

Key Trends and Implications for 2009

Steven T. Valentine for HealthLeaders News, January 9, 2009

While 2008 brought hope and despair, 2009 will bring concern and focus. We've identified 10 trends based on our work with clients throughout the United States that will have a significant impact on our healthcare delivery system. These trends will direct board members and senior management to focus and concentrate their resources to address the very difficult year ahead.

Here are our 10 trends and the key issues that should be discussed in the boardroom.

The Economy

Although healthcare is generally seen to be recession-proof, hospitals are not immune to rises in general delivery costs, as well as spikes in patient premiums and co-pays. Many unemployed workers accessing healthcare benefits through COBRA will find premiums unaffordable. Retail healthcare services will see a drop-off in use, despite discounting of prices. Hospitals should prepare for corresponding drop-offs in volume, as well as higher incidences of uncompensated care.

Executives and their boards should conduct monthly, or even weekly, review of accounts receivable, collection, and write-off policies. Creativity with pricing policies, payment plans, and discounts for early payment are encouraged.

Healthcare Reform

President-elect Obama has targeted the following goals for healthcare: reduced costs, enhanced IT, and increased access. Undoubtedly, expansion of the State Children's Health Insurance Plan will be advanced quickly. The trickier notion of universal coverage will require cooperation and compromise between Senators and House Representatives, along with business. Expect efforts by the government to negotiate with pharmaceutical companies for significant discounts on behalf of Medicare recipients, reduce payments to the Medicare Advantage health plans, and tighten or close the Part D "Donut Hole."

Executives and their boards should examine their exposure to Medicare Advantage volume. Should your system partner with a health plan, such that you may offer a private label "branded" universal care product in your market?

Other options include:

- Monitoring new competitors. Community agencies, which served the uninsured, will now compete for those insured patients.
- Avoiding capitation payment risk for Medicare HMO contracts.
- Formulating a plan to support IT integration with your medical staff?

Workforce Supply

The losses in annuities, whole life insurance, 401Ks, IRAs, retirement savings, and real estate values will bring retired nurses, physicians, allied health professionals, and management out of retirement or prompt those close to retirement to reconsider.

Executives and boards should work with their human resource departments to use creative ways to tap into this returning workforce and develop flexible part-time programs. They should also monitor employee and customer satisfaction as workers return or stay when they thought they would be retired, as this could lead to dissatisfaction in the ranks.

Other options include:

- Monitoring traveller and registry use, and consider forming an individual "pool" of floating employees.
- Establishing a physician employment or contracting model that permits physicians and nurses to work one to four days per week (part-time) with the hospital taking responsibility for managing the practice.

Capital Expenditures

It has become and will remain difficult to borrow money to undertake major capital expenditures. Expect lenders to look for "preferred relationships" with health systems through commitment to multiple financings and movement of money and investment accounts to the lending bank. Interest rates will be higher than historical levels, covenants will be strict, and obtaining an investment grade rating will be more difficult. Obtaining credit enhancements will become almost impossible.

Other options include:

- Examining possible reductions in the size of your borrowing.
- Assuring that a clear process for prioritizing capital expenditures exists that matches up with strategic and operating objectives.
- Selling underperforming assets.
- Doubling your efforts in fundraising and grant writing.
- Considering leasing versus buying.
- Considering a merger or acquisition by a stronger health system.
- Focusing on improving your operating performance. Business development opportunities in surgery, imaging, and the emergency department are available.

Community Benefit/Tax-exempt Status

As the government experiences its own reduction in revenue, expect challenges and greater scrutiny of hospitals' tax-exempt status and the corresponding community benefit. Executives and boards should discount and monitor community benefit activities. Scour your activities to identify *all* that you do.

Other options:

- Encouraging your workforce to get involved in volunteer activities coordinated and sponsored by your organization.
- Monitoring upcoming 990 disclosures and educate yourself as to the information and rationale as to why the amounts are what they are.
- Ensuring a strong, well written community benefit plan and maximize your public relations effort.

Utilization Decline

The recession, higher unemployment, and the increased cost of healthcare with larger co-pays will decrease utilization, especially in the retail and elective care (e.g., plastic surgery, chiropractors, physicians, ambulatory surgery, and imaging).

Executives and boards should maximize revenue by improving resource utilization through advanced hospitalist models, palliative, and home care.

Other options include:

- Managing variable expenses to actual volumes.
- Exploring cash discounts to help with demand for services.

- Targeting higher-income communities with more personal service or extras. Think service and value!
- Strengthening core service lines by continuing to invest in top-notch physicians and efforts to enhance quality and reported outcomes.

Increased Organizing by Labor

President-elect Obama and the Democrats benefited by the strong support of organized labor in the election, which has expectations and demands in return for their efforts. Increased organizing efforts through the use of "card check" activities and efforts to establish nurse and allied professional staffing ratios at hospitals should be anticipated.

Executives and their boards should expect nonorganized hospitals and possibly large medical groups to experience organizing efforts by the unions. Monitor employees' feelings, turnover, reasons for leaving, and satisfaction. Make sure you stay close and communicate with them.

Other options include:

- Actively supporting your industry associations in their efforts to deal with mandatory staffing ratios.
- Monitoring efforts by labor to place limits on overtime.

Continued Transparency

Expect continued efforts to publicize quality, patient safety and pricing information. Both the government and private industry (e.g., health plans, employers) will provide greater access to information and make improved efforts at accuracy, timeliness, and relevance.

Executives and their boards should monitor relevant public databases that measure quality, patient safety, and pricing.

Other options include:

- Working with management to demonstrate value (what outcome at what price).
- Redoubling efforts to improve quality and patient safety. Ensure that systematic processes exist and that they are in place to correct problem areas).
- Continuing to manage down your expense per operating unit and by episode of care).

Greater Physician Alignment

Expect a continuing physician shortage. Primary care will suffer the most. Conversely, some physicians battered by investment and retirement losses may knock on your door seeking full or part-time employment. The baby boom physicians could become discouraged and resentful of a profession that has not met their expectations. Further, expect Representative Stark to review efforts to restrict or eliminate physician investment in healthcare services in which they can refer. Monitoring physician satisfaction will therefore be crucial for executives and their boards.

Other options include:

- Communicating with physicians and identify their needs. Seek to find solutions through collaboration with economic benefit to the doctor and the care delivery system.
- Educating yourself around medical staff redesign. What is your hospital's plan for assuring effective integration with physicians?
- Monitoring increased turf wars between physicians over patient flow and procedures. Does evidence-based information indicate who has the superior outcome?

Changing Delivery Models

Expect to see new delivery models emerge through medical homes, palliative care, telemedicine, and outsourcing. New payment methods, along with outcome and price guarantees will continue to emerge and evolve (e.g., ProvenCare, acute-care episode, Prometheus). We could see a consolidation of freestanding imaging centers as they are required to offer multi-modalities and be certified.

Executives and their boards should monitor the growing number of new payment methodologies and pilot programs. Begin articulating your hospital's vision for clinical care delivery in 2012. Now is the time to create the structures, tools, and delivery models to get you there.

Other options include:

- Working closely with your physicians to explore new delivery models and assessing these changes based on their economics (expect greater use of NPs/PAs and telemedicine).
- Educating board members on these new delivery models.

As we anticipate 2009 and all of its challenges and promise, we are reminded how important it is for senior leaders to define the vision and concentrate the healthcare organization's precious resources in a few areas in order to optimize performance. In difficult times, superior leadership emerges to lead and perform.

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