

The Future of Delivery Systems in California

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Overview

- **I) Current Conditions**
 - Crisis and Retrenchment
 - Transition For Survival
- **II) Market Forces**
 - Market Changes
 - Regulation
- **III) Four Predictions on the Future of Delivery Systems in CA**

I) Current Conditions

Period of Crisis and Retrenchment- J. Robinson

➤ **Group Practices**

- 16 million Californians receive care from 250 physician organizations
- According to CMA:
 - 80 of the 300 groups- serious financial problems
 - In the last year, 34 groups have gone bankrupt or closed
 - 5 year total- 130 groups bankrupt or closed

Current Conditions

Group Practices- Continued Fall-out

- **Unhealthy Systems Continue to Close**
 - KPC Medical Management Inc.- largest for profit group in South Cal files for bankruptcy- 11/28/2000
 - Family Health Care of Ventura
 - Napa Valley Physicians 3/2001
 - 9/13 limited licenses have ceased operations-CMA

Current Conditions

Hospitals and Hospital Systems

- Between 1986-1997, 322 hospital ownerships, occurred in 213 hospital
 - most changes were the result of consolidations and mergers between hospital systems
 - 6 systems operate more than one-third of the state's hospitals: CHW, Tenet, Kaiser Foundation Hospitals, Sutter, Columbia/HCA and Adventist Health
 - 90% of ownership changes in urban areas

Current Conditions

AMCs and County Hospitals

- **Academic Medical Centers**
 - Closing ancillary services/ businesses (hospice and home health care programs)
 - Eliminating medical personnel
 - Renegotiating or dropping contracts with health plans
- **County hospitals** also struggling- L.A.

Current Conditions

Physician Workforce

- Code Blue- Physician March on Statehouse, April 25, 2001
 - Emergency and trauma centers overwhelmed
 - Diminishing access for patients to medical care
 - Growing statewide shortage of physicians

Current Conditions

Reasons for the Fallout

- Decreased reimbursement from BBA
 - CA ranked last among states in Medicaid payments/ 40th among Medicaid fee-for-service programs
- Insufficient payments from payers
- Inadequate infrastructure to manage financial risk and utilization
- Unable to manage out of network utilization
- Expansion of mandated benefits
- Increased pharmaceutical costs

Update on the Nation's Health Care System: 1997-1999, Health Affairs,
11/12/ 2000

Current Conditions

Backdrop

- Many plans are enjoying record profitability
 - Wellpoint Health Networks 1st Q profit rose 21%
 - HealthNet posted 21.4% increase in profit in Q1
 - Kaiser- increased membership, improved revenues
 - Blue Shield Ca- rated as one of the top 5 financially sound HMOs- Oct., 2000
- Except for plans with high percentage of Medicare and delegated arrangements

Current Conditions

Backdrop

- No shortage of physicians, despite “pockets” of scarcity- Silicon Valley

UCSF study, “The Practice of Medicine in California: A Profile of the Physician Workforce”

-more M.D.s are moving into CA now then in the past 6 years

- 177 M.D.s/ 100k in 1994

- 190 M.D.s/ 100k currently

Current Conditions

Transition For Survival

- Aggressive M&A strategies to achieve economies of scale
- Efforts to direct contract and disintermediate health plans
- Retrenching to core geographic areas
- Hospitals spinning off physician practices
- Multispecialty clinics breaking up into specialty specific clinics
- Moving away from direct contracting and disintermediating health plans

Robinson, Crisis and Opportunity for
Physician Organizations in California,
2001

Current Conditions

Transition For Survival

- Paid on Capitation
- Perform network develop., credentialing, claims payment, U.M., and quality reporting
- Contracting for volume
- Reducing or eliminating cap for hospital & pharmacy services
- Returning UM back to payers
- Terminating unprofitable volume contracts
- Increase in cap rates
- Increased involvement of the plans in the operations of the groups

Current Conditions

Survivors

- Healthy Systems are Growing and Expanding
 - HealthCare Partners acquired two regional physician groups in San Fernando Valley
 - Sunnyvale based Camino Medical Group- \$120 m facility to accommodate growing patient volume 4/29/2001
 - Sutter's net income increases 4/27/2001

II) Market Forces

- **Cost Shifting**
- **Move From Defined Benefit to Defined Contribution**
- **Regulation**

Market Forces Backdrop

- **Double Digit Premium increases**
- **Increase in Prescription Drug Costs and Usage**
- **Problems with Service and Access**
- **Dissatisfaction with Managed Care**

Market Forces

- **Cost shifting from employers to employees**
 - 1.2 m members of CalPERS
 - Raise copays for MD visits (\$10)
 - Increased drug copays (\$5 generic, \$15 brand and \$30 for non-formulary)
- Triple option products not only for pharmacy but also p.o. and hospitals

Market Forces

- **Cost shifting from employers to employees**

In a survey of Fortune 500 companies since 1994- 50% decrease in the number of companies that pay 100% of employee premiums

Health Affairs, May/June 2000

Market Forces

DB to DC

- Defined Contribution Health: Employer Enabled, Consumer Driven
 - Annual allowance/budget/voucher per employee- pre tax dollars
 - Defined contribution level indexed to market price for “base plans”
 - Risk adjusted per employee/ family and /or backed up for catastrophic events
 - Rollover savings into funds for future expenditures
 - Employees drive decision making
 - Employee responsible for “top up” costs above DC

Health Care's Future: A Consumer- Focused Market Place? Booze
Allen& Hamilton Inc., Jan. 18, 2001

Market Forces

Defined Contribution

- 74% of employers interested in shifting to DC in next 3-5 years, BA& H survey of Fortune 100 Best Companies to Work For
- 73% of Fortune 1000 employees interested in having DC health benefits-KPMG survey
- 60% of health industry leaders believe DC benefits likely or very likely by 2010- PWC survey

HealthCare's Future: A Consumer-Focused Market Place?, Booz Allen& Hamilton Inc., Jan. 18,2001

Market Forces

CA Regulation

- SB 260 (Speier-1999)- 1st phase-3/22/2001
 - 3 categories of reporting requirements
 - Risk bearing organization (RBO) required to report specified financial info to DOMC
 - Healthcare service plans share certain risk-related and actuarial information with contracted providers
 - Health plan must disclose info relating to financial risk assigned to their provider network to DOMC

Market Forces

CA Regulation

- AB 142 HMO Ombudsman
 - establish toll free telephone number for healthcare providers regulated by DOC
- ☐ Hospitals- regs already implemented
- SB 1953 seismic upgrade requirements
- AB 254 hazardous waste handling

Market Forces

CA Regulation

- Commission on Medical Group Solvency

Medical Groups

- \$50 k worth of reserves
- \$25k in working capital
- Pay M.D.s within 4 months of receiving bills
- Regularly reconciliation
- Health plans responsible for monitoring groups and would be held liable for contracting with unstable groups

Market Forces

HIPAA

- Regulations go into effect on 3/2003
- Address security, privacy and confidentiality
- Involve back office and front office activities
- Most health organizations' data operations are not HIPAA compliant
- Compliance for the industry estimated at \$40 billion over 5 years
- Significant fines and imprisonment for lack of compliance

III) The Future of CA Delivery Systems

1) The Cost of Regulatory Compliance will Drive Further Consolidation and Closings of Delivery Organizations

- Cost of compliance officers, security officers, IT implementation will be prohibitive to financially strapped organizations especially to smaller hospitals and groups.

III) The Future of CA Delivery Systems

1) The Cost of Regulatory Compliance will Drive Further Consolidation and Closings of Delivery Organizations

- Total 5 year costs for a 52 bed rural hospital with 320 employees- \$1,558,087
- Total 5 year costs for a suburban 167 bed hospital with 900 employees- \$1,531,260
- Total 5 year costs for a large multi-state, multi-hospital system with 7,960 employees-\$2,463,287

Report on the Impacts of the HIPAA Final Privacy Rule on Hospitals,
First Consulting Group, March 2001

The Future of CA Delivery Systems

2) The Consumer Empowerment Movement will occur because of Employee Cost Shifting.

Healthcare organizations that are consumer friendly will be winners

- Employee Cost Shifting driven by DC and e-Health Offerings will force providers to accept:
 - Price Transparency
 - Quality Transparency
 - Quality or Performance based compensation

The Future of CA Delivery Systems

2) Winning Organizations

- Foster and reward a service culture
- Reorganize internal processes to focus on consumers and make those processes transparent to consumers
- Measure the patient “experience”
- Design interactive customer feedback systems that address the increasing segmentation of consumers
- Improve the processes for communications with customers
- Provide patients with increased access to their medical records data
- Offer seamless care and services

Lutz, 2010 Implications, Health Leaders, PriceWaterhouseCoopers

The Future of CA Delivery Systems

3) Delivery organizations will continue to be slow in adopting E-health and healthcare information technology. Healthcare organizations will focus IT purchases on HIPAA compliance.

- Payer transactions
- Computerized prescription solutions
- Handheld wireless devices
- E-clinical visits
- E-commerce/e-procurement
- EMR and on-line clinical records
- ❖ Multiple Reasons:
 - ✓ Physician reluctance to embrace technology
 - ✓ Multiple disparate platforms
 - ✓ Unclear ROI
 - ✓ Expensive/ Organizations undercapitalized

The Future of CA Delivery Systems

4) As providers continue to consolidate, e-health becomes more prominent, and consumers become more cost conscious, provider organizations will evolve from delivering wholesale services to being branded retailers.

➤ Organizations will distinguish themselves through:

- Brand
- Service
- Speed/ Convenience
- Satisfaction and Quality

Many Consumers will want more and won't want to pay for it.

Lutz, 2010 Implications, Health Leaders, PriceWaterhouseCoopers

The Future of CA Delivery Systems

Wholesale Model	Retail Model
Wholesale segmentation	Consumer/Retail Segmentation
One size fits all products	Consumer Seg Focused Innovation
Group Underwriting	Risk Adjusted Vouchers
Consultant/Broker/ Employer	E-tailer/ Retail Advisers/ Direct Sales
National Footprint	Best Local Plan
Provider Leverage/ Discounts	“Make-A-Market” in Provider Services
Medical Management	Medical/ Disease Mgt(for Certain Products)
Administrative Scale	Electronic Connectivity
Internal Capability Development	Alliance expertise

Health Care’s Future: A Consumer-Focused Market Place?, BA&H, 1/18/2001

The Future of CA Delivery Systems

Function	Web-enabled 1 st Generation	Digital 2 nd Generation
Benefit Design	Health Plan provides PPO, HMO & POS options	Consumer creates indiv bene plan (co-pays, co-insurance, deduct, net)
Networks	Plan creates network for different products	One “transparent” universal network. Ind network with dif prem
Fee Schedules	Plan negotiates compensation	Plan negotiates compensation and arms consumer with price info before rec care

Sokolov, J, The Emergence & Differentiation of eHealth Plans,2000

Conclusions

- 1) Delivery Systems in California will continue to consolidate as a result of increased financial and regulatory constraints.
- 2) Health care organizations will continue to be slow in implementing and achieving the cost savings potential of IT with the exception of payer transactions.
- 3) With increasingly cost conscious consumers, CA delivery systems will be confronted with more discriminating and discerning patients.