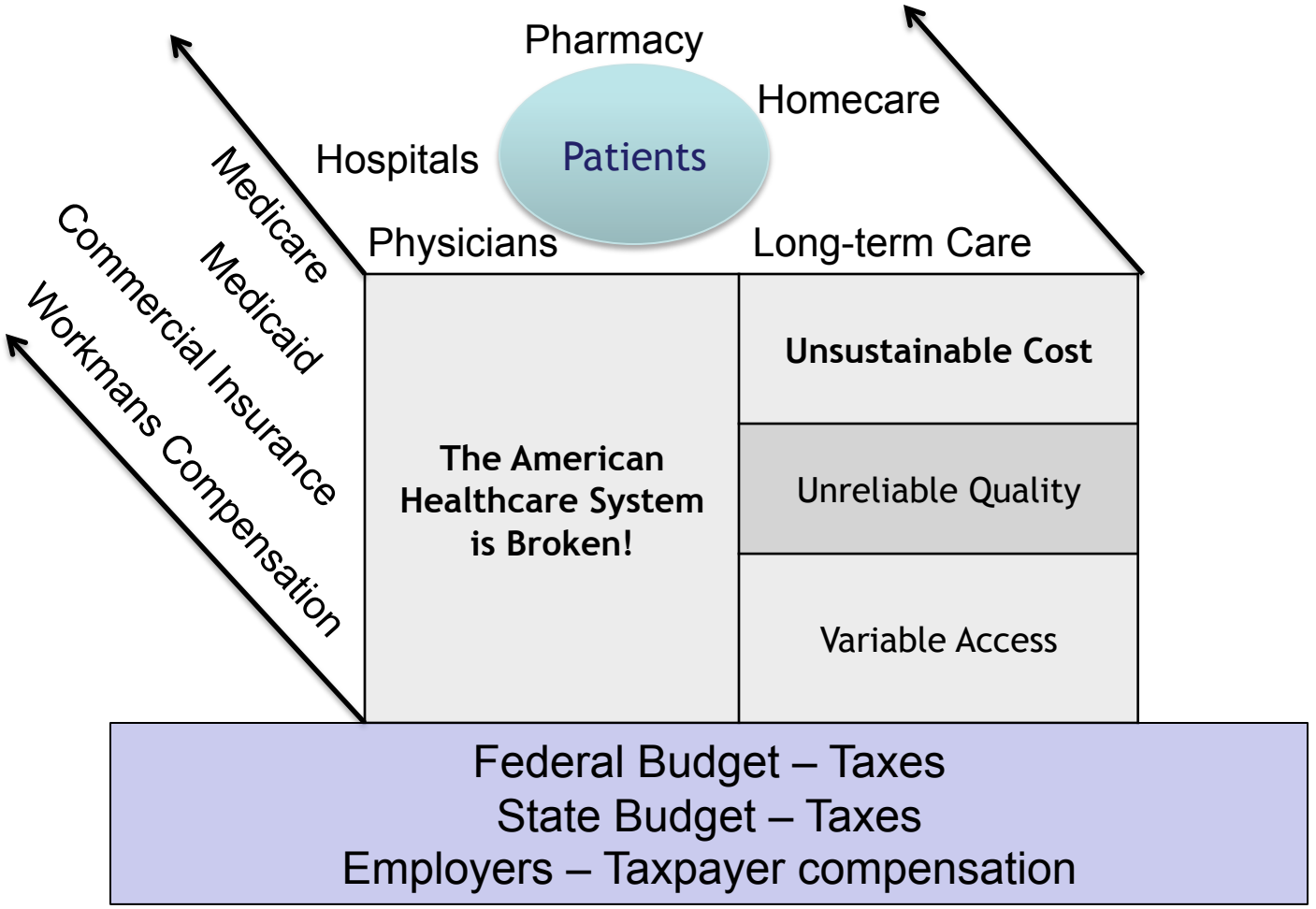
This session will enable participants to:

- Understand market forces putting pressure on hospital margins
- Identify major components of State and Federal reform influencing healthcare finance and delivery
- Evaluate reform implications on relationships between hospitals and physicians in Salem, Oregon

Do we have a shared understanding of the problem?

The American Healthcare System is Broken!	Unsustainable Cost	Overhead
		Conflicting Incentives
		Inefficiency
		Over Utilization
		Culture
	Unreliable Quality	Variation in Training
		Variation in Knowledge
		Conflicting Incentives
		Variation in Process
		Variation in Patient Compliance
	Variable Access	Economic
		Personal Choice
		Provider Lifestyle

It is even more complicated

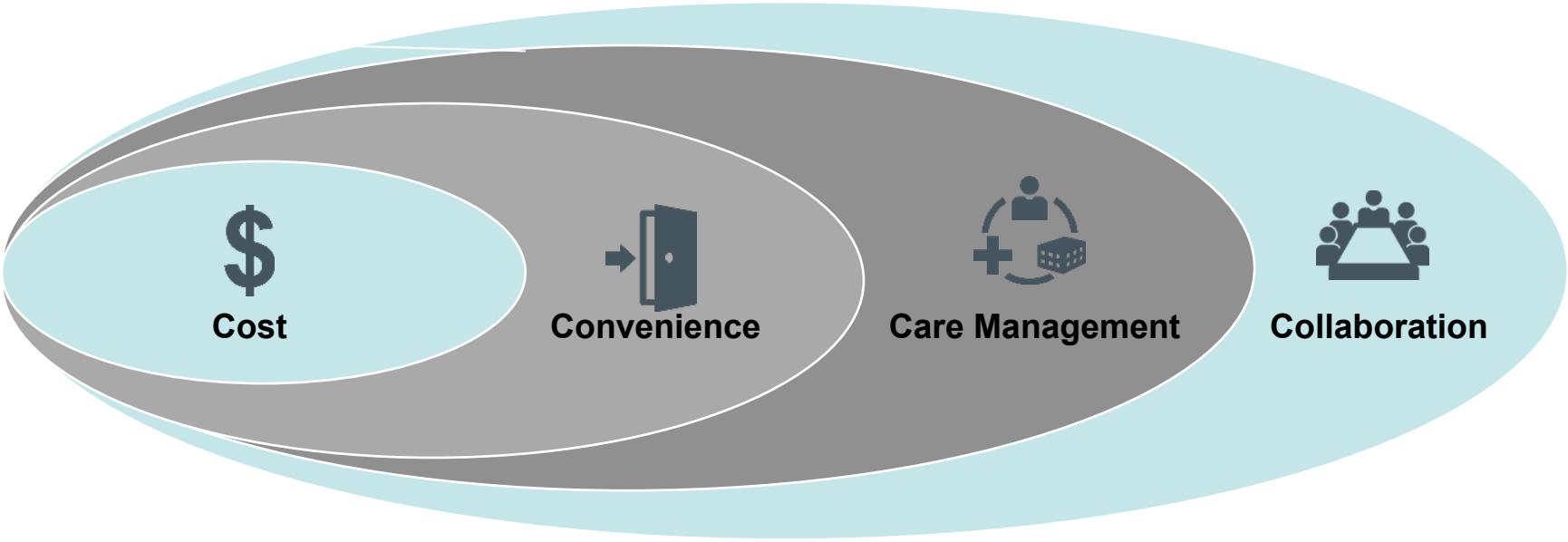


The New Logic of Wholesale Purchasers of Healthcare

Population Health Managers

Activist Employers

Commercial Payers



Source: Health Care Advisory Board interviews and analysis.

Four Forces Changing Hospital Economics

Decelerating Price Growth

- Federal, state budget pressures constraining public payer price growth
- Payments subject to quality, cost-based risks
- Commercial cost shifting stretched to the limit

Continuing Cost Pressure

- No sign of slower cost growth ahead
- Drivers of new cost growth largely non-accretive

Shifting Payer Mix

- Baby Boomers entering Medicare rolls
- Coverage expansion boosting Medicaid eligibility
- Most demand growth over the next decade comes from publicly insured patients

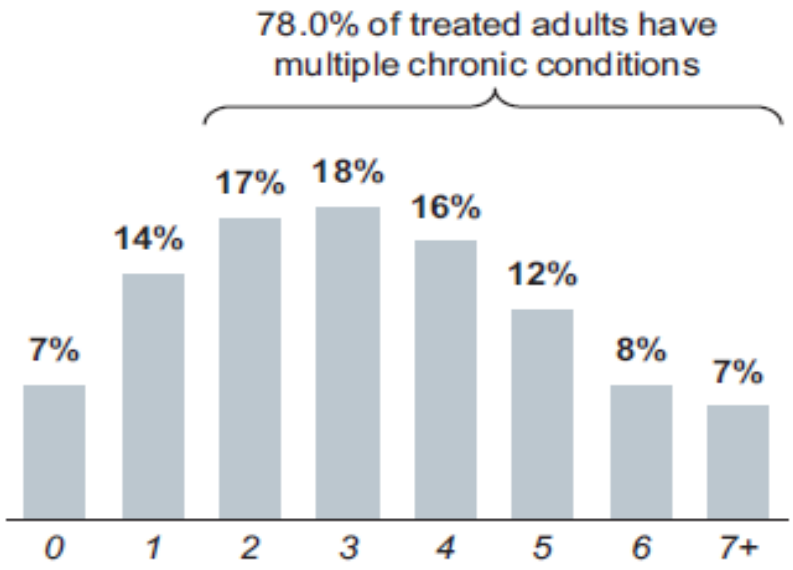
Deteriorating Case Mix

- Medical demand from aging population threatens to crowd out profitable procedures
- Incidence of chronic disease, multiple comorbidities rising

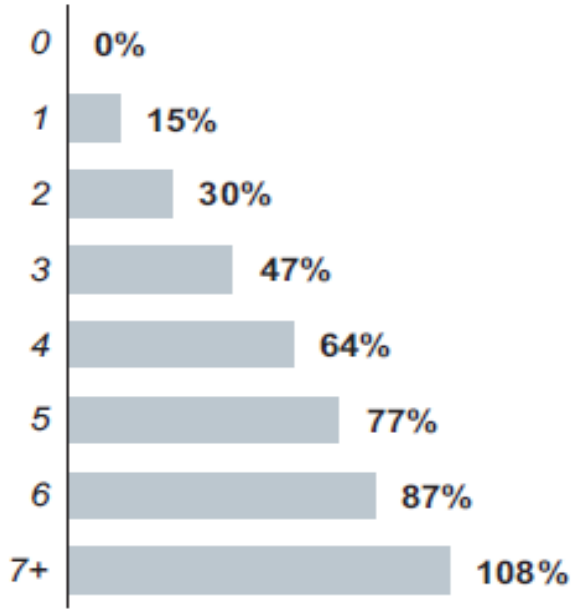
Source: The Advisory Board Company, The New Performance Standard, 2012

Cost Driver: Aging, Sicker Population

Distribution of Total Discharges, by Number of Chronic Conditions[1]

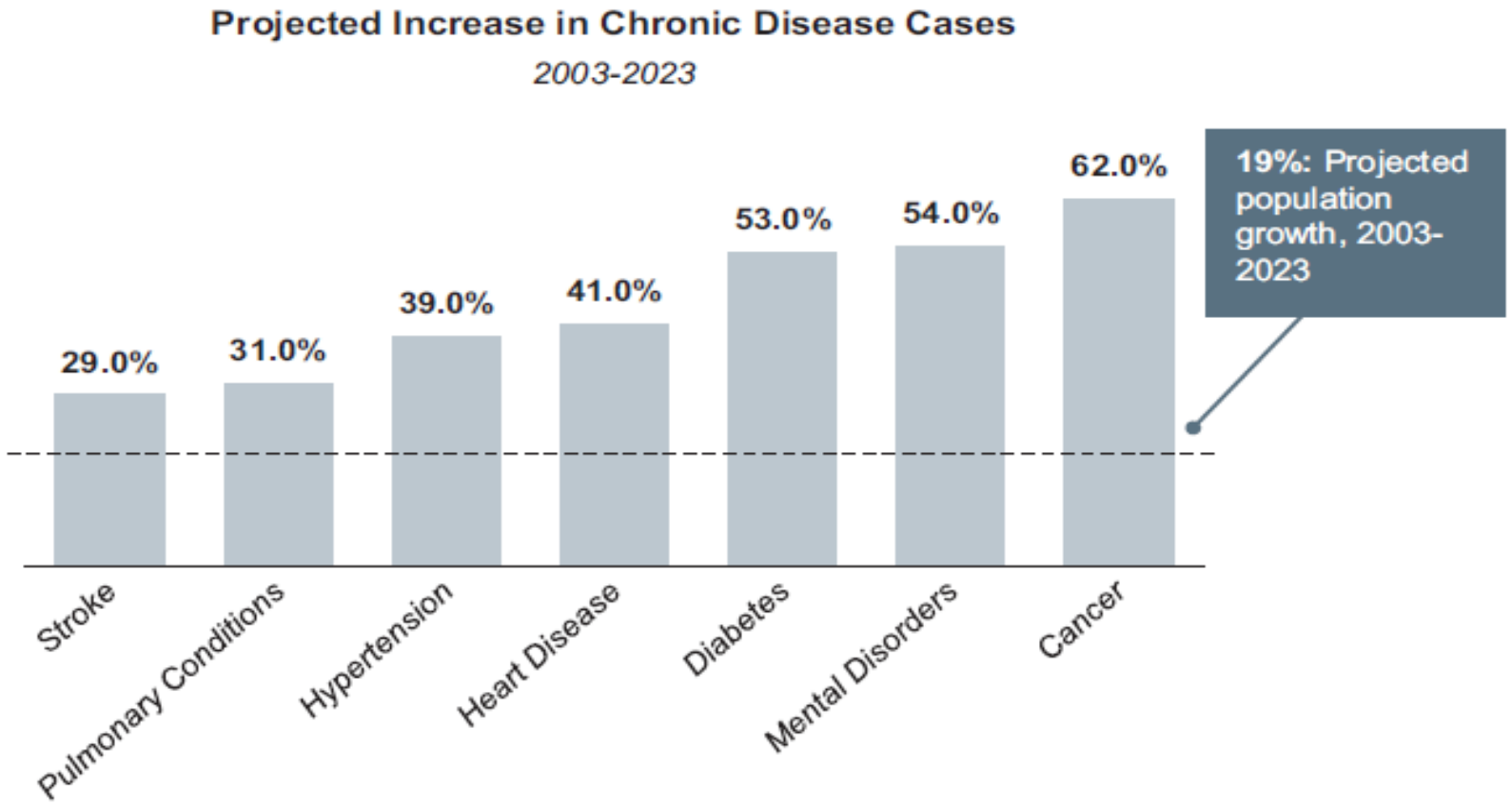


Percent Increase in Cost per Case, by Number of Chronic Conditions[2]



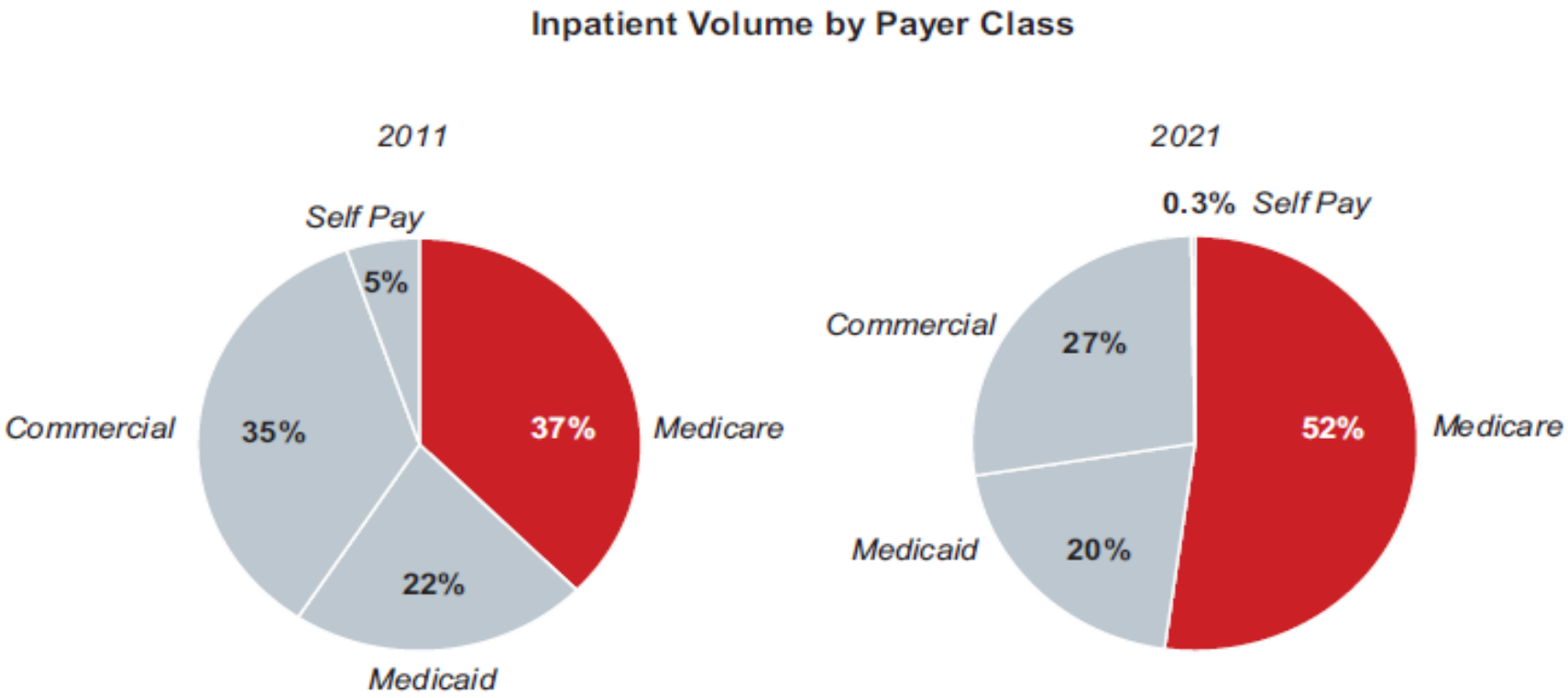
Source: The Advisory Board Company, The New Performance Standard, 2011

Deteriorating Mix



Source: The Advisory Board Company, The New Performance Standard, 2011

Shifting Payer Mix

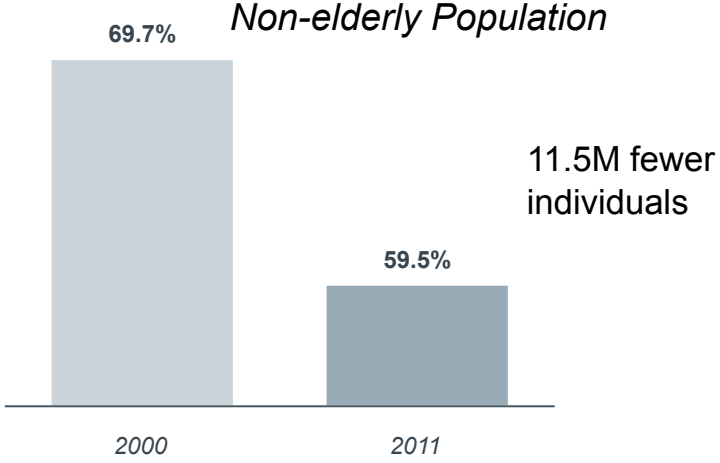


Source: The Advisory Board Company, The New Performance Standard, 2011

Employers Already Scaling Back Coverage

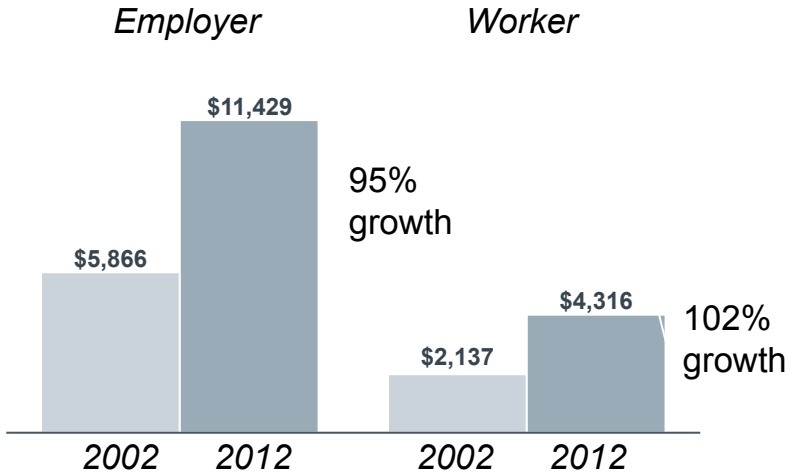
Individuals Covered by Employer Sponsored Insurance

Non-elderly Population



Contribution to Insurance Premiums

Coverage for Family of Four



23% Employers planning to offer consumer directed health plan as the only plan option, 2014

Sources: Sonier J, et al., "State-Level Trends in Employer-Sponsored Health Insurance," Robert Wood Johnson Foundation, April 2013, available at: www.rwjf.org; Collins R, et al., "Insuring the Future," The Commonwealth Fund, April 2013, available at: www.commonwealthfund.org; Towers Watson, "Reshaping Health Care," 2013, available at: www.towerswatson.com; Health Care Advisory Board interviews and analysis.

Nine Imperatives to Sustain the Margin

1. Maximize revenue capture
2. Excel under performance risk
3. Bend Labor cost curves
4. Standardize clinical care pathways
5. Redesign inpatient care models
6. Build effective capacity
7. Reassess supply of less profitable services
8. Deflect demand of less profitable services
9. Secure surgical market share

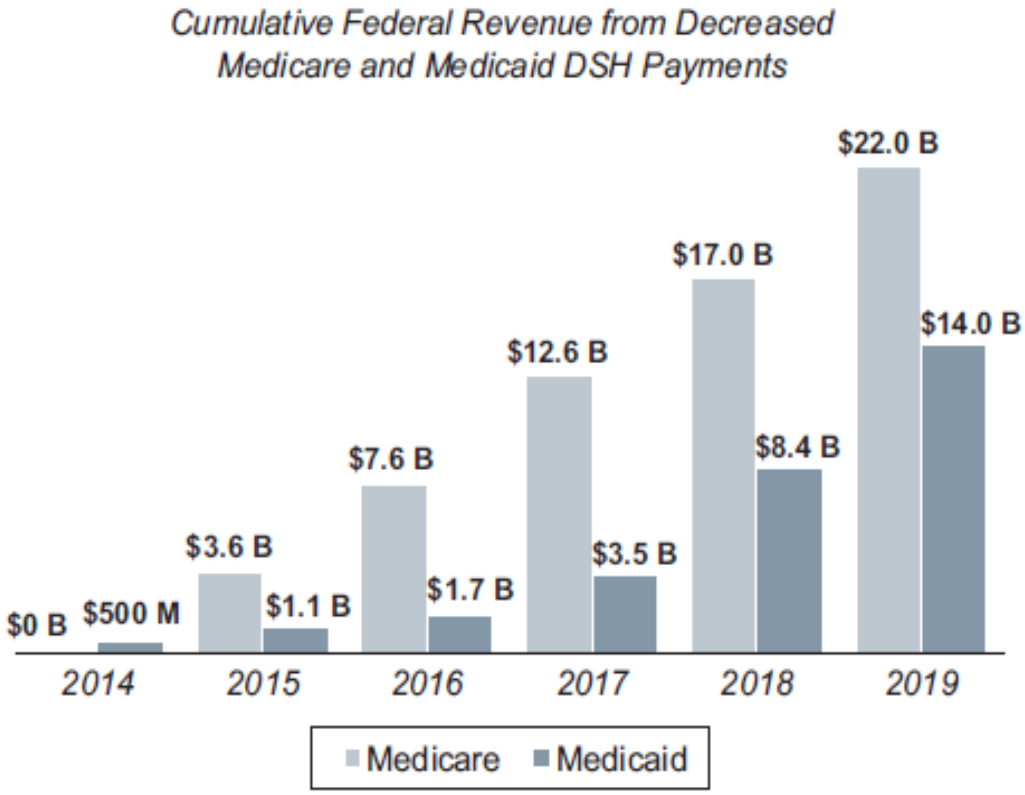
Source: The Advisory Board Company, The New Performance Standard, 2011

Affordable Care Act: Impact on Provider Payments

$110 Billion
Cuts to Medicare FFS Rates

$36 Billion
Cuts to Disproportionate Share Hospital (DSH) payments

$84 Million
Impact to Salem Health



Source: The Advisory Board Company, The New Performance Standard, 2011

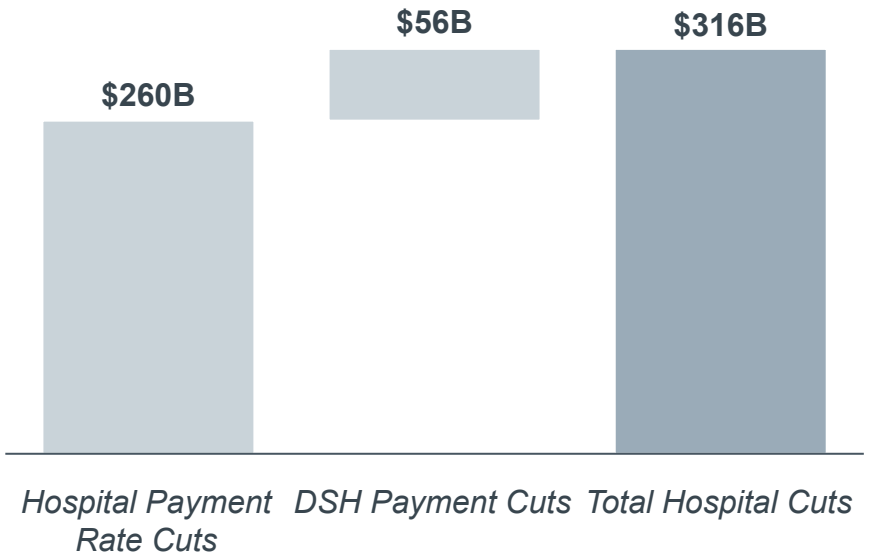
Components of Current Health Reform

- Reduce cost
  - Force integrated delivery/Provider collaboration
    - Accountable Care Organizations – Federal
    - Coordinated Care Organizations – State
  - Pay less
  - Shift risk
- Expand coverage
  - Medicaid
  - Health Insurance Exchange
- Increase quality
  - Application of evidence based medicine
  - Readmissions
  - Hospital acquired conditions
  - Patient satisfaction

Re-examining the ACA "Grand Bargain"

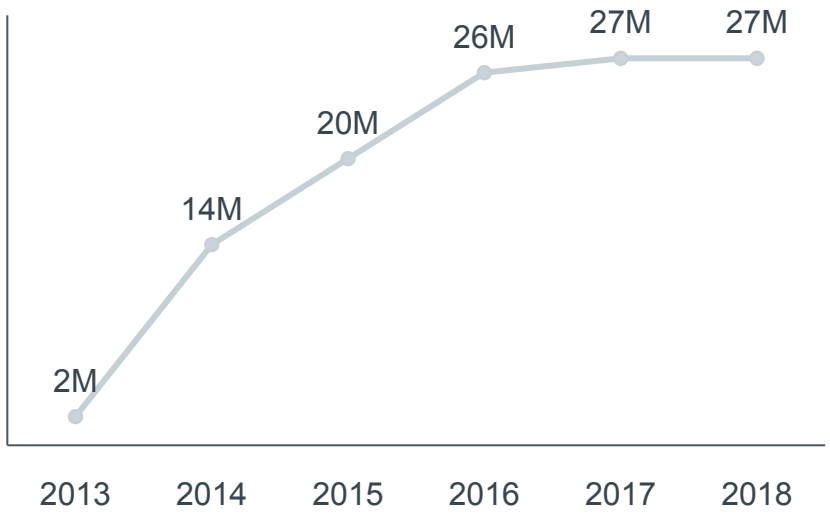
ACA Hospital Payment Cuts

2013-2023



Projected Coverage Expansion

Net Reduction in Uninsured Individuals[1]



Source: CBO, "Letter to the Honorable John Boehner Providing an Estimate for H.R.6079, The Repeal of Obamacare Act," July 24, 2012, available at: www.cbo.gov; CBO, "Effects of the Affordable Care Act on Health Insurance Coverage—February 2013 Baseline," February 5, 2013, available at: www.cbo.gov; Health Care Advisory Board interviews and analysis.

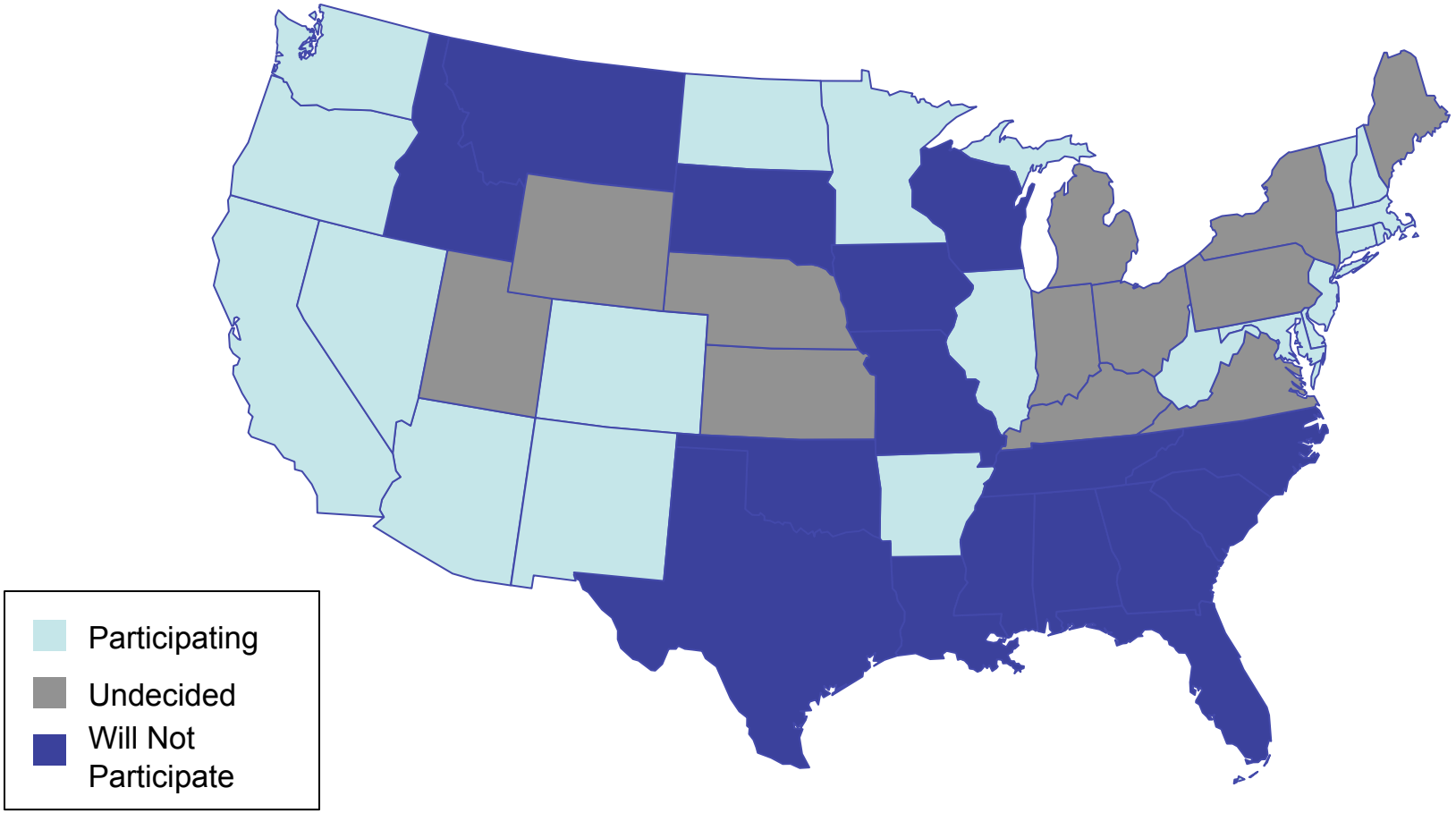
1) Non-elderly population.

Health Insurance Exchange

- Federal Mandate in each State by January 2014
- Applies to
  - Individuals that do not have access to affordable coverage at work
  - Employers with fewer than 50 employees, 100 in 2016
- CoverOregon.Com is our State spondored exchange
  - Compares plan offerings
  - Determines tax credit eligibility
  - Assesses individual eligibility for other insurance programs
- Exchange participant plans vary in premium for a few reasons
  - Plan design (Bronze, Silver, Gold)
  - Geographic location
  - Family status
  - Age rating
  - Tobacco usage

Medicaid Expansion No Sure Bet

State Participation in Medicaid Expansion – May 2013



Source: Health Care Advisory Board interviews and analysis.

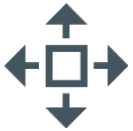
Some Employers Dodging Their Mandate

Strategies to Avoid ACA Penalties

Cut jobs to remain under 50 FTEs[1]

Hire all new employees at part-time status

Convert full-time employees to part-time status



Split into smaller companies with fewer than 50 FTEs

31% Franchisees that plan to cut jobs to stay under 50-employee threshold[2]

32% Retail and hospitality companies that plan to "change workforce strategy" to avoid penalties[3]

1)Full-time equivalents.
2)n=72 franchisees, all industries.
3)n=1,203 employers.

Source: Reynolds J and Merin J, "Business Leaders Give 2013 Outlook Mixed Reviews," International Franchise Association, January 2013, available at: www.franchise.org; Mercer, "Health Reform Poses Biggest Challenges to Companies with the Most Part-Time and Low-Paid Employees," August 8, 2012, available at: www.mercer.com; "Regal Entertainment Group Cuts Employee Hours, Explicitly Blames Obamacare in Memo: Report," The Huffington Post, April 17, 2013, available at: www.huffingtonpost.com; Health Care Advisory Board interviews and analysis.

Performance Based Payment

Payment Driver	Description	Payment Reduction Timeline
Value-Based Purchasing Program	•Mandatory pay-for-performance program •Percentage of hospital inpatient payments withheld, earned back based on quality performance	•Withholds begin at 1% in 2013, grow to 2% by 2017
Hospital Readmissions Reduction Program	•Hospital with greater than expected readmission rate subject to financial penalty •Performance based on 30-day readmission metrics for three conditions in 2013, expanding in 2015 to include four others	•Penalties capped at 1% of total DRG payments in 2013, 2% in 2014 and not to exceed 3% in 2015 and beyond.
Hospital-Acquired Condition (HAC) Penalty	•Hospitals in top quartile of national, risk-adjusted HAC rates subject to financial penalty	•1% penalty deducted from DRG payments starting in 2015

Source: The Advisory Board Company, The New Performance Standard, 2011

Flawed Assumptions

- People with coverage will seek appropriate care in the appropriate setting.
- Provider access will be adequate at the current level of reimbursement for the new insured population
- Major shifts in delivery system practices will occur without major shifts in incentives and without investment in the transformation process
- We can cover more people with less money
- Patients will accept and adapt to the new system

Oregon's Response to Healthcare Reform:
The Coordinated Care Organization (CCO)

- Definition of a CCO …
  - …Accountable for care management and provision of integrated and coordinated health care for each member…
    - Manage within fixed global budgets
    - Efficiency and quality improvements
    - Reduce medical cost inflation
    - Development of regional and community accountability
    - Maintaining quality and affordability for all Oregonians
- Express language concerning the medical home model
- Oregon Health Authority will gather, evaluate and publish performance against defined quality outcomes

Willamette Valley Community Health

- The CCO serving Marion and Polk Counties
- Hospitals
  - Salem Hospital
  - Santiam Hospital
  - Silverton Hospital
  - West Valley Hospitals
- Physician Organizations
  - WVP Health Authority
  - Salem Clinic
  - Yakima Valley Farm Workers
  - Northwest Human Services
- Other Constituents
  - Mid-Valley Behavioral Care Network
  - Capitol Dental
  - Marion County Commissioner
  - Polk County Commissioner
  - Atrio Health Plans
- Community Representatives

Where are these forces and reforms leading us? What conclusions should we draw?

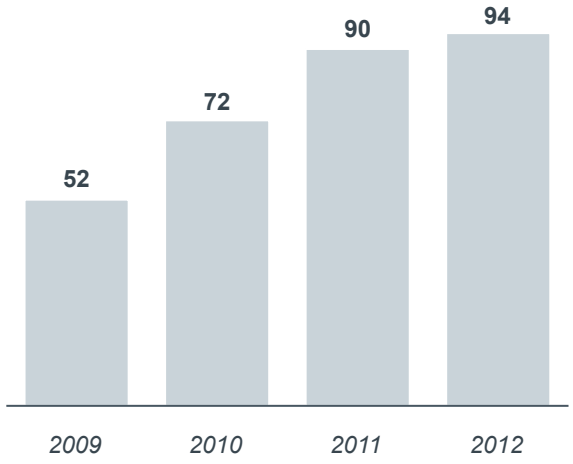
1. The old business model for healthcare is dying
2. The new business model will emphasize outcomes and efficiency (quality and cost)
3. Patient service revenue and underlying costs will be under tremendous pressure
4. Payers may require integrated care organizations to participate (Medicare, Medicaid, PEBB)
5. Instability in the marketplace may drive new alliances
6. New core competencies will be a condition of success

How do we solve this problem?

- Design a model that:
  - Aligns all provider incentives. Everyone wins when the right care is delivered in the right setting at the right time
  - Stop building unnecessary capacity
- Share the pain. Funding cuts need to be born equally among the stakeholders, including patients
- Patient and family engagement
  - Consequences for personal choices
  - Not all healthcare intervention is helpful
  - End of life decisions

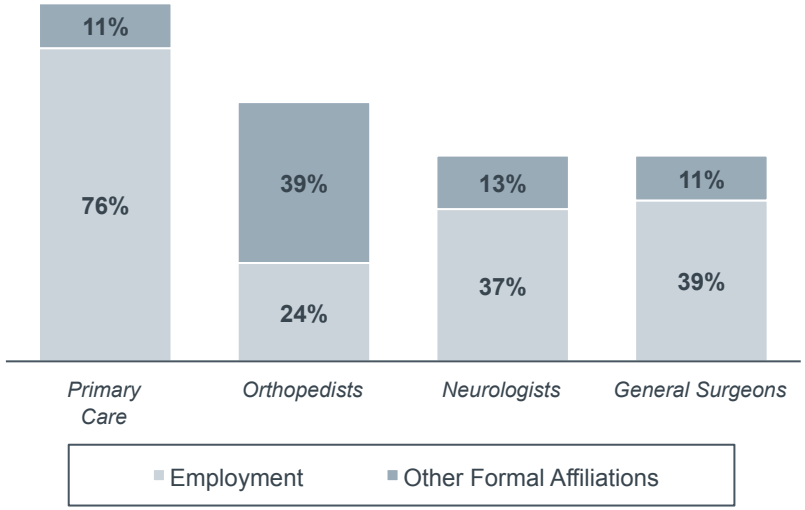
Hospitals in Search of Scale

Hospital Mergers and Acquisitions



Hospitals Employing or Affiliating with Physicians

n=46

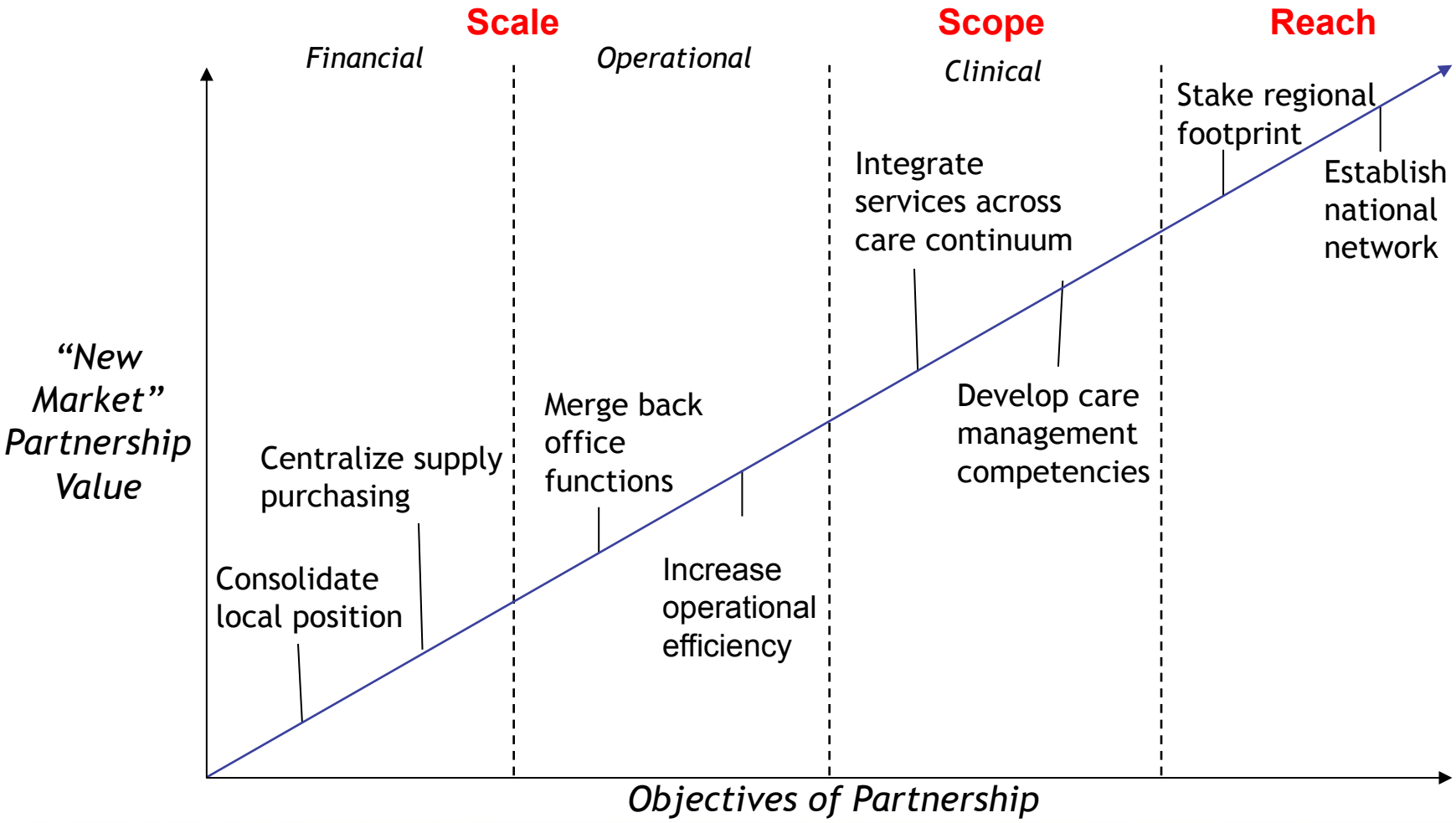


Traditional Motivations for Consolidation

- Increase negotiating power
- Control referral pathways

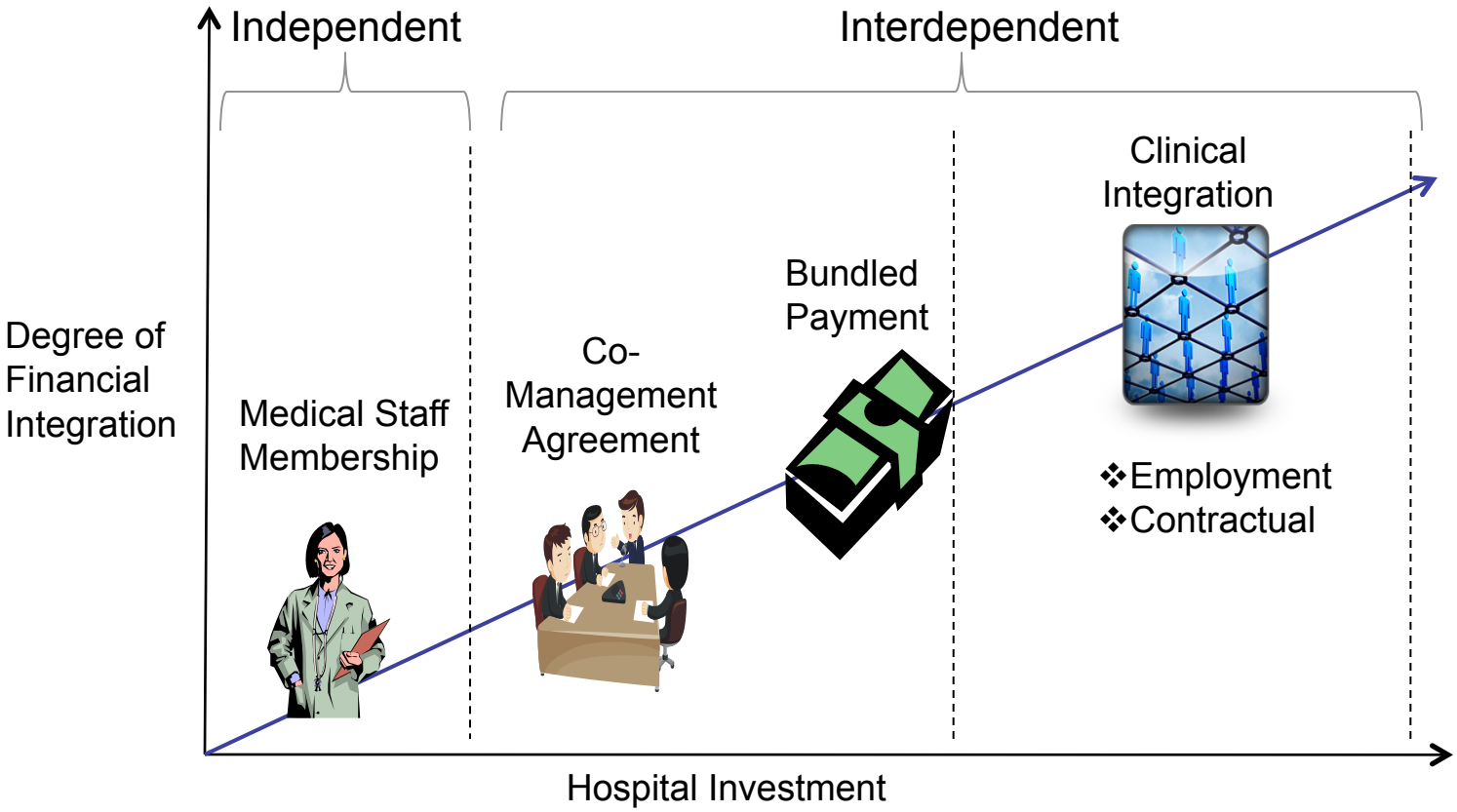
Source: Advisory Board Survey on Physician Employment Trends; Irving Levin Associates, "The Hospital M&A Market Report, Third Edition, 2012," available at: www.levinassociates.com; Health Care Advisory Board interviews and analysis.

The New Rationale of Partnership Rapidly Evolving



Source: Health Care Advisory Board interviews and analysis.

Hospital-Physician Relationships



Source: Health Care Advisory Board, Playbook for Accountable Care, 2010

Any Questions??

THANK YOU!!