The Implications of Health Reform for Healthcare Providers

Presented To:
The Second National Congress on the Un and Under Insured
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Presented By:
Donald C. Wegmiller, FACHE, Chairman Emeritus
Integrated Healthcare Strategies
Outline

- Introduction
- Trends in Overall Health Care Market
- Increased Scrutiny of Health Care; Public Reporting
- Reimbursement Slow Downs
- Increased Under and Uninsured Patients
- Workforce Shortages
- Investment and Debt Strategies Become Aggressive
- New Operational Risks as Large Capital Projects Become Operational
- Summary
Introduction
Introduction

- Assumes there will be “reform”
- Implications for health care providers will depend on form it takes:
  - Greater access for under and uninsured
  - Revenue limits
  - Cost controls
  - Capital constraints
  - Area-wide planning
  - Some of above
  - All of above
- Current issues likely to remain as future issues
  - Increased scrutiny of health care
  - Reimbursement slow downs
  - Increased under and uninsured patients
  - Workforce shortage
  - Investment and debt strategies becoming aggressive
  - New operational risks as large capital projects become operational
Trends in Overall Health Care Market
Trends in Overall Health Care Market

Total National Health Expenditures
1980 – 2006\(^{(1)}\)

Source: Centers for Medicare & Medicaid Services, Office of the Actuary

\(^{(1)}\)CMS completed a benchmark revision in 2006, introducing changes in methods, definitions and source data. For more information on this revision, see http://www.cms.hhs.gov/NationalHealthExpendData/downloads/benchmark.pdf.

\(^{(2)}\)Expressed in 1980 dollars; adjusted using the overall Consumer Price Index for Urban Consumers
Trends in Overall Health Care Market

Percent Change in Total National Health Expenditures
1981 – 2006(1)

Source: Centers for Medicare & Medicaid Services, Office of the Actuary

(1)CMS completed a benchmark revision in 2006, introducing changes in methods, definitions and source data. For more information on this revision, see http://www.cms.hhs.gov/NationalHealthExpendData/downloads/benchmark.pdf.
Trends in Overall Health Care Market

Percent Change in National Expenditures for Health Services and Supplies\(^{(1)}\) by Category

2006\(^{(2)}\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Health Care</td>
<td>9.9%</td>
</tr>
<tr>
<td>Other (4)</td>
<td>9.5%</td>
</tr>
<tr>
<td>Admin &amp; Net Cost of Priv. Health</td>
<td>8.8%</td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
</tr>
<tr>
<td>Prescription Drugs</td>
<td>8.5%</td>
</tr>
<tr>
<td>Hospital Care</td>
<td>7.0%</td>
</tr>
<tr>
<td>Nursing Home Care</td>
<td>6.3%</td>
</tr>
<tr>
<td>Physician Services</td>
<td>5.9%</td>
</tr>
<tr>
<td>Other Professional (3)</td>
<td>4.9%</td>
</tr>
<tr>
<td>Other Med Durables &amp; Non-durables</td>
<td>2.3%</td>
</tr>
<tr>
<td>All Health Services &amp; Supplies</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

Source: Centers for Medicare & Medicaid Services, Office of the Actuary

\(^{(1)}\)Excludes medical research and medical facilities construction

\(^{(2)}\)CMS completed a benchmark revision in 2006, introducing changes in methods, definitions and source data. For more information on this revision, see http://www.cms.hhs.gov/NationalHealthExpendData/downloads/benchmark.pdf.

\(^{(3)}\)“Other” includes government public health activities and other personal health care

\(^{(4)}\) “Other professional” includes dental and other non-physician professional services
Trends in Overall Health Care Market

Federal Health Programs’ Cost Projections, 2008-2014

Increased Scrutiny of Health Care; Public Reporting
Increased Scrutiny of Health Care; Public Reporting

- The 800-pound gorilla
- Five key areas where public reporting will/has hit delivery systems:
  - Financial reporting
    - Rating agencies--push for quarterly reports plus management analysis
    - Bond insurers--push for “public company” reports, i.e., 10K, 8Q, etc.
Increased Scrutiny of Health Care; Public Reporting

Five key areas where public reporting will/has hit delivery systems (cont’d):

- Comparative quality reporting
  - Government picking up the pace
    - September 2004 CMS data reporting requirements will be in place on national public comparison of all hospitals’ performance
  - Many other efforts underway:

<table>
<thead>
<tr>
<th>Organizations</th>
<th>Defining</th>
<th>Data Gathering</th>
<th>Reporting Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Plans</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>NBCH (V-8)</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>NQF</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AARP</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>NCQA</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>JCAHO</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Specialty Groups</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AHRQ</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leapfrog</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>CMS/QIOs</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Health Systems</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Consultants</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>State Government</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Research Orgs</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
Increased Scrutiny of Health Care; Public Reporting

- Five key areas where public reporting will/has hit delivery systems (cont’d):
  - Patient Satisfaction
    - CMS seeking uniform national patient satisfaction data reporting
  - Executive compensation
    - Taxpayer Bill of Rights (TBOR II)
      - “Intermediate sanctions”
    - Section 4958
      - Regulations implement TBOR
    - CPE text
      - Guidance to field agents
      - “Automatic” intermediate sanctions
  - Attorneys General Actions
    - Most significant
    - Hatch, Spitzer
    - Allina case
  - Sarbanes-Oxley Act of 2002
  - Regulatory agency actions
    - NYSE, SEC, and NACD
Reimbursement Slow Downs
Reimbursement Slow Downs

Percentage of Hospitals with Negative Total Margins

1981 – 2006

Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2006, for community hospitals.
Reimbursement Slow Downs

Aggregate Total Hospital Margins,\(^{(1)}\) Operating Margins,\(^{(2)}\) and Patient Margins\(^{(3)}\)
1991 – 2006

Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2006, for community hospitals.

\(^{(1)}\) Total Hospital Margin is calculated as the difference between total net revenue and total expenses divided by total net revenue.

\(^{(2)}\) Operating Margin is calculated as the difference between operating revenue and total expenses divided by operating revenue.

\(^{(3)}\) Patient Margin is calculated as the difference between net patient revenue and total expenses divided by net patient revenue.
Reimbursement Slow Downs

Hospital Payment Shortfall Relative to Costs for Medicare, Medicaid, and Other Government
1997 – 2006\(^{(1)}\)

\(^{(1)}\)Costs reflect a cap of 1.0 on the cost-to-charge ratio.

Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2006, for community hospitals.
## Reimbursement Slow Downs

How likely is it that the following will be seen in your hospital’s area by 2013?

<table>
<thead>
<tr>
<th>Event</th>
<th>Very Likely (%)</th>
<th>Somewhat Likely (%)</th>
<th>Somewhat Unlikely (%)</th>
<th>Very Unlikely (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health insurance will continue to shift from employer-based to individual policies</td>
<td>26</td>
<td>52</td>
<td>20</td>
<td>2</td>
</tr>
<tr>
<td>Employers with 10 or more workers will be required to spend at least 4 percent of payroll to offer healthcare coverage to their employees</td>
<td>12</td>
<td>48</td>
<td>33</td>
<td>7</td>
</tr>
<tr>
<td>Hospitals will be levied a tax of 4 percent or more of total revenue by the state to pay for the cost of the uninsured</td>
<td>9</td>
<td>34</td>
<td>42</td>
<td>16</td>
</tr>
<tr>
<td>The low-risk sector of the population will select high-deductible plans, making low-deductible plans financially unviable</td>
<td>23</td>
<td>58</td>
<td>17</td>
<td>2</td>
</tr>
<tr>
<td>As more healthcare costs are shifted to consumers, preventive care will decline</td>
<td>20</td>
<td>41</td>
<td>32</td>
<td>7</td>
</tr>
</tbody>
</table>

Increased Under and Uninsured Patients
Increased Under and Uninsured Patients

Net Change From 2000 to 2006 in the Number of Insured and Uninsured Americans Under Age 65 by Source of Coverage

Source: Estimated from U.S. Census Bureau data, as tabulated by the Employee Benefit Research Institute, Washington, DC; October 2007
Increased Under and Uninsured Patients

Hospitals Offer an Array of Community Services . . .

Percent of Community Hospitals Offering Selected Community Outreach Services, 2006

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Screenings</td>
<td>79.6%</td>
</tr>
<tr>
<td>Health Fairs</td>
<td>78.2%</td>
</tr>
<tr>
<td>Community Outreach</td>
<td>71.2%</td>
</tr>
<tr>
<td>Support Groups</td>
<td>66.7%</td>
</tr>
<tr>
<td>Patient Education Center</td>
<td>60.0%</td>
</tr>
<tr>
<td>Health Information Center</td>
<td>49.4%</td>
</tr>
<tr>
<td>Enrollment Assistance Services</td>
<td>45.1%</td>
</tr>
<tr>
<td>Meals on Wheels</td>
<td>12.7%</td>
</tr>
</tbody>
</table>

Source: Health Forum; 2008; AHA Hospital Statistics
Increased Under and Uninsured Patients

... and Provide Charity Care and Other Care For Which No Payment Is Received

Total Uncompensated Care Costs (in Billions), 1998-2006

Source: Avalere Health analysis of 2006 American Hospital Association Annual Survey data for community hospitals.
Workforce Shortages
Workforce Shortages

Growth Between 1990 and 2000 and Projected Growth

<table>
<thead>
<tr>
<th></th>
<th>1990-2000</th>
<th>2000-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care Occupations</td>
<td>25.80%</td>
<td>28.80%</td>
</tr>
<tr>
<td>Non-health Care Occupations</td>
<td>18.70%</td>
<td>14.10%</td>
</tr>
</tbody>
</table>

Source: Department of Health and Human Services’ Health Resources and Services Administration and the Bureau of Labor Statistics, Occupational Employment Projections to 2010
Workforce Shortages

Staffing/Personnel Shortages

Up to 168,000 hospital positions are unfilled today

Up to 126,000 RNs Needed Today

Hospital positions included in survey:
Registered Nurses
Pharmacists
Radiological Technologists
Laboratory Technologists
Billing/Coders
Housekeeping/Maintenance

Source: AHA Special Workforce Survey
Workforce Shortages

Distribution of RN Workforce by Age Group, 1980-2020 (Projected)

Workforce Shortages

National Supply and Demand Projections for FTE Registered Nurses: 2000 to 2020

Source: Department of Health and Human Services’ Health Resources and Services Administration and the Bureau of Labor Statistics, Occupational Employment Projections to 2010
If Current Trends Continue, the Number of RNs Giving Up Their License will Outnumber the Number of New Entrants

<table>
<thead>
<tr>
<th>Period</th>
<th>New Entrants</th>
<th>Losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988-92</td>
<td>237,068</td>
<td>-30,284</td>
</tr>
<tr>
<td>1992-96</td>
<td>342,432</td>
<td>-23,374</td>
</tr>
<tr>
<td>1996-00</td>
<td>311,685</td>
<td>-174,019</td>
</tr>
<tr>
<td>2008-12</td>
<td>326,025</td>
<td>-240,658</td>
</tr>
<tr>
<td>2016-20</td>
<td>296,787</td>
<td>-316,708</td>
</tr>
</tbody>
</table>

Source: Department of Health and Human Services’ Health Resources and Services Administration and the Bureau of Labor Statistics, Occupational Employment Projections to 2010
# Workforce Shortages

## The System is Leaky

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual applicants for basic RN programs</td>
<td>320,000</td>
</tr>
<tr>
<td>Annual admissions into basic RN programs</td>
<td>145,410</td>
</tr>
<tr>
<td>Annual graduates from basic RN programs</td>
<td>78,476</td>
</tr>
<tr>
<td>Pass licensure exam</td>
<td>74,327</td>
</tr>
<tr>
<td>New nurses leave first job within 2 years</td>
<td>-52%</td>
</tr>
</tbody>
</table>

Source: “What Works: Healing the Healthcare Staffing Shortage” by PricewaterhouseCoopers’ Health Research Institute & National League for Nursing; Advertising Supplement to Modern Healthcare
Workforce Shortages

Staffing/Personnel Shortages

In Hospitals, a Large Share of Positions Remain Unfilled

Vacancy Rates - The Percent of Unfilled, Budgeted Positions For Selected Hospital Personnel

- Pharmacists: 21%
- Radiological Technologists: 18%
- Billing/Coders: 18%
- Laboratory Technologists: 12%
- Registered Nurses: 11%
- Houskeeping/Maintenance: 9%

Source: AHA Special Workforce Survey
Investment and Debt Strategies
Become Aggressive
Investment and Debt Strategies Become Aggressive

- New financial products are becoming available
- Some may have advantages, particularly for strong hospitals
- But, for weaker hospitals, some present high risk, e.g.:
  - Floating rate debt and a spike in interest rates
  - Need to post collateral against a swap position
  - Termination of a bank support agreement in difficult lending environment
  - Hedge fund positions
## Investment and Debt Strategies Become Aggressive

### Finance and Access to Capital

How likely is it that the following will be seen in your hospital’s area by 2013?

<table>
<thead>
<tr>
<th>Event</th>
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<th>Somewhat Likely (%)</th>
<th>Somewhat Unlikely (%)</th>
<th>Very Unlikely (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit standards that hospitals must meet to be considered “investment grade” will become even more stringent than they are in 2007</td>
<td>34</td>
<td>57</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>The number of bond funds and other institutional investors in hospital capital projects will continue to decline</td>
<td>12</td>
<td>57</td>
<td>28</td>
<td>3</td>
</tr>
<tr>
<td>Community hospitals will increasingly rely on philanthropy for their capital needs</td>
<td>46</td>
<td>39</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>A shortage of capital will force community hospitals in your area to convert to for-profit status</td>
<td>5</td>
<td>21</td>
<td>46</td>
<td>29</td>
</tr>
<tr>
<td>To overcome reimbursement challenges, most hospitals will radically overhaul their pricing structures</td>
<td>24</td>
<td>51</td>
<td>22</td>
<td>4</td>
</tr>
</tbody>
</table>

Investment and Debt Strategies Become Aggressive

Rating Changes in Hospitals and Health Systems 2000 to 2007*

* = Through September 24, 2007

Source: Standard & Poors; September 2007
New Operational Risks as Large Capital Projects Become Operational
New Operational Risks

Recent Medicare Reform
20% Fewer, 20% Older Beds

Beds (000s)

Average Plant Age (years)

Copyright Tiber Group, 2003
New Operational Risks

Under-Investment vs. Projected Need

Demographics vs. Bed Growth

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Copyright Tiber Group, 2003
New Operational Risks

Expense Growth Begins to Outpace Revenue Growth

Median Net Patient Revenues
Median Total Revenues
Median Total Operating Expenses

New Operational Risks

Introduction of Medical Devices and Rise of Healthcare Spending
1900-2000

New Operational Risks

Cost of Nurse Turnover for Low-Performing Hospitals

Hospitals with low nurse turnover save $3.6M annually

Source: "What Works: Healing the Healthcare Staffing Shortage" by PricewaterhouseCoopers' Health Research Institute; Advertising Supplement to Modern Healthcare
Summary
Summary

- Health care “reform” may take a variety and combination of forms, as yet unknown
- Development of “reform” packages likely to take several years, at best
- Impact of “reform” not immediately felt unless its in form of Balanced Budget Act of 1997
- Current issues are likely to be the same issues under a “reform” package