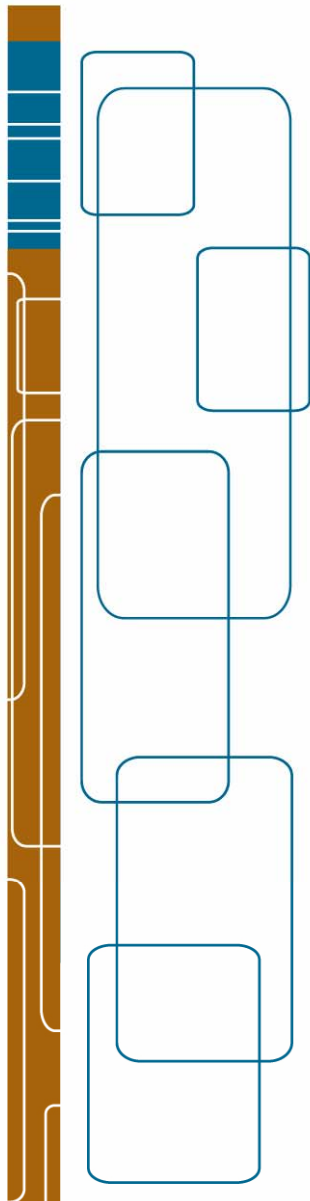


State of Healthcare - 2006

Overview, Implications and Projections

Indiana HealthCare Executives Network

Wednesday, November 8, 2006

PHASE 2 CONSULTING
A Division of RehabCare

Road Map

- **The National Picture**
  - ➢ Economics of Healthcare
  - ➢ America's Hospitals
  - ➢ America's Physicians
  - ➢ Public Medical Care
  - ➢ Healthcare Coverage Gap
- **Implications for the Industry**
- **Pricing Transparency Summary**
- **The Strategic Imperative**
- **A Futuristic View**

“Even small healthcare institutions are complex, barely manageable places…Large institutions may be the most complex organizations in human history”
~ Peter Drucker

America's Healthcare Dollar

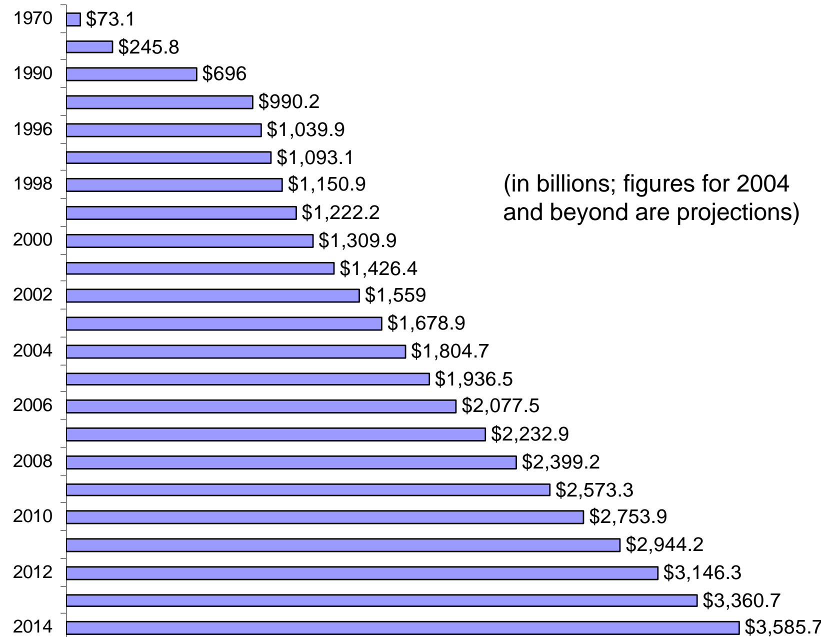
	Sources	Uses	
Private Insurance	36¢	31¢	Hospital Care
Medicare	17¢	22¢	Physician
Medicaid	16¢	11¢	Rx
Out-of-Pocket	14¢	7¢	Home Care
Other*	17¢	7¢	Administration
		22¢	Other**
	$1.00	$1.00	

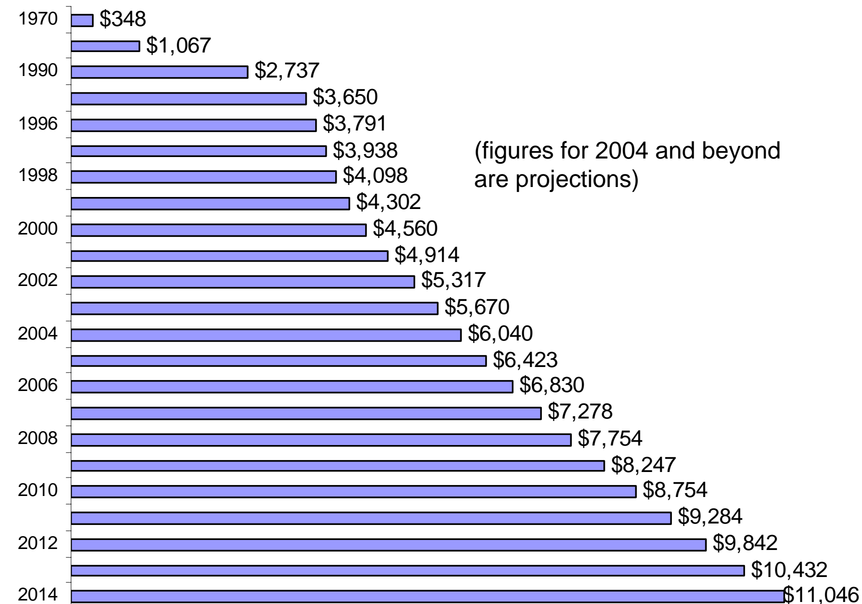
*Workers Comp, VA, Defense Dept., Philanthropy, etc.

**Dental, DME, Over-the-Counter Medicine, Research, Construction, etc.

Source: CMS, 2003

National Health Expenditures & National Health Expenditures per Capita

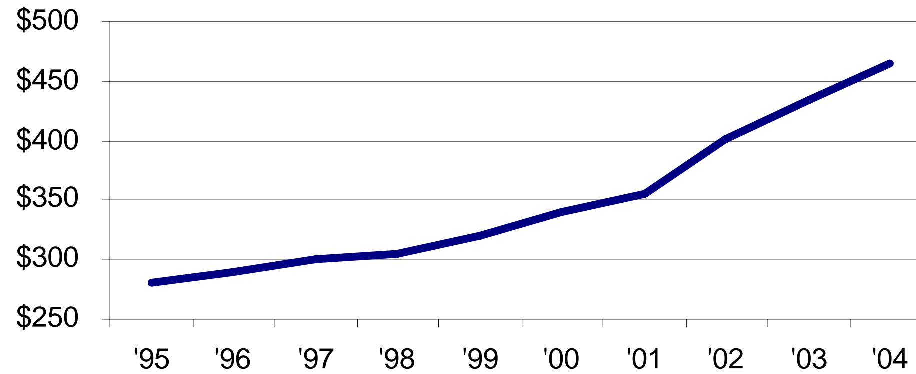




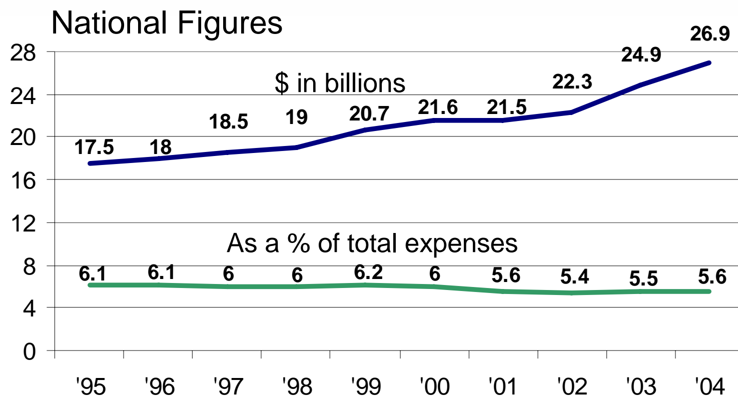
Source: CMS

Hospital Performance

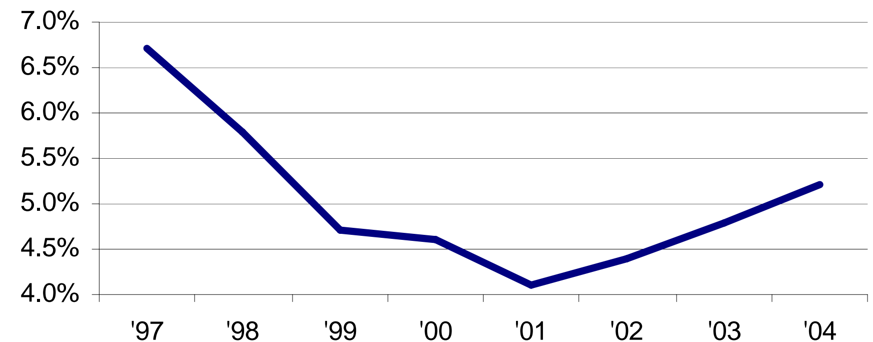
Net Patient Revenue (In Billions)



Uncompensated Care at Hospitals 1995-2004

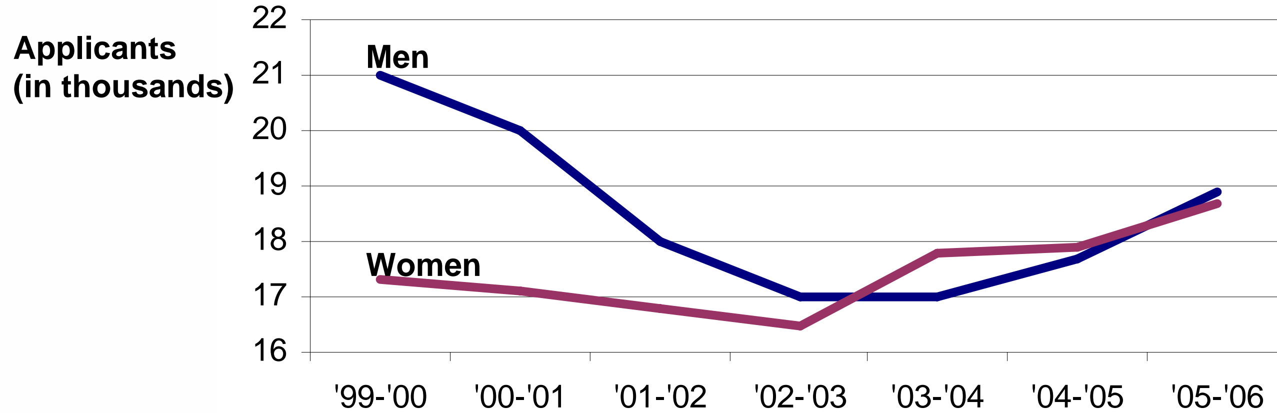


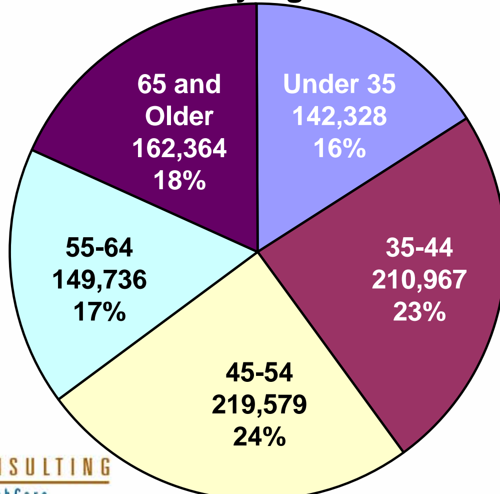
Total Margins for U.S. Hospitals (%)

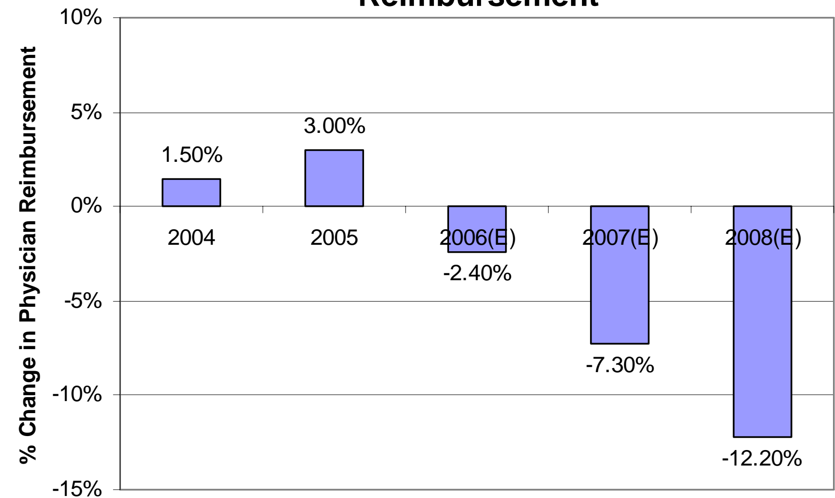


Source: American Hospital Association

America's Physicians







Source: Advisory Board

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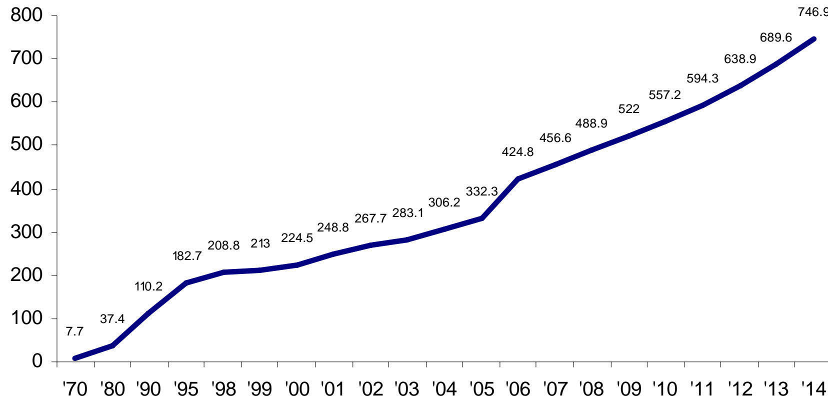
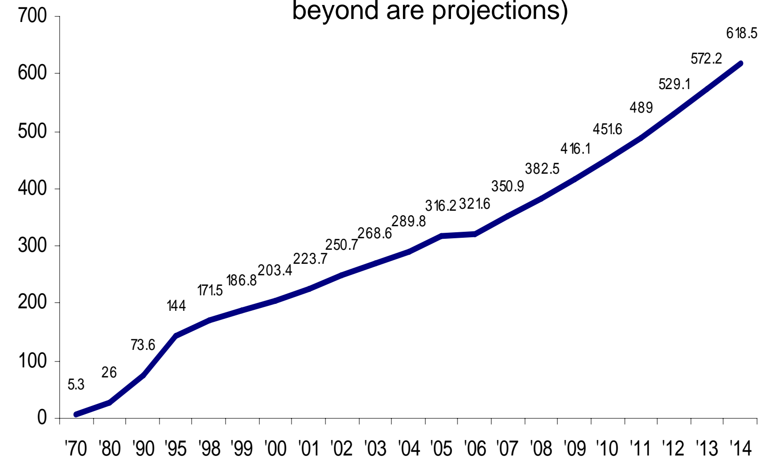
America's Public Medical Care - Medicare and Medicaid

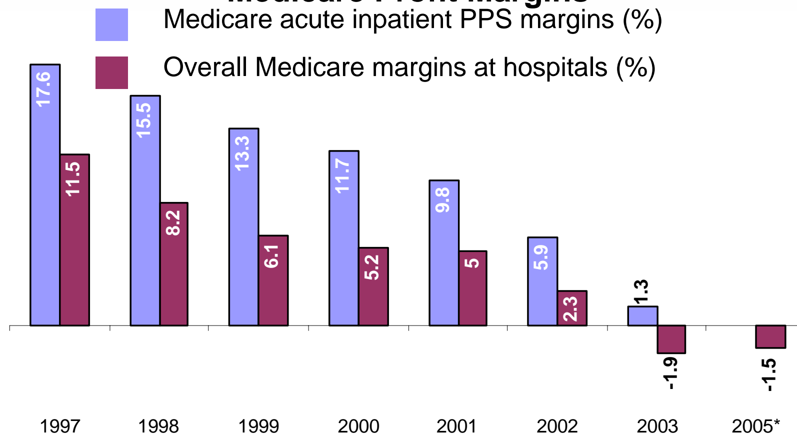
Total Medicare Spending, 1970-2014
($ in billions; figures for 2004 and beyond are projections)



Total Medicaid Spending, 1970-2014
($ in billions, includes SCHIP expansion; figures for 2004 and beyond are projections)

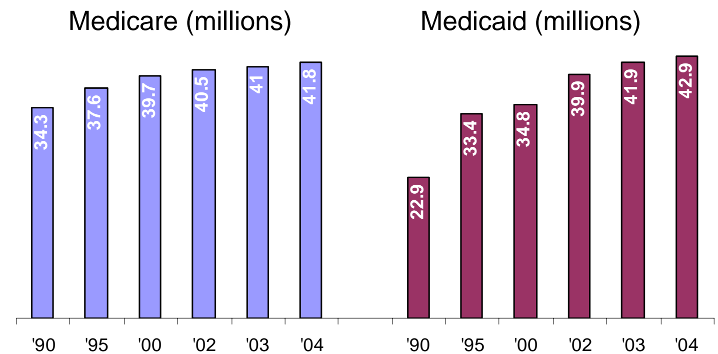


Medicare Profit Margins



*Projections that reflect policy changes implemented in 2004 and 2005

Medicare and Medicaid Enrollment



*Includes State Children's Health Insurance Plan Enrollment
Source: Medicare Payment Advisory Commission

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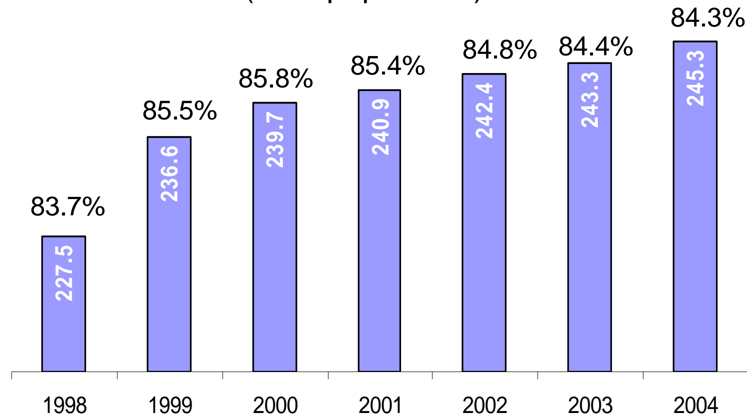
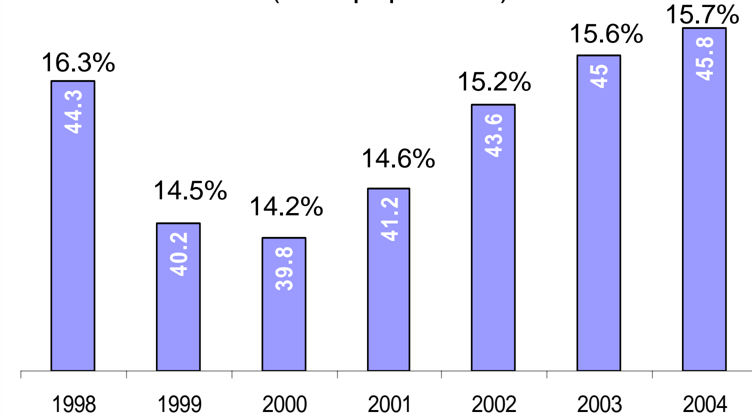
America's Healthcare Coverage Gap





Who are the Uninsured?

%	Category
31.4%	18-24 years of age
25.9%	25-34 years of age
24.3%	Income less than $25K
32.7%	Hispanic
44.1%	Not a US Citizen
25.8%	No work experience

(% of uninsured)

Source: U.S. Census Bureau

A Complex and Uncertain Path

1. Health Policy

- *Soaring governmental deficits and growth in and cost of chronic disease management will force further reductions in reimbursement and expanded rationalization of services*
- *Healthcare cost outpacing economic growth and impacting competitiveness*
- *Shift in tax base as "Boomers" enter retirement*
- *Future hospital and physician payments linked to performance (quality and safety)*
- *Emergence of "transparency" in cost and quality*

FACTS:

- *Medicare enrollment today 42M; in 2030 77M*
- *More than 70M Americans will have two or more chronic conditions in 2010*
- *Americans paying taxes to the Medicare Trust Fund will fall from 4 to 2 for every retiree in 2040*
- *14% of Medicare enrollees responsible for 76% of Medicare spending*
- *$849.6B…est. cost of Medicare drug benefit, 2006 – 2015*
- *$12B…est. spending on healthcare IT, 2006*
- *$20.1B…est. healthcare construction start cost, 2005*

Health Policy….. a “footnote”

- ***Just who are these “Boomers”? ****
  - Age of oldest “Boomer” in ’06………………….. 60
  - Number of “Boomers” (’06)..…………………... 78.2M
  - # People turning 60 each day ………………….. 7,918
  - % Women among “Boomers”…………………… 51%

** Baby Boom generation was born from 1946 through 1964*

Source: Census Bureau and USA Today

2. Clinical Services

- Growth in chronic disease care and management…medical rather than surgical
- Increased public scrutiny of clinical quality and safety
- Increased focus on disease specific strategies
- Technology targeted toward non-invasive, outpatient modalities and care initiatives
- Growth in "disruptive" technologies
- Physicians becoming the strongest competitor or ally to hospitals

FACTS:

- *Six (6) Areas most likely to impact demand for care:*
  1. *Increased patient cost sharing*
  2. *Increased number of uninsured*
  3. *Revival of administrative controls from managed care*
  4. *Demographic trends*
  5. *IT*
  6. *Medical technology*
- *Obesity will influence demand more than aging.*
- *Outpatient surgical cases will grow to 42M in 2006 and 48M by 2010.*

3. Business, Finance and Competition

- Further shifting of the insurance risk of care.
- Expansion of debt sources and further consolidation
- Continued Uncertainty of revenues and cash flows
- Continued threat of specialty "niche" player competition.
- Capital availability and cost limitations for new technology
- Increasing pressure to provide specialty coverage incentives (ED and Trauma esp.)
- Further shift to "product competition" rather than hospital competition

FACTS:

- *Operating cash flows will become central in credit quality*
- *3 most commonly cited capital projects*:*
  - *Digital radiology (imaging)*
  - *CPOE*
  - *Information technology*
- *Differentiated out-of-pocket copays and coinsurance will be introduced*
- *Demonstrating value will require "transparency"*
- *ASCs total 3,700 centers (40% growth since 1996); 70% of surgeries performed in ASCs.*

** HFMA Survey*

4. Human Resources

- Continued challenges in recruiting and retaining RN and Allied Health Professions.
- Uncertainty of future physician manpower and ability to meet specialty demand.
- Requirement to "remake" workplace in ways to attract young and highly motivated workers.
- Increasing partnerships with educational institutions.
- Potential for further unionization.

FACTS:

- *Structure shortages created by:*
  - *Demographics of an aging population requiring more care*
  - *Growth of overall size of industry*
  - *Alternative employment opportunities*
- *Since 1985 the number of Allied Health training programs have declined:*
  - *Clinical lab – 60%*
  - *Nuclear medicine – 30%*
  - *Radiography – 21%*
  - *Respiratory therapy – 67%*
- *Women represent 26.6% of practicing physicians. (2004)*

5. Consumers

- Higher expectation of service and value – retail orientation
- More ethnically diverse
- Staying active longer and living longer
- Knowledgeable and web savvy
- Assuming more of the insurance role…consumer driven health plans may add to increased risk burden
- Open to holistic and alternative options and therapies

<u>FACTS</u>:

- *125M Americans have a chronic illness*
- *1/3 of US population uses some form of alternative therapy, and it is est. 2/3 of the population will do so by 2010.*
- *The number of chiropractors is expected to increase from 55,000 in 2004 to 103,00 by 2010.*
- *85% of HMOs believe the relationship between alternative and allopathic medicine will grow closer*

The Imminence of Pricing Transparency

- *The Background and the Basics*
  - *Why it Will Happen*
  - *Who Will Drive the Initiative*
  - *What it Will Mean*
  - *How to Respond*

- *The Practical Implication and Application*

- *What it Signifies on a Broader Scale*

The Reality

Hospitals are under increasing pressure from a variety of groups and organizations to become more transparent and to validate quality and value

Why It Will Happen and Why Does it Matter

- *Outgrowth of the marketing/consumerism push of the 90s and recent years*
- *More economic accountability by consumers/patients*
- *Publicity on "retail" pricing for the uninsured calls attention to overall pricing (return of $15 Tylenol or $5,000/day stay)*
- *Begging the question of relative cost/quality issue for healthcare services: rising concern over diminishing value*

Who Will Drive the Initiative
The convergence of multiple interests

- *Insurance Companies (i.e. Aetna, Humana experiences)*
- *Employer push*
- *Consumers/patients*
- *Legislation (i.e. California, Florida)—the Bush Push*

Humana in Milwaukee
An Outlier or a Harbinger

- *Health plan web site compared estimated prices for 30 inpatient and 6 outpatient operations/tests at area hospitals*
- *Colonoscopy range from $940 (Milwaukee Endoscopy Center) to $3,050 (Froedtert Memorial Lutheran)*
- *Hip replacement range from $20,600 to $41,800*
- *Key component of plan for the Business Health Care Group of Southeast Wisconsin—effort to "lower healthcare costs"*

Engagement by the Employer
Awaking a Sleeping Giant

- *Employers facing daunting reality of diminished competitiveness due to rising benefits costs*
- *Response ranges from shifting economic burden to encouraging healthier lifestyle*
- *No more “Mr./Ms. Passive”—just taking what they get*
- *Employers do not view providers as partners—no historic link or affiliation*

Empowered and Informed Consumer/Patient
With Accountability Comes Awareness

- *Increased out-of-pocket, co-pay and deductibles precipitate heightened interest in comparative costs*
- *Push to HSAs and other consumer-driven market mechanisms increase desire for transparency*
- *Internet proves not only the "democratization of American medicine," but the commoditization of healthcare services*
- *Publicity on hospital prices increases interest, awareness and concern (i.e. CBS 60 Minutes)*

On the Political Waterfront
Legislative Mandates and State Actions

- *What's happening at the state levels (California, Florida as bellwethers)*
- *Legislative initiatives at the federal level*
- *The Bush push for consumer-driven mechanisms and market deliverance*
- *HHS, AHA, THA—All the acronyms are in sync and aligned*

The Practical Implication and Application
Understanding the Pricing Configuration

- *Get clear on the current pricing structure and impact*
- *Review the options and the ramifications*
- *Consider a three-tiered approach*
- *Outline the opportunities for strategic pricing*
- *Profile how the shift would align competitively*

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What it Will Mean
Boon for Some, Bane for Others

- *Likely to catch many hospitals and systems off guard*
- *Competitive advantage to the well-prepared*
- *Market agility and retail acumen come into play*
- *“This changes everything”*

How to Respond
A Plan for All Reasons

- *Realize it's a matter of when, not if*
- *Understand pricing configuration and variability*
- *Compare pricing among competitors (market position)*
- *Establish communication strategy and channels*

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- *Profile how the shift would align competitively*

What it Signifies on a Broader Scale

What's This Really About?

- *A move toward price transparency is only the beginning*
- *This represents a possible sea change in healthcare*
- *To follow—quality transparency, retail orientation, extreme competition (i.e. Big-Box healthcare, Minute Clinics, etc)*
- *How will your organization compete under that model*
- *What is the best time to begin the transformation*
- *Pioneer, second-wave or late adopter*

"Hospitals and Health Systems cannot be all things to all people"

Anonymous

Future Strategic Imperatives

1. *Reassess and redefine the strategic vision and operational mission.*

2. *Identify service line and clinical priorities and disproportionately allocate capital and leadership resources to develop, succeed and sustain them.*

3. *Aggressively pursue and establish mechanisms for engaging and partnering with physicians.*

4. *Recognize competition will be based on quality and service metrics, thus position the institution to compete with a "pay-for-performance" culture.*

Three Scintillating Scenarios that require consideration…….

- *Status-quo and the Quandary"… a.k.a.* "Eventual Meltdown"
- *A Move Toward Nationalized Care… a.k.a. "*The Hillary Step"
- *Consumerism as Crown Prince…a.k.a*. "Market Mavens"

A Futuristic View

Scenario 1: Status Quo: Quandary and Meltdown

- Not much dramatic change in the next three-five years
- Industry continues business as usual—to a large extent
- Increased emphasis on specialized services (drilling down on the service lines)
- More consolidation, economies of scale come to play
- Quality becomes an eventual differentiator
- Hospitals either play hard ball or get an expansion team with physicians as key players
- Government plays a more active role, but not radically so
- Employers grouse and take much more active role
- Consumerism limps along, some strides, mostly window dressing

Scenario 1: Implications

- Smaller clients may struggle
- Differentiation is based on fierce market competition
- Concerted interest in sub-service line planning (emphasis by SG-2, Advisory Board)
- Thinning margins, graying hair—executives under increasing pressure
- Physician play becomes the key in most markets
- Cost containment only goes so far—new strategies emerge
- Government squeezes more on the reimbursement
- Hospitals redefine their approach and venue
- Consumerism brings heightened emphasis on strategy and market focus

Scenario 2: Nationalized Care: The Hillary Step

- Government begins gradual assimilation of health care industry—Uncle Sam, MD
- Starts out with nationalized insurance (like Taiwan)
- Most things left unchanged in the near term
- Consolidation of services to low bidder—Centers of Excellence
- Quality measurements as differentiator—CMS the Judge
- Expediting of rebasing DRGs—niche players struggle
- Inefficiencies prompt call for greater oversight
- Gradual displacement of smaller/rural players
- Big winners- Government agencies, efficient providers, maybe managed care
- Big losers—inefficient providers, niche players, entrepreneurial physicians

Scenario 2: Implications

- Emphasis is on efficiency, quality
- Clients will need to rethink their approach to patient and market positioning
- Clear understanding of government operations required to survive
- Operational focus more than market-oriented approach
- Physician play still important in terms of strategic bundling
- Concentration on meeting pre-determined requirements
- Narrowing of services may be essential for survival (gaining contracts)
- Hospitals reconsider their strategic orientation—back to the future (CON, facility planning, etc)

Scenario 3: Consumer-Crown Prince: Market Mavens

- The market-orientated approach is given a chance to reign
- HSAs and rising consumerism take center stage
- Strategic differentiation is based on market factors, such as consumer appeal, convenience, cost, quality
- Consolidation brought about by market discipline—small players and/or financial weaklings are toast
- Insurance companies play reduced role as intermediary
- Emphasis on strategy, marketing, perception positioning
- Niche player nirvana
- Employers accede role to employees/consumers
- Big winners-marquee names, savvy providers, entrepreneurial players and physicians
- Big losers—small, high-priced, campus-focused providers

Scenario 3: Implications

- Emphasis is on market position and consumer-focus
- Clients will need to ramp up their marketing and strategy
- Strategic planning becomes an imperative
- Marketing and PR function become kingpins
- Communication becomes crucial
- Transparent pricing becomes a reality
- The Disney approach to patients emerges as crucial
- Hospital and health systems mirror other market-driven-industries
- Physicians and entrepreneurs become even greater competition or more strategic allies
- Prompts the largest # of changes in the C-suite

At the End of the Day…

…Trends with Little Bend

- Strategic planning—ultimate value in the *process*
- Reinvention--emphasis on innovation and new product/revenue stream identification
- Quality strategy--with physicians as drivers
- Positioning to key audiences
- Service line orientation and structure—managing the maelstrom
- Communication—learning Greek for Healthcare executives
- Pricing—transparent and strategic
- Efficiency is always in style (and demand)
- Physician relations as the missing (but essential) link

So, What Does it Mean for IHEN--Considerations

- What are the trends/issues that concern you most? Why?
- What 3 or 4 things presented are most germane to your market?
- Does your current strategic plan synch with expected direction?
- What does your organization need to do (or continue doing) to ensure that the plan synchronizes with expected market direction?
- How does your hospital develop plans and alternatives for adjusting to dramatic market shifts and remaining competitively agile?
- Does your strategic plan (as it exists) adequately match community needs, optimize resources, and stretch the management team’s abilities?
- What are you missing, or what needs more attention?

References

- Modern Healthcare, December 19, 2005, "*By the Numbers*"
- Futurescan, "*Healthcare Trends and Implications 2005 – 2010*"

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