The Governance Institute's E-Briefings

Volume 6, No. 1, January 2009

For Board Members Only: Key Trends and Implications for 2009

While 2008 brought us hope and despair, 2009 will bring concern and focus. Based on our work with clients throughout the United States, the following selected trends and their impact on our healthcare delivery system will direct board members and senior management to focus and concentrate their resources to address a very difficult year ahead.

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Here are The Camden Group's ten trends, their impact on health systems, and what should be discussed in the boardroom:

1. The Economy

We are in a recession and healthcare is no longer immune to the condition of the economy due to higher premiums, copays, and the costs of healthcare services. You should expect higher bad debt and uncompensated care and some drop-off in volume. Many unemployed workers accessing healthcare benefits through COBRA will find premiums unaffordable. Retail and elective healthcare services will see a drop-off in use, despite discounting of prices.

In the Boardroom

- *Monitor pricing policies and be creative in new payment policies and discounts for early payment.*
- *Review revenue cycle processes: watch days in accounts receivable and review collection and write-off policies.*
- *Monitor access points to the health system (e.g., ED, clinics, ambulatory sites), consider selling the underperforming centers and work closely with other community agencies who may be able to provide services and meet the patients' needs.*
- *Double efforts to improve hospital operating performance; focus on managing per unit expense down.*

2. Healthcare Reform

While universal care has been offered as an approach to improve coverage for the uninsured, much more information needs to be developed regarding such a large effort. Undoubtedly, expansion of the State Children's Health Insurance Plan will be advanced quickly. Universal coverage will require cooperation and compromise between Senators and House Representatives, along with business. President-elect Obama has targeted the following three goals for healthcare: reduced costs, enhanced IT, and increased access. Expect efforts by the government to negotiate with pharmaceutical companies for significant discounts on behalf of Medicare recipients. Further, expect reductions in payment to the Medicare Advantage health plans and a tightening or closure of the Part D "Donut Hole."

In the Boardroom

- *What is your exposure to reduced Medicare Advantage volume and reimbursement, such that reductions or no increase in payment will impact your income?*
- *Should your system partner with a health plan, so that you may offer a private label "branded" universal care product in your market?*
- *Monitor new competitors, as community agencies that served the uninsured will now compete for those insured patients (if covered by Universal Care).*
- *Hospitals should avoid capitation payment risk for Medicare HMO contracts.*

- *Do you have a plan to support IT integration with your medical staff?*

3. 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 get them to extend their working years.

In the Boardroom

- *Monitor traveler and registry use and consider forming your own "pool" of floating workforce.*
- *Establish 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.*
- *Work with your human resource department to use creative ways to tap into this returning workforce and develop flexible part-time programs (without benefits).*
- *Monitor employee and customer satisfaction as workers return or (stay in the work force defer retirement when they thought they would be retired). This could lead to an unhappy or dissatisfied workforce.*

4. 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 most likely 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.

In the Boardroom

- *Evaluate reducing the size of your borrowing.*
- *Assure that you have a clear process for prioritizing capital expenditures that matches up with strategic and operating objectives.*
- *Sell underperforming assets or non-essential assets.*
- *Double your efforts in fundraising and grant writing.*
- *Consider leasing versus buying.*
- *Consider a merger or acquisition with a strong(er) health system.*
- *Focus on improving your operating performance: opportunities in surgery, imaging, and the emergency department offer higher yield.*

5. 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.

In the Boardroom

- *Document and monitor community benefit activities. Scour your activities to identify all that you do.*
- *Encourage your workforce to get involved in volunteer activities coordinated and sponsored by your organization.*
- *Monitor the new 990 disclosures and educate yourself as to the information and rationale as to why the amounts are what they are (remember we are in a recession).*
- *Ensure a strong, well written community benefit plan and maximize your public relations effort.*
- *Review your charity and self-pay policies*

6. 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) and therefore, focus on clinical resources and cost management.

In the Boardroom

- *Maximize revenue by improving resource utilization through advanced hospitalist models and palliative and home care.*
- *Manage variable expenses to actual volumes.*
- *Reduce fixed expense where possible.*
- *Explore cash discounts to help with demand for services.*
- *Target higher income communities with more personal service or extras. Think service and value!*
- *Strengthen core service lines by continuing to invest in top-notch physicians and efforts to enhance quality and reported outcomes.*

7. Increased Organizing by Labor

President-elect Obama and the Democrats benefited by the strong support of organized labor in the election, and will face expectations and demands in return for that effort; expect increased organizing efforts through the use of "card check" activities and increased efforts to establish nurse and allied professional staffing ratios at hospitals.

In the Boardroom

- *Expect non-organized hospitals and possibly large medical groups to experience organizing efforts by the unions. Monitor employees' feelings, turnover, reasons for leaving, and satisfaction. Make sure your management stays close to and communicates regularly with employees.*
- *Actively support your industry associations in their efforts to deal with mandatory staffing ratios.*
- *Monitor efforts by labor to place limits on overtime.*

8. Continued Transparency

Expect continued efforts to make public quality/patient safety and pricing information available. 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.

In the Boardroom

- *Monitor relevant public databases that measure quality, patient safety, and pricing.*
- *Work with management to demonstrate value (what outcome at what price).*
- *Double your efforts to improve quality and patient safety. Ensure that systematic processes exist and that they are in place to correct problem areas. Take a look at your hospitals website and data presentation.*
- *Continue to manage down your expense per operating unit and by episode of care.*

9. More Physician Alignment

Expect a continued physician shortage with primary care suffering the most. Expect physicians, battered by investment and retirement losses, along with a weary public who will generate fewer office visits, to seek 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 renew efforts to restrict or eliminate physician investment in healthcare services in which they can refer.

In the Boardroom

- *Monitor physician satisfaction.*
- *Communicate with physicians and identify their needs and seek to find solutions through collaboration with economic benefit to the doctor and the care delivery system.*
- *Educate yourself around medical staff redesign. What is your hospital's plan for assuring effective integration with physicians?*
- *Monitor increased turf wars between physicians over patient flow and procedures. What does evidence-based information indicate regarding who has the superior outcome?*

10. Changing Delivery Models

Expect to see new delivery models emerge through: the medical home, palliative care, telemedicine, outsourcing, and so forth. 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 centers as imaging centers are required to offer multi-modalities and be certified.

In the Boardroom

- *Monitor the growing number of new payment methodologies and pilot programs.*
- *Work closely with your physicians to explore new delivery models and assess these changes on their economics (expect greater use of NPs/PAs and telemedicine).*
- *Board members should get educated on these new delivery models.*
- *Articulate your hospital's vision for clinical care delivery in 2012; begin now to create the structures, tools, and delivery models to get you there.*

As we anticipate 2009 and all of its challenges and promise, we are reminded to increase focus by management to define its vision and concentrate its 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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