



The Governance Institute's E-Briefings



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Welcome to The Governance Institute's E-Briefings!

This newsletter is designed to inform you about new research and expert opinions in the area of hospital and health system governance, as well as to update you on services and events at The Governance Institute. Please note that you are receiving this newsletter because you are a Governance Institute member or expressed interest at one of our conferences.

News, Articles, and Updates

For Board Members Only: 10 Trends That Will Define Healthcare in 2012

The future of healthcare has always been challenging to predict with precision. This prediction has gotten even more difficult as we shift into the implementation of healthcare reform, begin an election year, continue to have a struggling economy, and anticipate a pivotal Supreme Court decision regarding mandating health insurance coverage. Based on our experience, the following is our best advice for board members and senior leaders to guide strategic thinking for 2012.



Steven T. Valentine, M.P.A.
*President
The Camden Group*



Guy M. Masters, M.P.A.
*Senior Vice President
The Camden Group*

1. The Economy

The current economy is slowly improving, yet still fragile with significant exposure to unemployment and the European economy. This will continue to have an effect on the healthcare industry. The failure to address fundamental federal and state government spending issues and restructuring of debt both domestically and globally will impact tax rates and fees, restrict access to capital, decrease portfolio value, and prolong high unemployment. Expect further pressure on balance sheets, operating margins, and reimbursement reduction from government payer sources.

In the Boardroom

- Unemployment levels and trends are still good barometers of economic shifts in direction. Watch this indicator for signs of potential improvement in 2012.
- Monitor the impact of economic trends on your cash flow and balance sheet—many organizations are examining affiliation options because of balance sheet and operating

margin erosion. Is there a merger or other transaction in your future?

- Continue to track increasing bad debt and charity care.

2. Hospital–Physician Alignment

Physician employment will remain the number one method of hospital–physician alignment. It continues steadily without respect or prejudice to specialty or physician type. There are still independent physician holdouts, and most hospitals must balance a pluralistic approach to meeting the needs of independent as well as employed physicians. The need to achieve clinical integration among both employed and independent physicians must be addressed if hospitals expect to respond successfully to healthcare reform.

In the Boardroom

- In addition to employment, consider co-management agreements with physicians in key service lines.

- Evaluate shared risk hospital pools and creative narrow network health benefits for your employees.
- Aligning incentives with physicians financially and clinically is more important than ever to reduce costs and improve quality. Physicians must be the champions for cost reduction through clinical care redesign. In order to succeed, physicians must lead (how is your organization fostering physician leadership?).
- Make sure that your physician alignment strategy is integrated with your IT plans.

3. Healthcare Reform

As expected, key elements of reform are locking into place on schedule. Most notably are forays into bundled payment, narrow network health plan products, ACOs, and value-based purchasing activities. Regulations and formulas that impact provider reimbursement are complicating payment processes and levels, and will become more invasive over the next three years. Health insurance exchanges at the state level loom around the 2014 corner, and many are already in active development. You must monitor this trend closely (it is all about the benefits and network composition).

In the Boardroom

- Are you preparing for bundled payment (whether or not you expect to participant with Medicare)? In urban markets, commercial payers will likely be your first experience with bundled payment rather than Medicare.
- Whether or not you pursue an ACO or bundled payment contract this next year, preparing to accept and manage financial risk for a defined population will be a critical core competency to develop in the next three years.

4. Revenues and Expenses

Expect in 2012 that per unit revenues will increase at a rate below your cost trends. Medicare payments will increase less than 2 percent, and most states are likely to hold Medicaid reimbursement flat (and in some cases decrease). Commercial payers will likely hold rate increases in the range of 4–6 percent. We do not expect Congress in an election year to take long-term action on the sustainable growth rate (SGR), although there is a lot of talk and awareness regarding the need to do so. The good news is that if you are aggressively working on quality improvement initiatives, this will help reduce the

rate of cost increases. Some payer initiatives do provide for increases in revenues tied to improved quality performance. Value-based purchasing, bundled payment, readmission rate reductions, ACOs, and other risk arrangements have the potential to be financially rewarding to lower-cost, high-quality providers. Reducing costs must be a top operational priority for 2012. At the same time, the rate of patient throughput and occupancy levels must increase in both inpatient and outpatient settings to create economies of scale and to maximize use of resources.

In the Boardroom

- You must set a target to be profitable on Medicare patients by 2014 (do you know if you do already?). If your costs are higher than Medicare reimbursement, measure the gap and develop a plan to close it.
- Co-management agreements and other risk-sharing activities should also be explored as methods to increase volume, improve quality, and reduce expenses through standardized processes and evidence-based clinical protocols.
- If they have not done so already, your finance staff should provide the board with scenario modeling to test the impact of potential reimbursement cuts.

5. Capital Access

This single factor is driving many organizations to reassess their financial health, given their current margins, critical mass, and market position. Capital access is a key catalyst for mergers, sales, affiliations, and other alliances for many hospitals. Capital access will be more difficult in 2012 than in the recent past because of the economy, weak volumes, deteriorating payer mix, and bad debt. Nearly every independent hospital board is examining the questions, “Can we remain independent?” and “Should we remain independent?” Does your board have rational answers to these questions?

In the Boardroom

- Proactively undertake scenario planning to evaluate strategic mergers and alliances so that your board is prepared when approached by others to consider opportunities. Clearer thinking prevails when tough issues are considered with the luxury of time rather than when under intense pressure. You may choose not to take any action at all, but the discipline of the analysis and exercise will be strategically illuminating.

- You must know the level of resources that will be required for the next five to 10 years to achieve your organization's goals and meet critical capital requirements.
- Monitor market activities closely and constantly test whether a creative and proactive approach to new relationships might hold benefits that were not feasible in the past.

6. Information Technology

While the past was all about "the money," the future is all about "the data." Useful, actionable data that informs clinical and financial decisions in real time is now becoming a key driver to increasing revenues and reducing expenses. Good, useful data (clinical and costs) is the gold standard; insurers have the cost side, and they have capitalized on its value in contract rate negotiations. Hospitals and physicians must now compile more robust data that includes both cost and quality. In 2012, Medicare will provide more open access to its databases regarding hospital and physician-specific information. IT systems and strategies must be robust enough to capture enormous amounts of data and quickly translate and integrate it into useful decision-making (clinical and financial) and marketing information.

In the Boardroom

- Is your organization meeting meaningful use criteria to qualify for federal incentives?
- Involve physicians in the early stages of IT planning and implementation to ensure relevance, usefulness, and buy-in to strategies, software selection, and processes that directly impact them.
- Ensure that your IT roadmap will provide a smooth journey down the path of continued implementation and optimal utilization of CPOE, EMR, and HIE technologies.

7. Consolidations, Closures, Alliances, and Mergers

Is there a significant transaction in your organization's future? Our prediction is that healthcare reform will continue as presently configured, and one out of 20 acute care hospitals could close by the year 2020. Is this the case in your particular service area? In many states, expect to see further consolidation and alignment among hospitals and medical groups of all sizes as they join together to improve access to capital, form ACOs with critical mass and broad geographic coverage, achieve cost reductions

through economies of scale, and improve bargaining power with payers (which are already largely consolidated). By 2020 most states are likely to have a handful of large systems, with very few true independent hospitals without some type of alignment with other organizations. Our view is that the great majority of practicing physicians will be in employment-like arrangements with larger medical groups, hospitals/health systems, or insurance companies.

In the Boardroom

- Realize that entering into a merger or affiliation is not "giving up." Determine the best strategy to meet your mission, and make it work to the maximum advantage of your organization, the community you serve, the medical staff, and associates and other stakeholders.
- If you are seeking to create critical mass, consider whether the optimal strategy is to align with another large organization, or for you to be the "consolidator" that draws others to you. What are the benefits, risks, and trade-offs of each strategy?

8. Clinical Integration and Care-Delivery Redesign

Processes associated with both of these concepts are at the core of the "golden triangle" of cost-containment, quality improvement, and financial performance. The success of healthcare reform hinges on doing these things well. Success factors for clinical integration and care-delivery redesign in 2012 include focus at all points of the care continuum: primary care (medical home), acute care (throughput and protocol adherence), and post-acute care coordination (case management). This will require more effective coordination of case management, hospitalists, intensivists, and IT decision support and communication functions. They must all be integrated to create seamless delivery and transitions of care. Post-acute care modalities also must be integrated to a greater degree into care delivery processes in order to achieve more cost-effective quality outcomes.

In the Boardroom

- Request regular board updates on clinical integration and care redesign processes and effectiveness.
- Ensure that palliative and hospice services are included proactively and to a greater degree to manage expectations and address end-of-life issues with patients and their families.

- Be open to exploring innovative economic alignment models with physicians to incentivize buy-in and support for clinical integration and care redesign processes.

9. Workforce Issues

Operating costs will need to be reduced by up to 10–20 percent in most organizations over the next three to five years. This magnitude of reduction will require further cutbacks in non-clinical staffing levels, outsourcing functions to less costly vendors, reducing or holding wages flat, and adjusting benefits to remaining staff. Expect more pressure from organized labor strikes, demand for staffing ratios, and other workforce actions in response. At the same time, hospitals must create a culture of accountability and ownership at all levels of the organization in order to achieve high-productivity levels and employee satisfaction scores.

In the Boardroom

- Boards will need to explore management restructuring, reorganization, and other right-sizing adjustments to reduce costs. This will have an impact on recruitment and retention of high-quality staff, as more must be done with less. Many systems will need to closely examine the functions and value they provide, and go through similar right-sizing exercises to minimize administrative overhead and ensure value-adding services.
- Workforce training (and retraining) may be necessary to support the clinical care redesign efforts being implemented. What is your organization's commitment to training and workforce development?
- Evaluate opportunities to dispose of excess property, under-performing assets, and poor-performing programs.

10. Smart Growth

Inpatient and select "elective" outpatient use rates will continue to decline in 2012 due to continued high unemployment, more cost-shifting to

employees for benefits and services, and increased price shopping and postponing non-critical medical care. In spite of all the pressures against growth, leadership must discover ways to selectively grow market share that will improve profitability.

In the Boardroom

- Be innovative and willing to test the waters with bundled payment, ACOs, and exploring risk-sharing arrangements with selected physicians and other partners.
- Is there a way to grow market share with a strategic alliance or acquisition of a group or organization with specific service expertise, equipment, skill, or a brand niche?
- Are there physician specialties that should be augmented or added to increase capacity, build market awareness, and draw, or increase visibility among, specific population segments?
- Are your patient satisfaction scores where they should be? It's easier to retain existing loyal patients than it is to find new ones.
- Is the board maintaining the long view of the organization's role in the market—are there alliances that should be formed that will achieve an overall greater good for a large population that extends beyond the current service area boundaries that you have?

Last Word

The boardroom is where the future of the organization is envisioned, articulated, broken down into prioritized desired outcomes, approved, and delegated to management for execution. Difficult times create opportunity for bold leadership and legacy decisions. This is such a time, and board members must lead their organizations forward into an uncertain—and at the same time exciting—future. Good boards will weigh the facts and then make the tough decisions that will achieve the optimal future state of the organization they lead. Commit to making 2012 your organization's best year ever!

The Governance Institute thanks Steven T. Valentine, M.P.A., president, and Guy M. Masters, M.P.A., senior vice president, of The Camden Group (Los Angeles, CA). Both are strategic and business advisors to hospitals, health systems, medical groups, and health plans nationwide. They are frequent speakers at industry conferences, board retreats, and other strategy meetings. They can be reached at (310) 320-3990, or at svalentine@TheCamdenGroup.com and gmasters@TheCamdenGroup.com.