Health Care Group

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Health Care Reform Implications?

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Discussion

- The starting point…of a wild summer
- 2009 health issues in the 111th Congress
- What's being promised…
- A few predictions & implications for Community Hospitals

The Starting Point... of a Wild Summer

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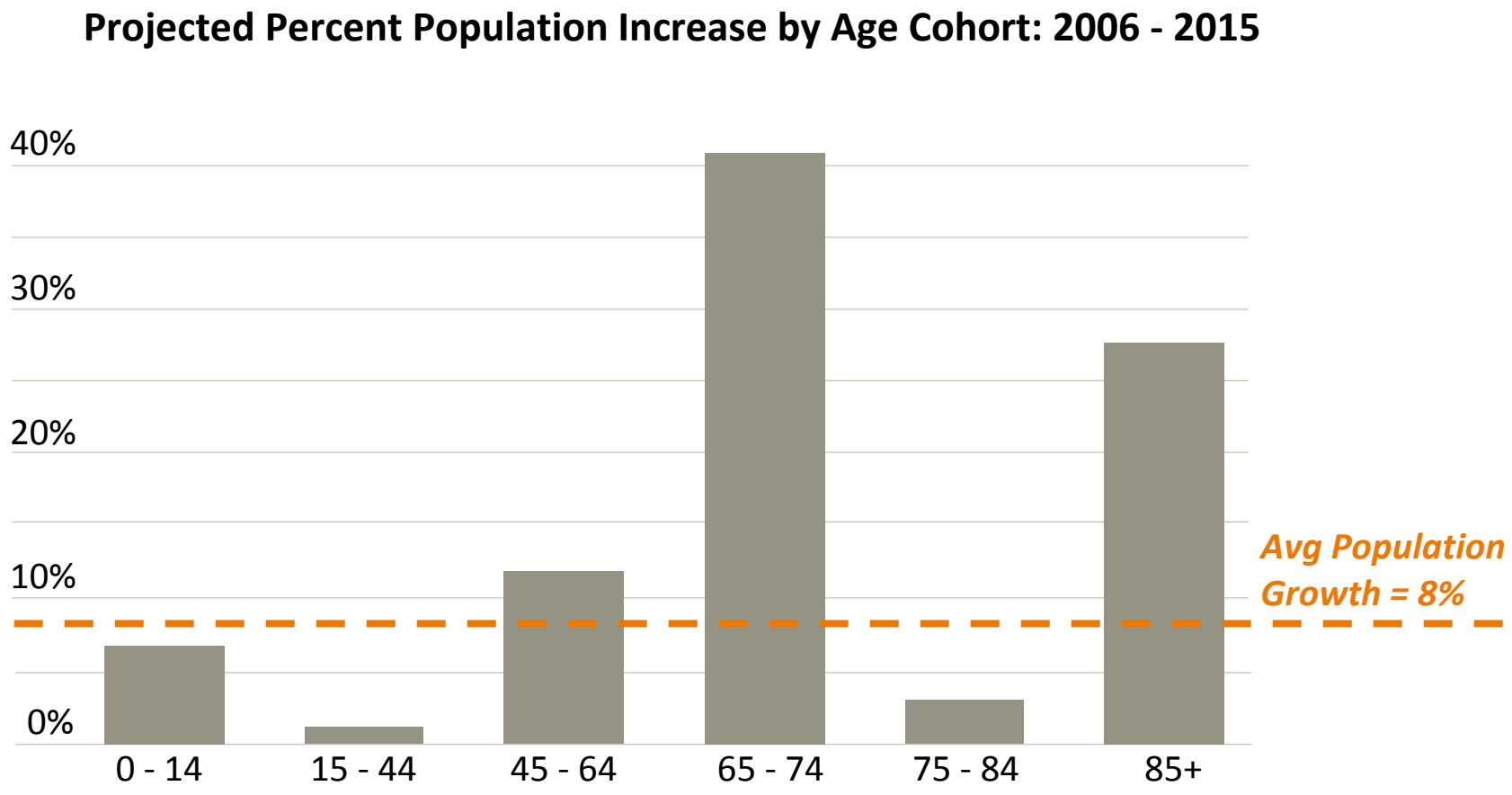
Unresolved issues in the reform discussion

- Demographics
- Utilization based on paying for tasks vs. results
- Commercial Insurance is the critical factor of hospital profitability

We're not getting any younger!

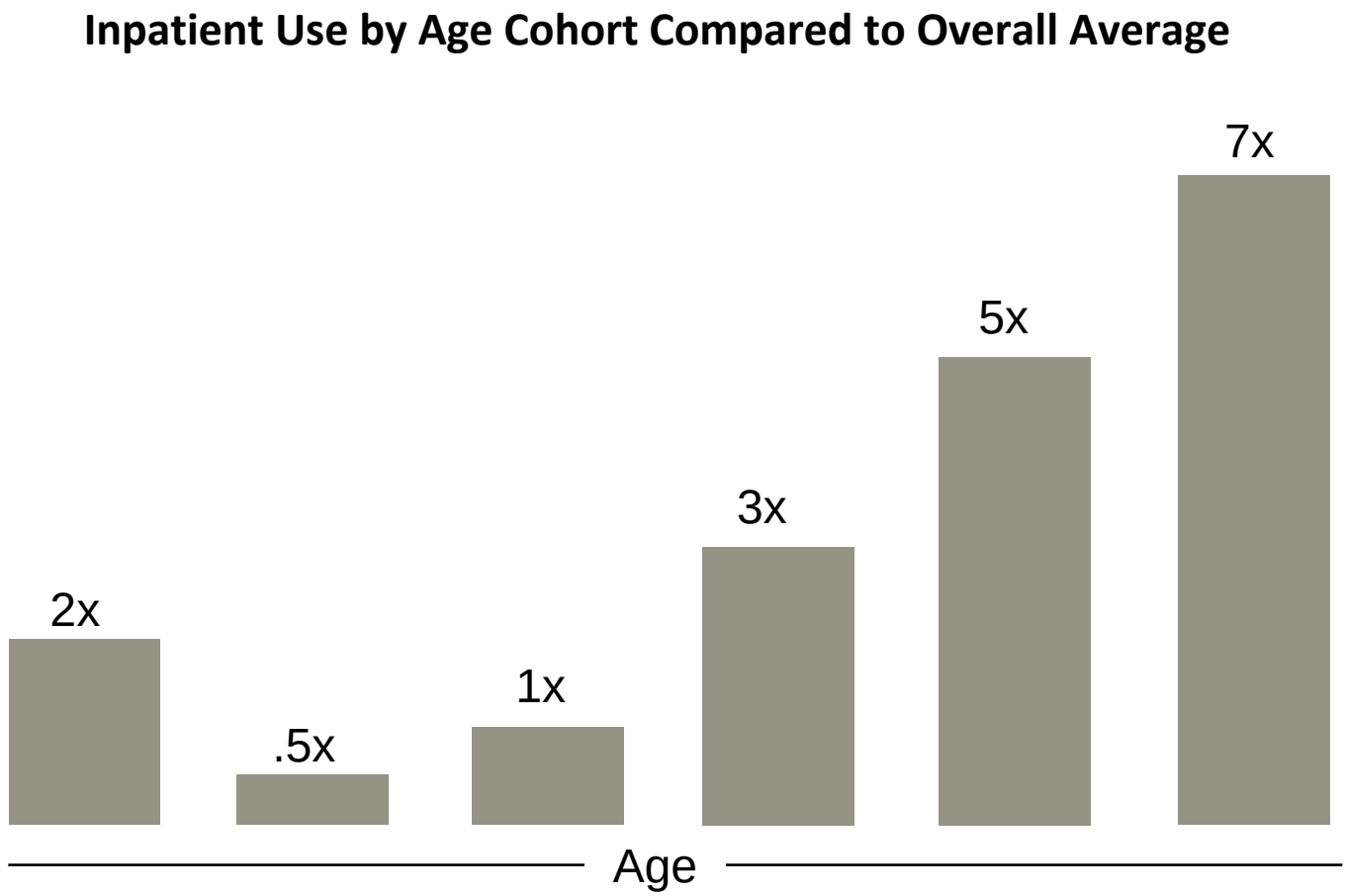
Baby boomers get old & the old live longer



Source: U.S. Census Population Estimates and Projections

The older we get, the more we use…

Inpatient utilization per age cohort



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Paying for tasks completed…over utilization

- Health care as % of GDP projected to exceed 20% in 10 years
- Per capita cost is 2.4 times average of other industrialized countries
- $50 billion in overhead & administrative costs
- Higher input costs compared to our global competitors add another $100 billion
  - U.S. physicians earn twice that of other industrialized nations
  - Diagnostic testing levels and associated costs are huge
  - Rx costs 10% to 30% higher
- Hospital utilization in U.S. is actually far less than other industrialized countries – but it costs much more

Source: JAMA, June 18, 2008

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Paying for tasks completed…over utilization

Overutilization is a huge driver of our costs

- 3 times as many MRI scanners
- High rate of surgical and cardiovascular interventions
- 4th highest per capita consumption of prescription drugs
- High utilization of expensive brand name drugs

Source: JAMA, June 18, 2008

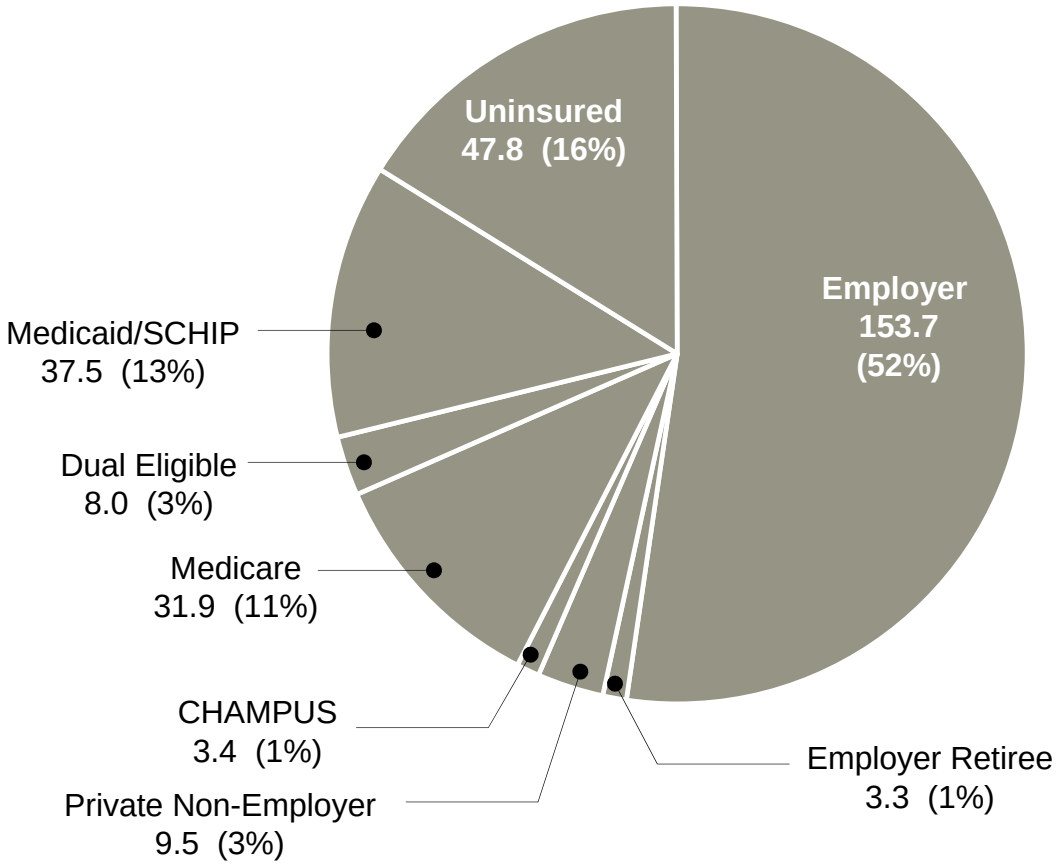
Factors driving over utilization

1. Physician culture
2. Perverse FFS incentives
3. Lack of physician decision support
4. Defensive medicine
5. Patient preference for high tech intervention
6. Direct to consumer marketing
7. Lack of consumer accountability for cost
8. Societal demand to do all that is necessary

Source: JAMA, June 18, 2008

Employer-based coverage…

Yet remains the foundation of U.S. health care financing in terms of number of people covered

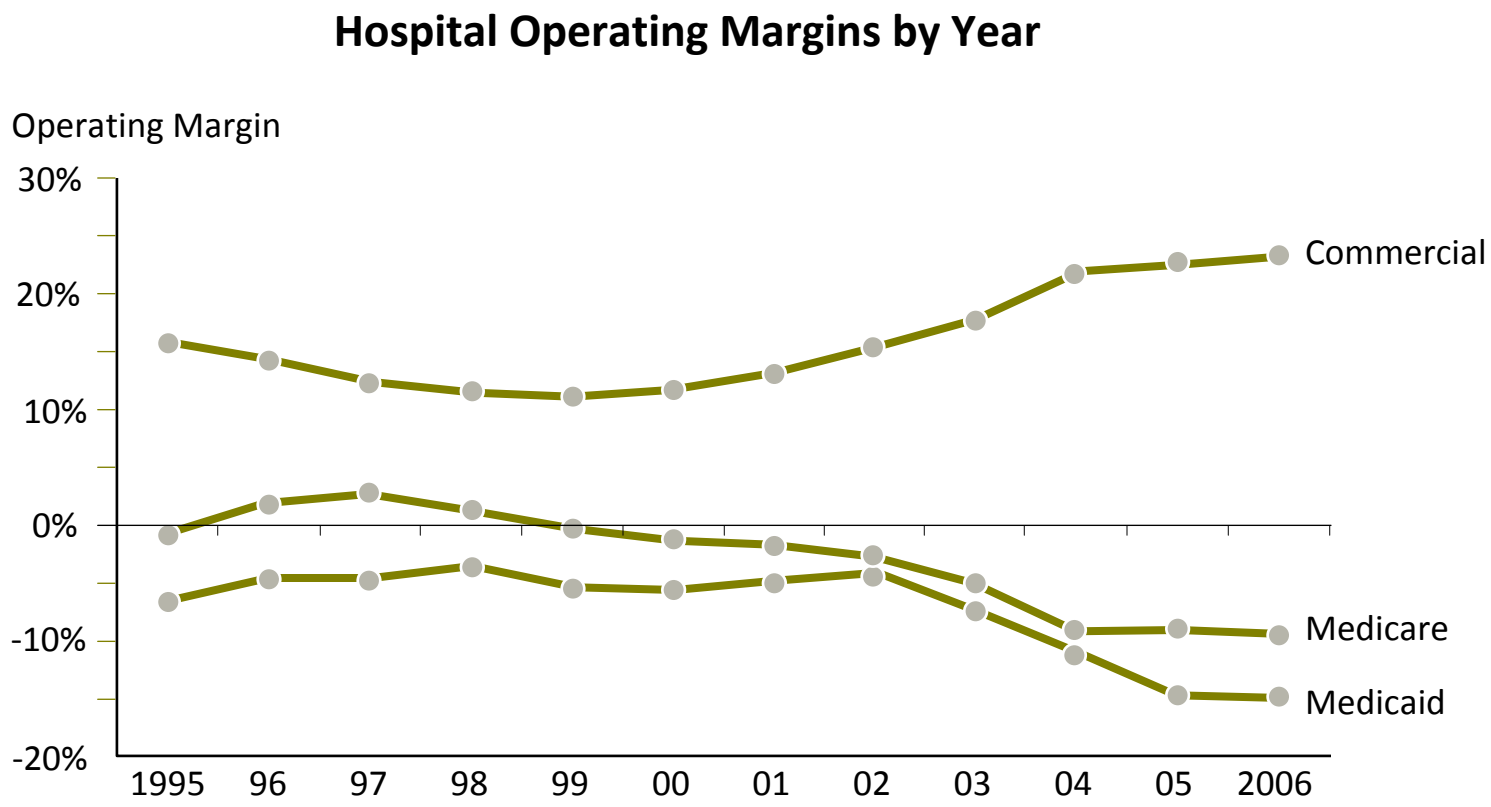


Source: *The Lewin Group for The Commonwealth Fund. Steve Wetzell,* Healthcare Roundtable for Managed Care and Revenue Officers, April 16, 2009

Commercial insurance…

Most hospitals lose money on Medicare/Medicaid, but remain profitable based on commercial insurance margins

- Providers have little room left to 'cost shift' to compensate



Source: AHA survey data

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Our starting point for reform discussion

- The demographics are against us
- Americans continue to demand “choice”
- Our society still wants all services to extend life…
  - …as of yet, no societal consensus on end-of-life quality
- U.S. health utilization is high
- Employer provided commercial insurance is the bedrock of hospital profitability…

Upshot: collapse the employer-sponsored/commercial Insurance sector through a government health plan for all (like Medicare), and then hospital/physician Economics will be turned upside down

Health Issues in 111th Congress

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2009 health issues in the 111th Congress

American Recovery and Reinvestment Act • Increased Medicaid funding to states (FMAP) • COBRA extension and support • Health Information Technology (HIT) investment • Other possible hospital supports	Passed
SCHIP reauthorization and expansion	Passed
FY 2008 budget	Passed
FY 2009 budget	In Process
Health care reform	High Priority
"Card check" legislation	Throughout the year
Freedom of Choice Act (abortion)	
Recovery Audit Contractor expansion (RACs)	
Continued scrutiny of tax exempt status and accountability	

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Large blocks of money in inflexible sectors…

MAJOR EXPENSE SECTORS	2008 (BILLIONS)	PERCENT
Security/Defense	$656	22%
Social Security	$610	21%
Medicare/Medicaid	$602	21%
Net Interest	$244	8%
Subtotals	***$2,112***	***72%***

Plus $1 trillion in deficit spending…

…limits continued growth in health spending

This summer will be wild

On the left, progressive schism between single-payer and public-private advocates…health coverage for all, single federal plan

On the right, conservative/market oriented focus on desire to end employer sponsored healthcare coverage without turning to a federally run health plan vs. those who wish to do nothing

What's Being Promised

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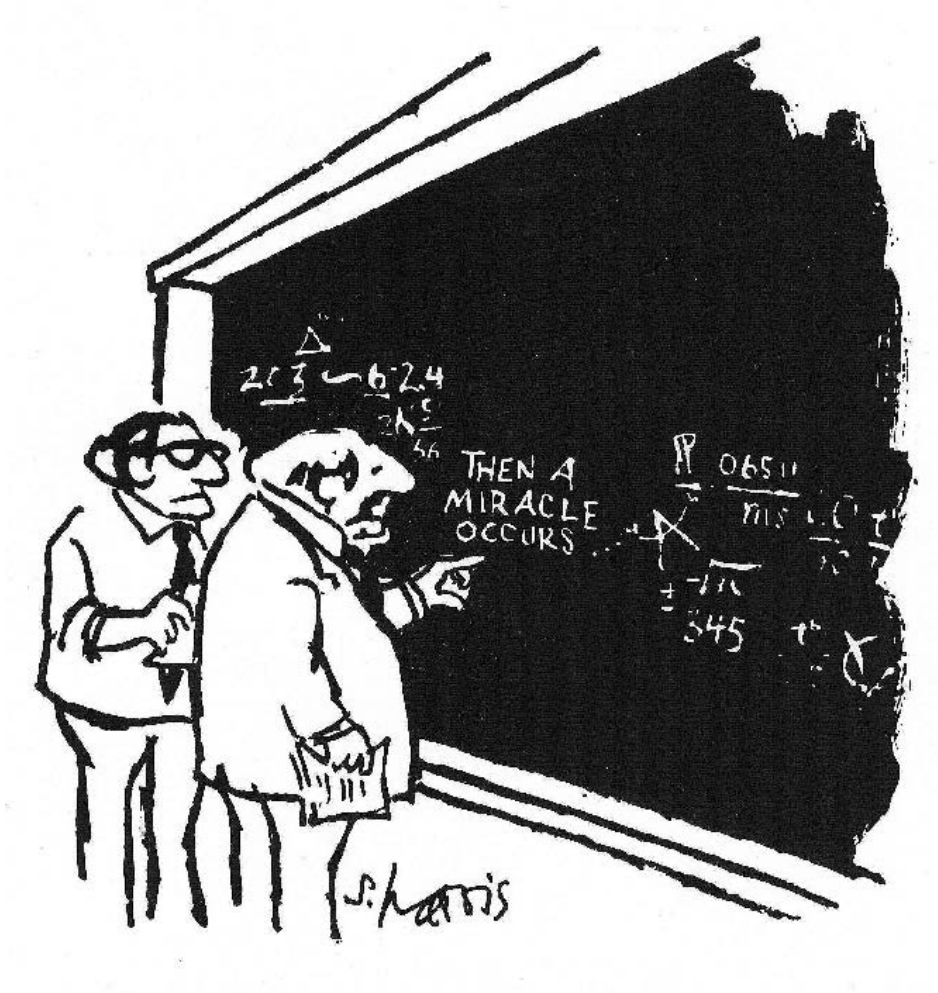
What's being promised – key talking points

- Coverage…… More
- Choice…… More
- Eligibility…… All
- Affordability…… Improved
- Health status…… Improved
- Costs…… Lower
- Savings…… Greater

Issue: Reform

Some fashion of health care reform will occur…



"For every complex problem, there is a simple solution

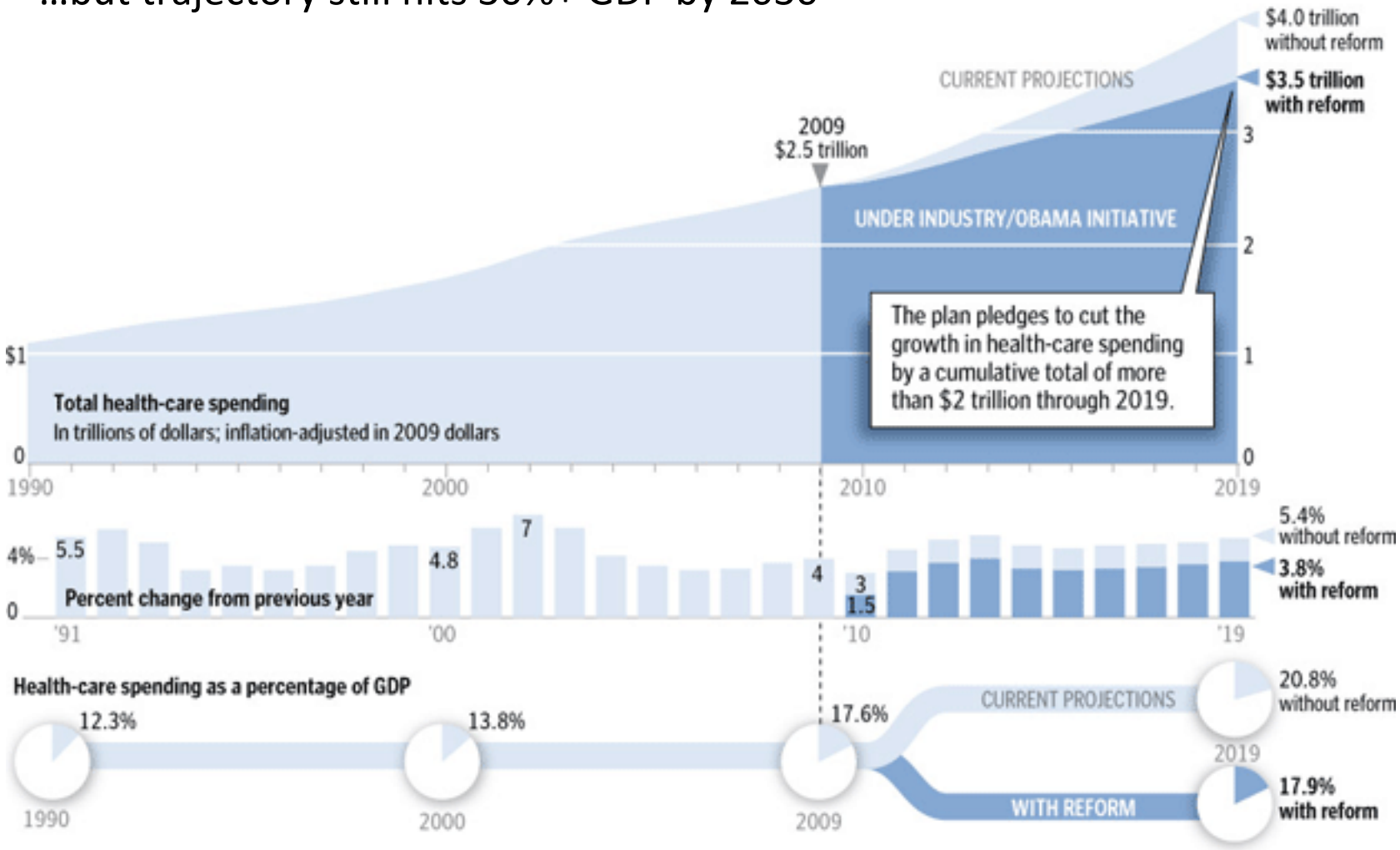
– and it is wrong"

H.L. Mencken
Early 20th Century
American Journalist/Satirist

What's being discussed…

Incremental savings that add up over time

…but trajectory still hits 30%+ GDP by 2030



Source: White House Office of Management and Budget | By Karen Yourish and Laura Stanton - The Washington Post - May 12, 2009

Our early thinking…

"Reform Light"
Expanded coverage for uninsured…

- Funded in part by redistributing Medicare and Medicaid pool of funds (i.e., reimbursement cuts) to offset costs and mounting deficit
- Some new dollars (i.e., deficit spending) for those newly insured run by private sector insurers under new Federal regulation
- We will retain mechanisms (i.e., tax credits) to ensure employer funded insurance and private insured run plans

Obama administration

Health care reform goals

- Expand existing programs
  - Commercial – employer mandates
  - Medicaid – expanded eligibility
  - Medicare – expanded access
- New public health plan – similar to/or expansion of Medicare
- Restrictions on hospitals/physicians to payments (e.g., bundling)
- National Health Insurance Exchange
- Information transparency, maintain free markets

Will it work?

- Coverage …… Yes
- Transparency, P4P, Bundling …… Yes/No
- Affordability
  - Individual short term …… Maybe
- Affordability
  - National/Individual long term …… No

The secret ingredients

- Spend, spend, spend…
- Health insurance for everybody ASAP
- The U.S. rich will pay for a lot of it…
- …and the Chinese will loan us the balance
- In about 30 years everything will be fine

…….Trust us!

A Few Predications & Implications for Community Hospitals

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A few predictions

#1 "Fundamental Change" = "Reform Light"

#2 Multiple payors with variable margins to providers continue – the free market

#3 Acuity-valued reimbursement continues, more bundling

#4 Quality of care delivered increasingly important

#5 No solutions for long-term costs other than reimbursement cutbacks

What about "reform major?"

- Achieve a clearer understanding of the "health care" that society should finance for each of us
  - Indirect rationing not an effective cost control strategy
- Why?
  - Can't curb the advance of demographics or technology of utilization
  - Continued tax and cost share increases not viable
  - Can't "productivity" our way out of the problem
  - Not ready for end-of-life quality discussion
- Not prepared for this dialogue today
  - Maybe 2012-16? Possibly 2016-20? Maybe never!

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Implications for our community hospitals

- Medicare and Medicaid rates..... Reduced
- Charitable non-operating support..... Reduced
- Disproportionate share..... Endangered
- Clinical operating margins..... Reduced
- Capital intense project capability..... Reduced
- HIT implementation investments..... Priority
- HIT Cost..... Overwhelming
- Care model redesigns..... Priority
- Drive toward integrated care..... Long term
- Make margin on Medicare..... Priority

Implications for our community hospitals

- More competition for higher acuity procedural volumes across payor classes
- More competition for highest margin commercial payor classes – increased diversion to keep beds available for these cases
- Looming “value” (outcome/cost) fight for market share in the major strategic services
- Geographically close multi-hospital systems selectively pursue clinical integration/rationalization of high-cost clinical services

Implications for our community hospitals

- Compete on 'value proposition' regarding secondary and selected complex care
  - Get up-to-speed in the data war
- Succeed in multi-disciplinary delivery
  - The "Care Model"
  - Employed or "Aligned" medical practices
  - Physicians & Hospitals MUST work together
- Build perception of "Best Care"/"Best Hospital"
  - Branding and communications
  - Definition of "Best" not well-defined

Where do community hospitals go?

The future will be different, but…

"…you all look so familiar!"