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

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

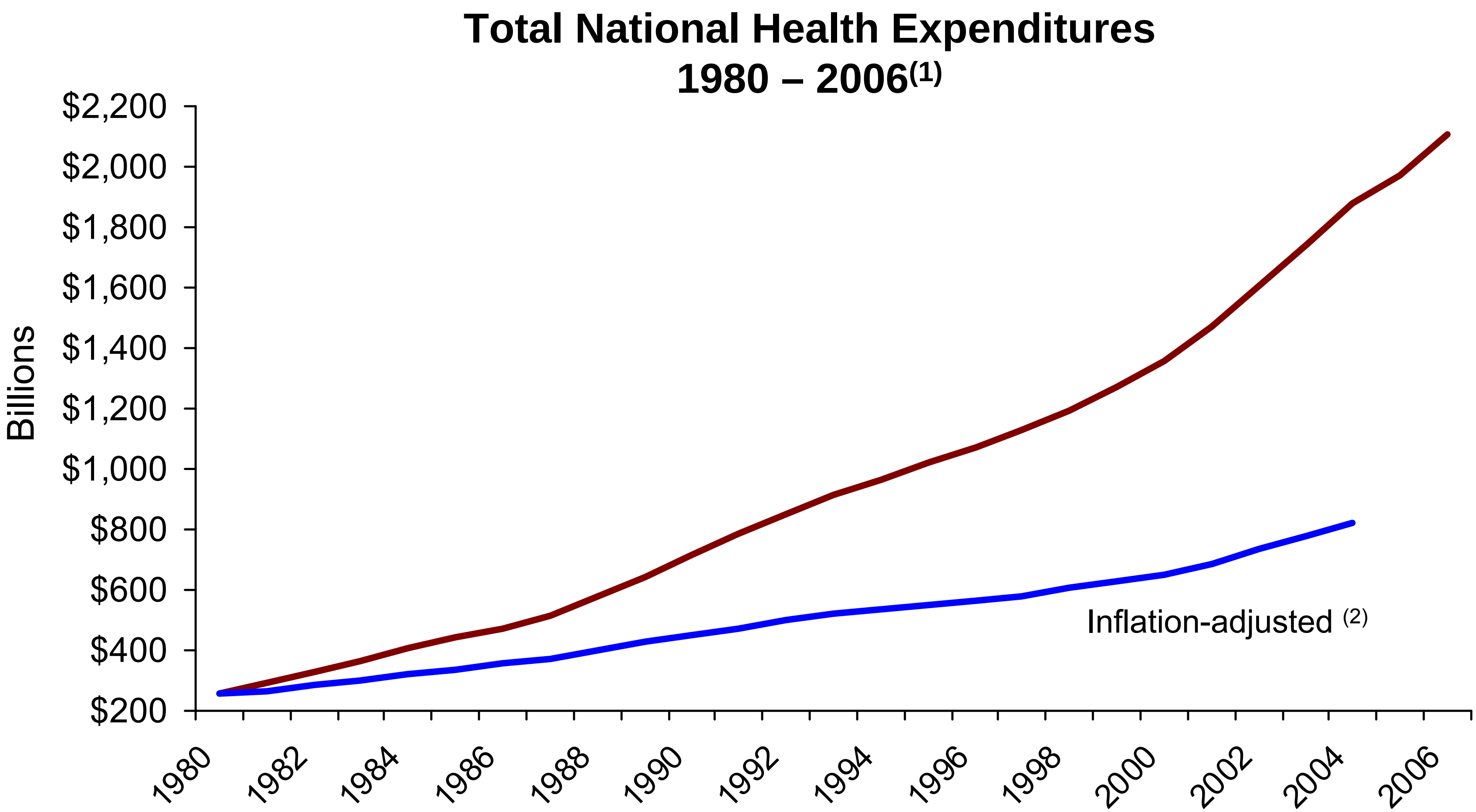
Introduction

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

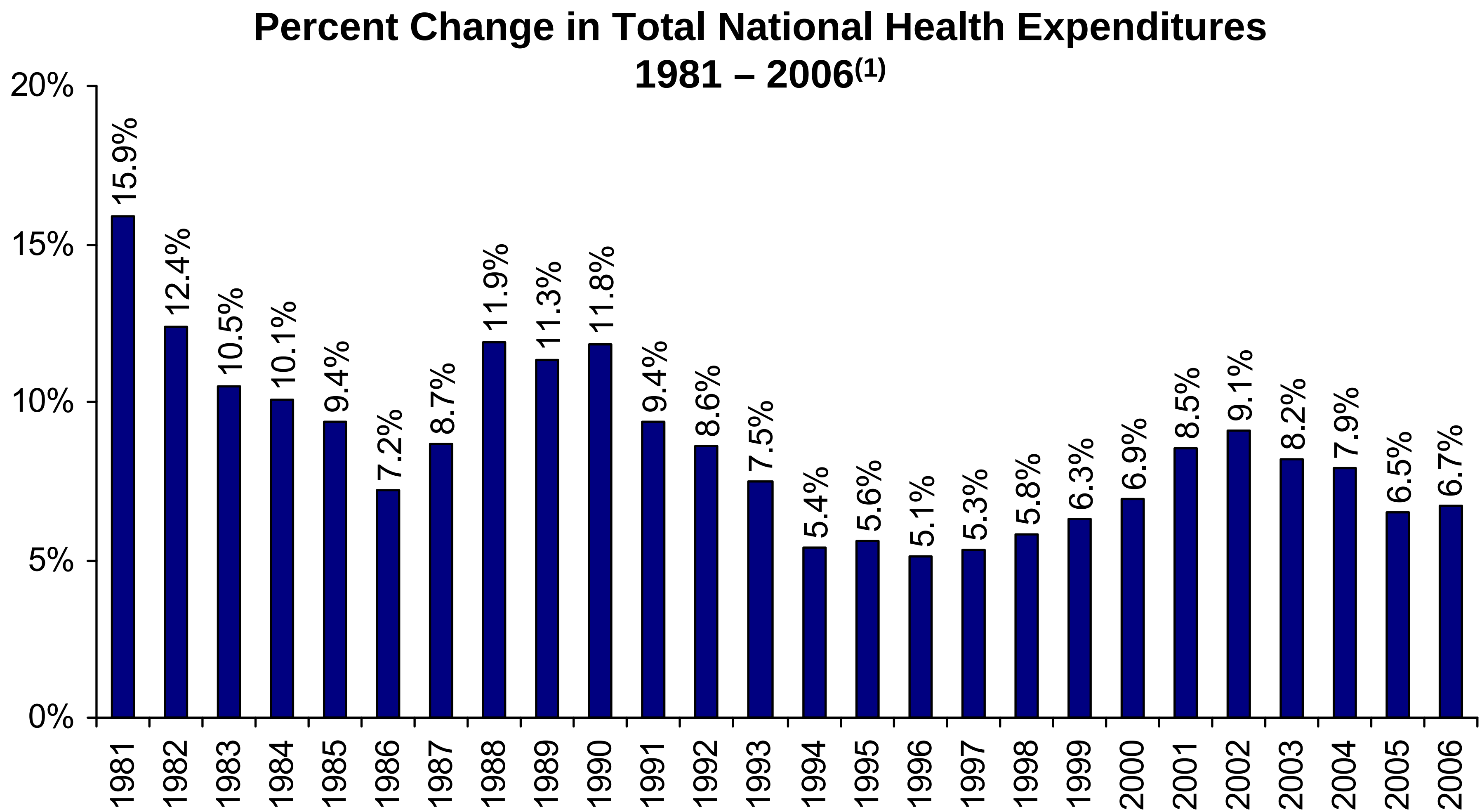


Source: Centers for Medicare & Medicaid Services, Office of the Actuary

(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



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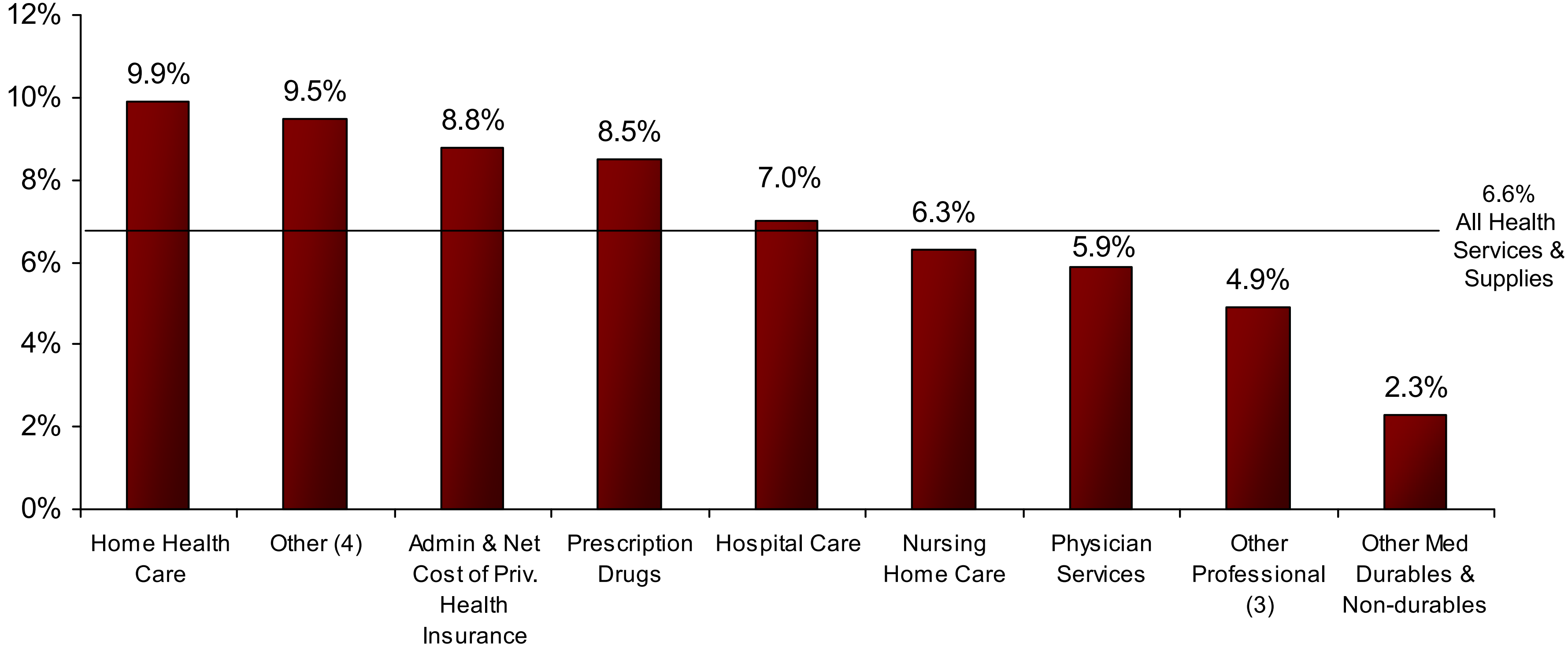
Trends in Overall Health Care Market

Percent Change in National Expenditures for Health Services and Supplies(1) by Category 2006(2)



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

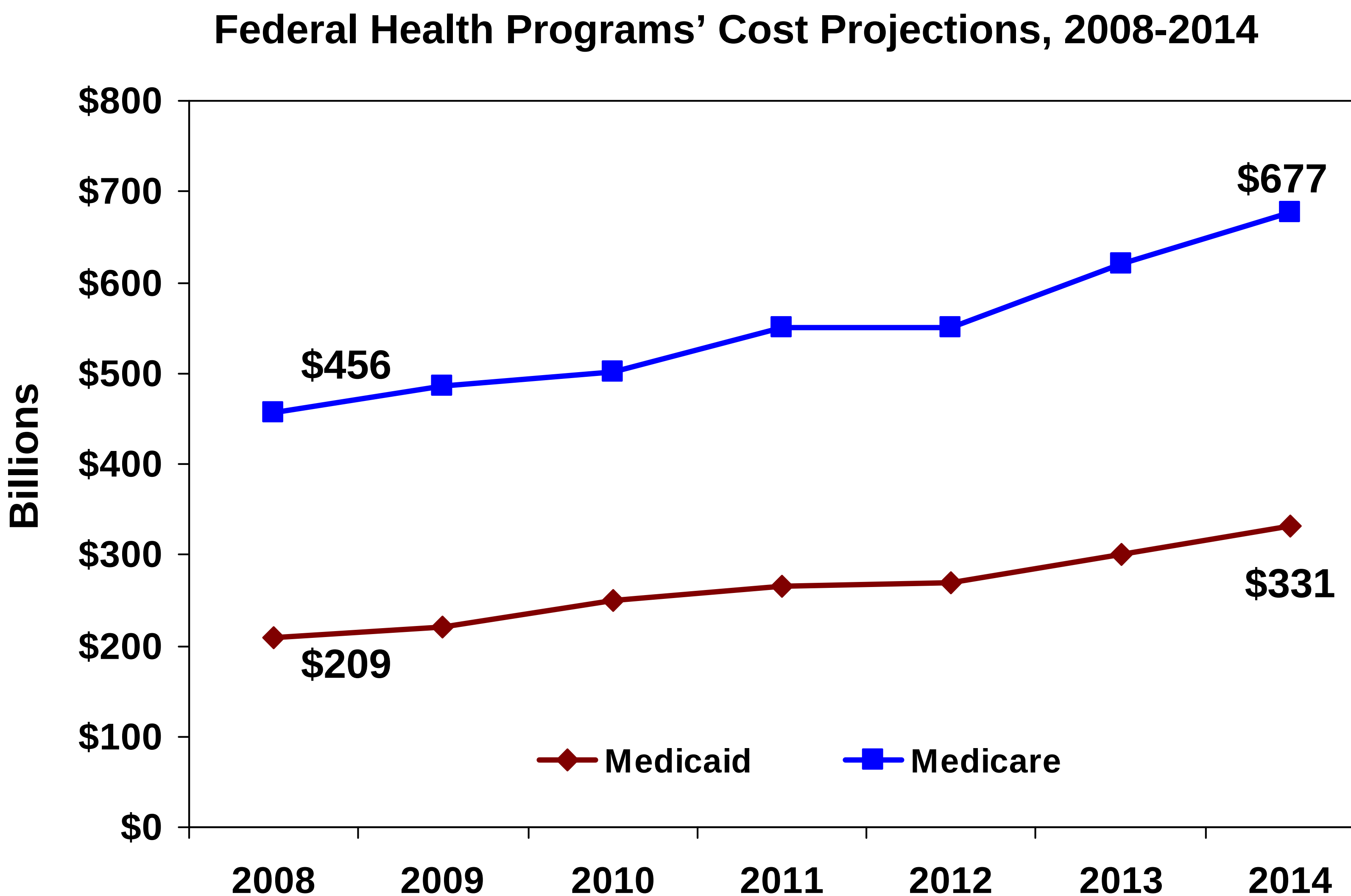
(1)Excludes medical research and medical facilities construction

(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



Source: *FutureScan 2008: Healthcare Trends and Implications 2008-2013;* ACHE Health Administration Press; 2008

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:

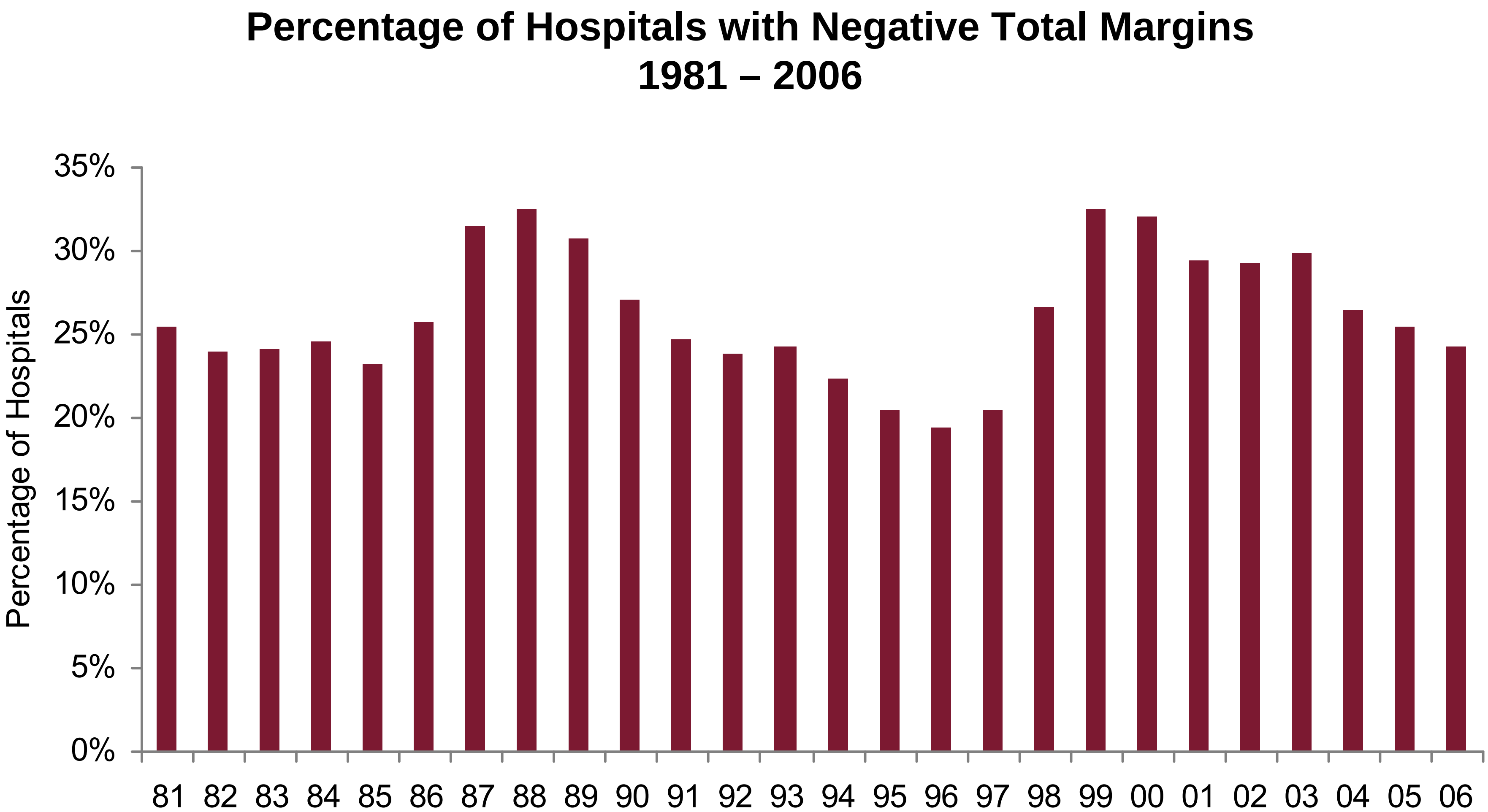
Organizations	Defining	Data Gathering	Reporting Results
Insurance Plans	X	X	X
NBCH (V-8)	X	X	X
NQF	X		
AARP	X	X	X
NCQA	X	X	X
JCAHO	X	X	X
Specialty Groups	X		
AHRQ	X		
Leapfrog	X	X	X
CMS/QIOs	X	X	X
Health Systems	X	X	X
Consultants	X	X	X
State Government	X	X	X
Research Orgs	X	X	X

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

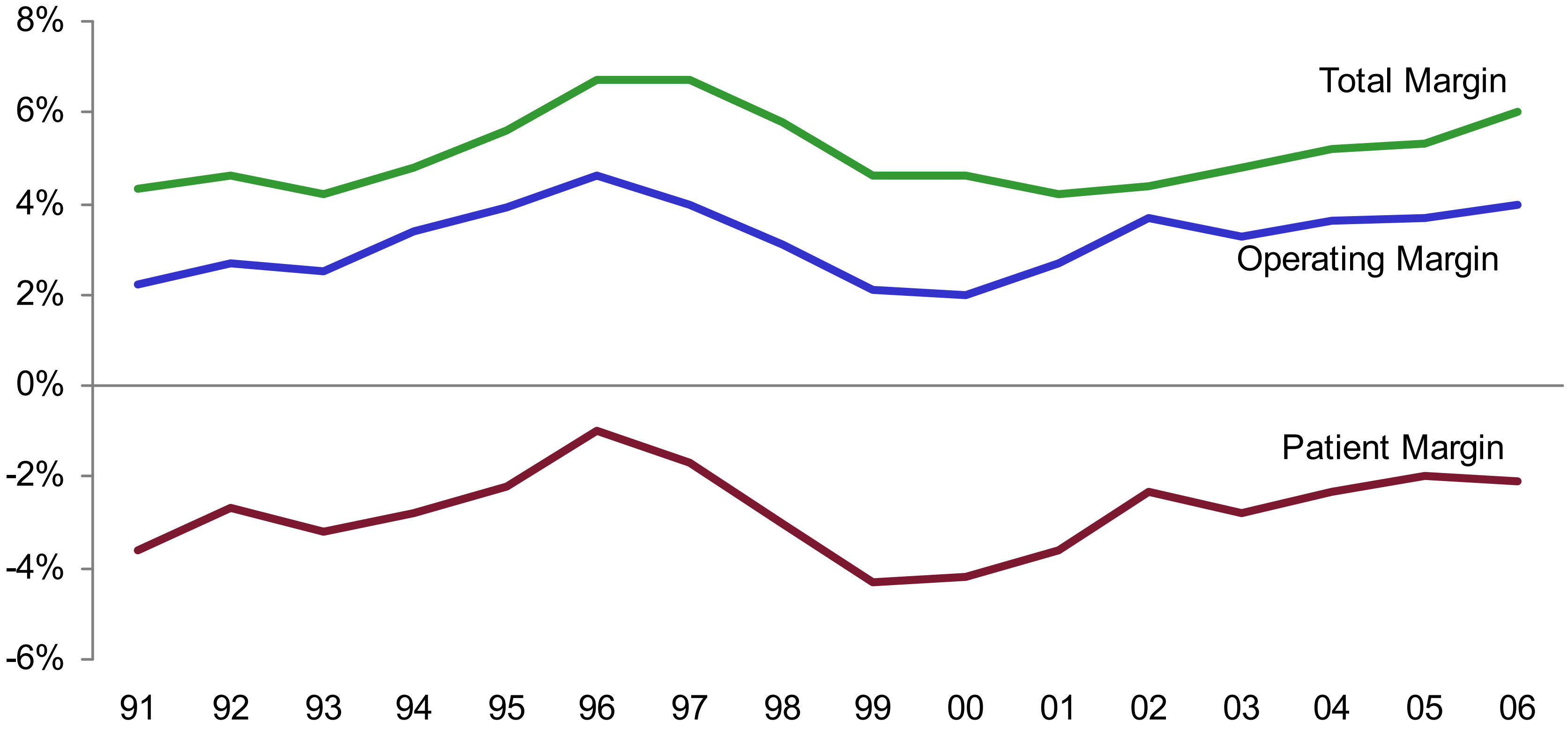
Reimbursement Slow Downs



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



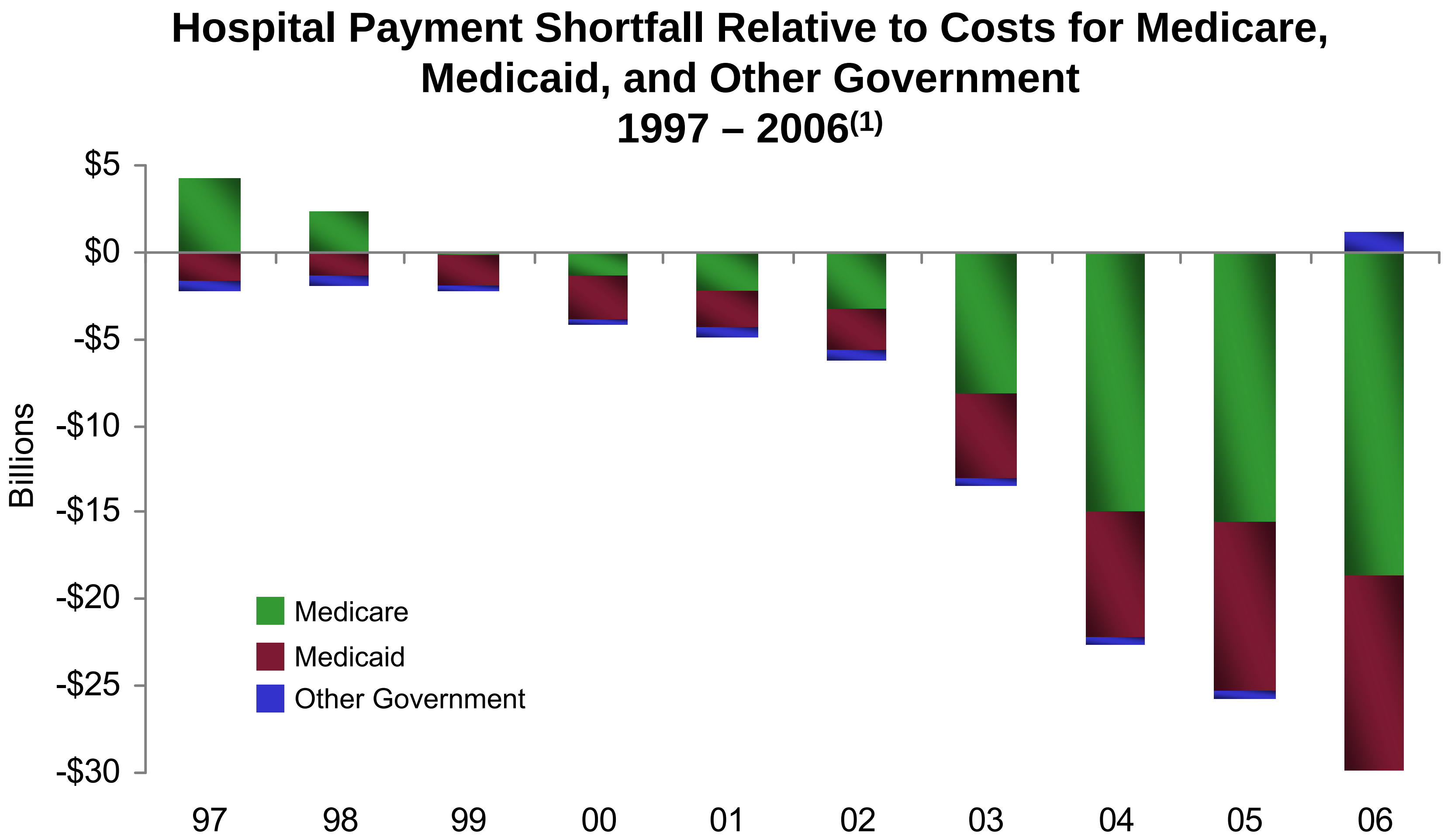
Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2006, for community hospitals.

(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



(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?

	Very Likely (%)	Somewhat Likely (%)	Somewhat Unlikely (%)	Very Unlikely (%)
Health insurance will continue to shift from employer-based to individual policies	26	52	20	2
Employers with 10 or more workers will be required to spend at least 4 percent of payroll to offer healthcare coverage to their employees	12	48	33	7
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	9	34	42	16
The low-risk sector of the population will select high-deductible plans, making low-deductible plans financially unviable	23	58	17	2
As more healthcare costs are shifted to consumers, preventive care will decline	20	41	32	7

Source: *FutureScan 2008: Healthcare Trends and Implications 2008-2013;* ACHE Health Administration Press; 2008

Increased Under and Uninsured Patients

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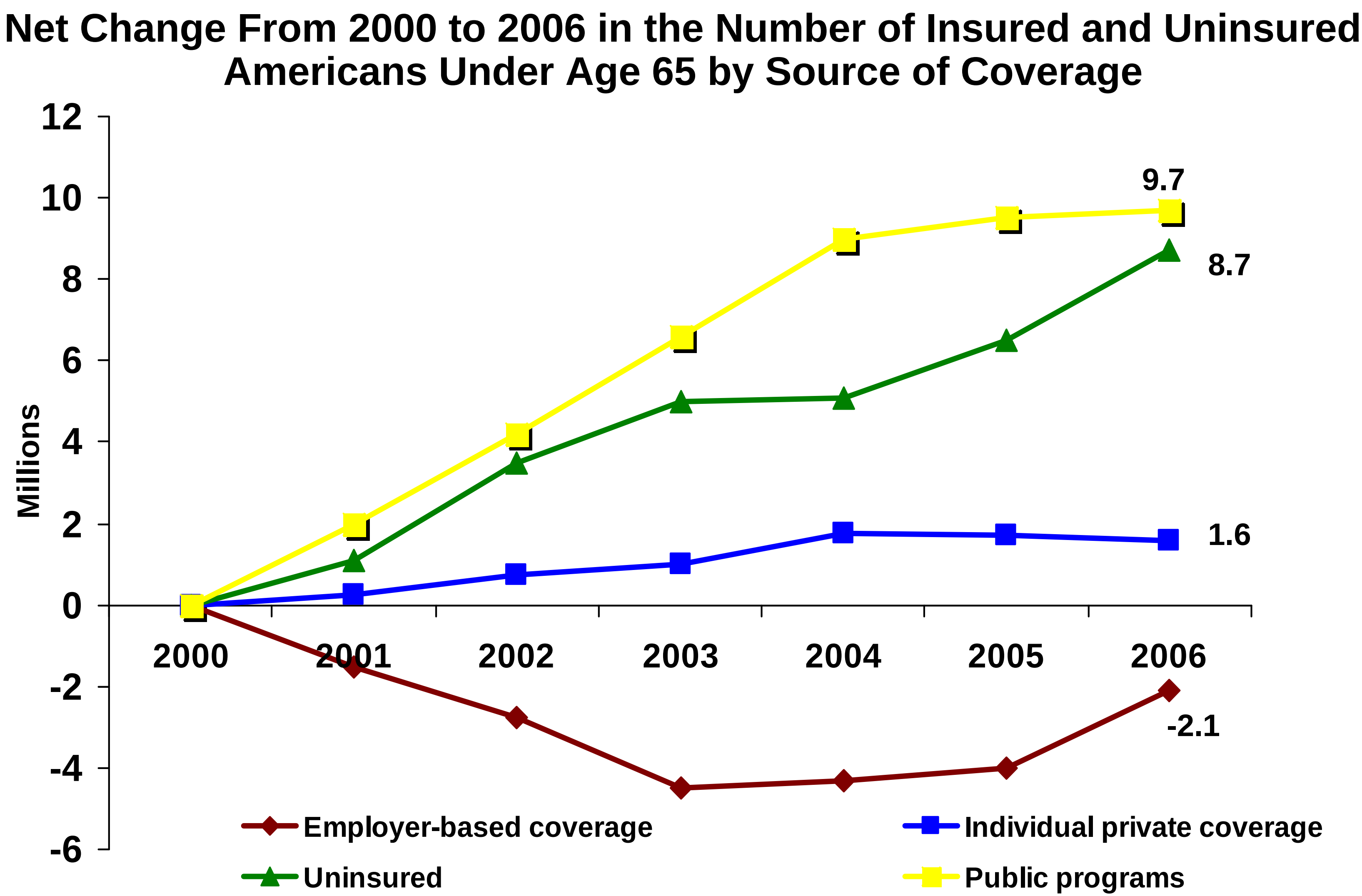
Increased Under and Uninsured Patients



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

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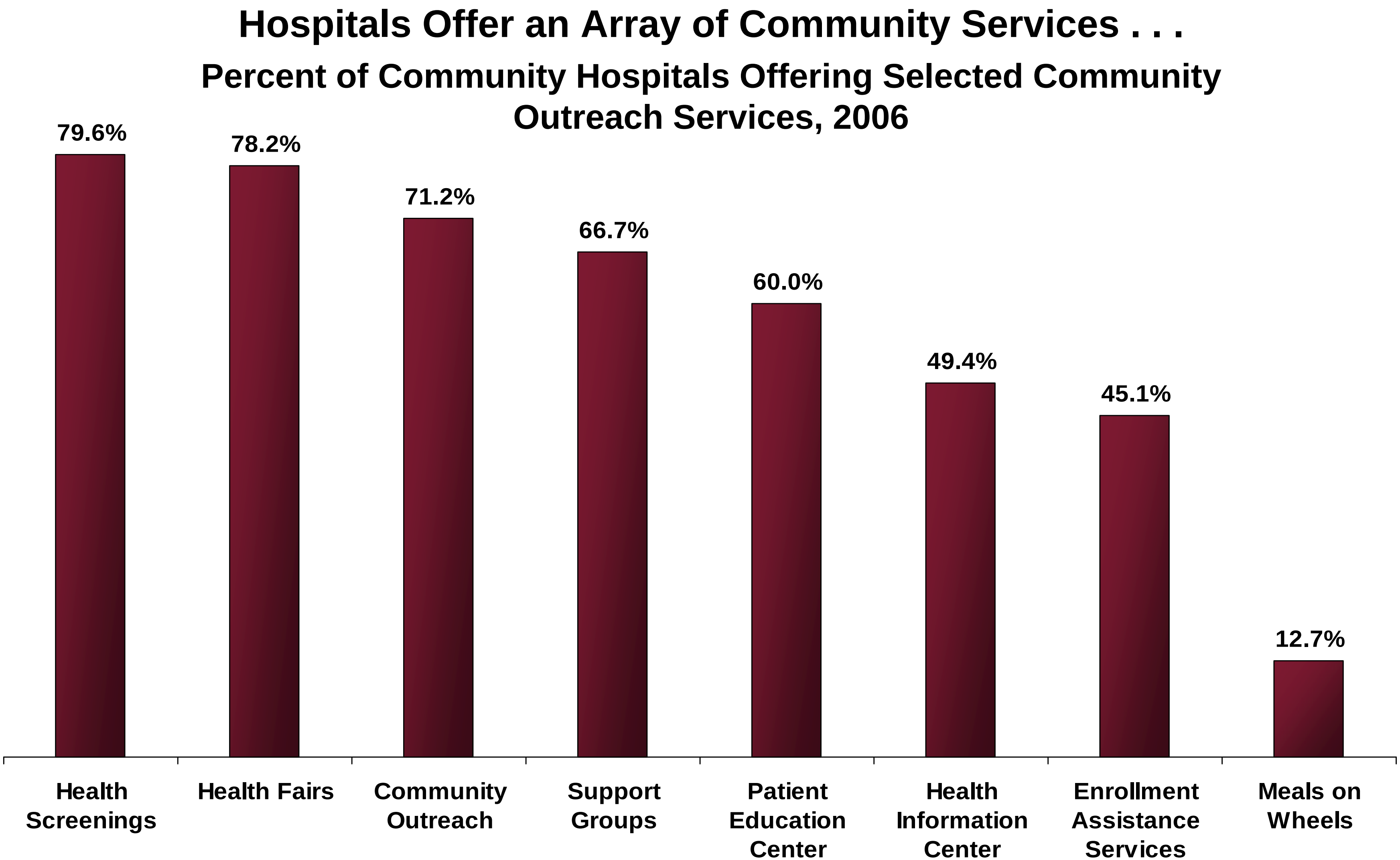
Increased Under and Uninsured Patients

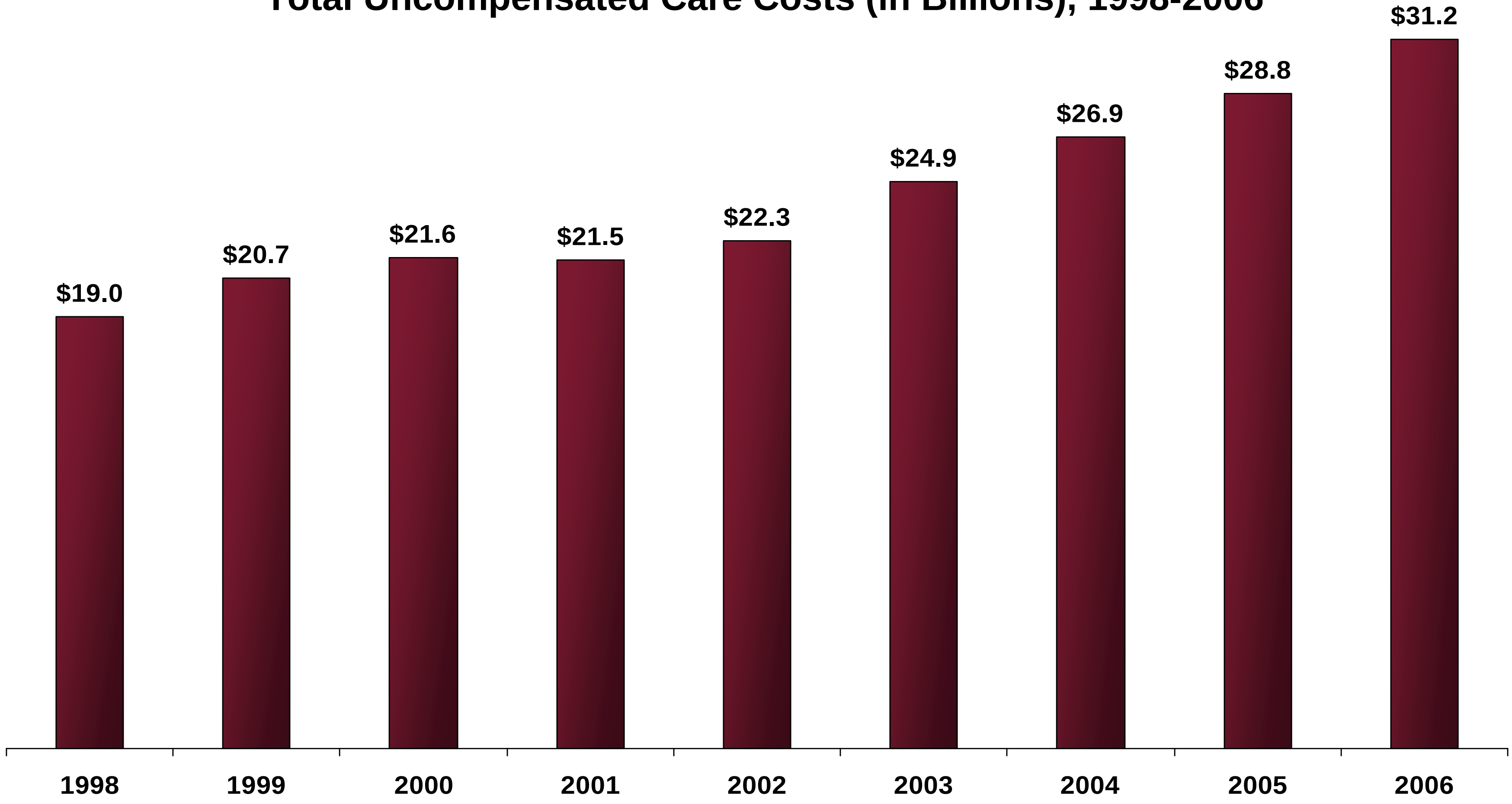


Source: Health Forum; 2008; *AHA Hospital Statistics*

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



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Workforce Shortages

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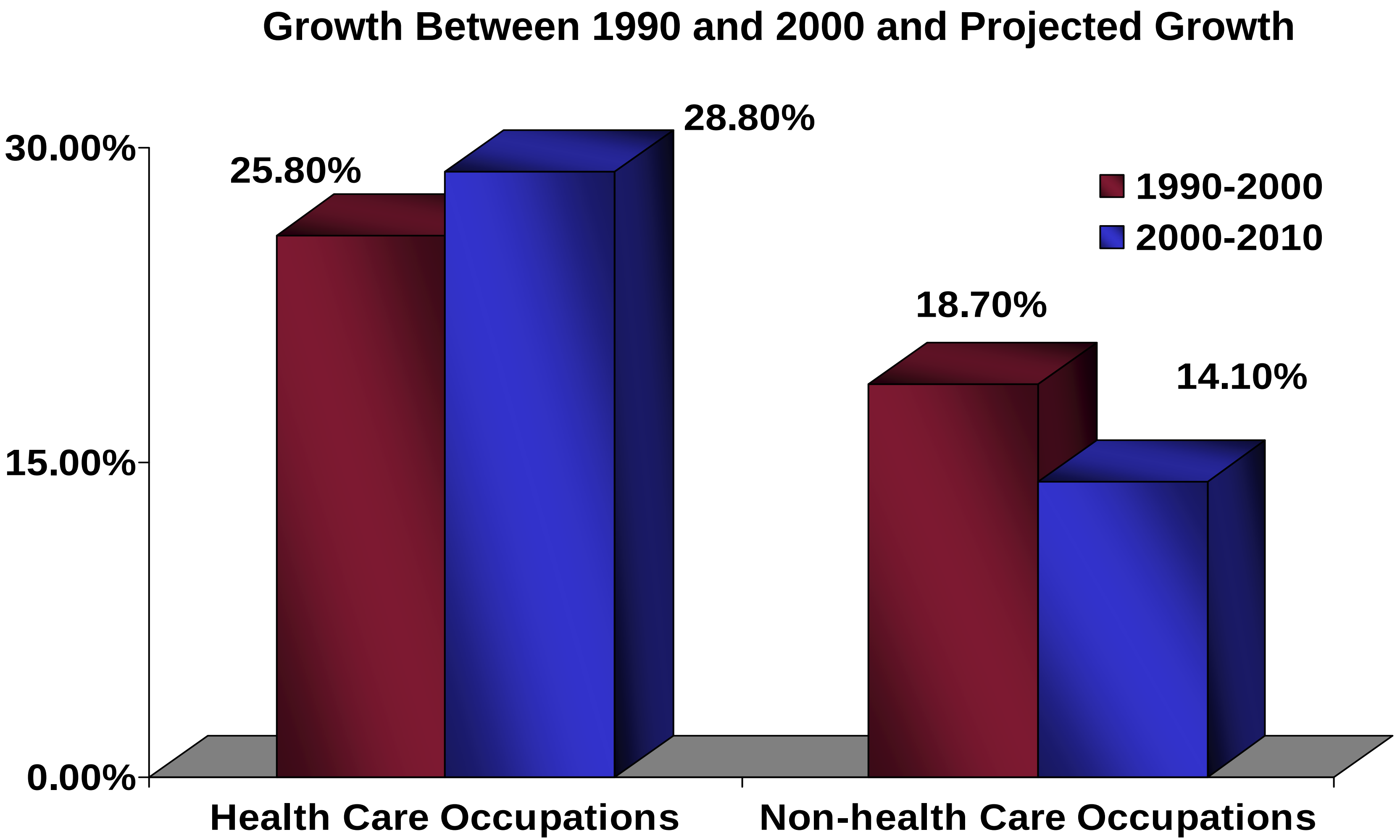
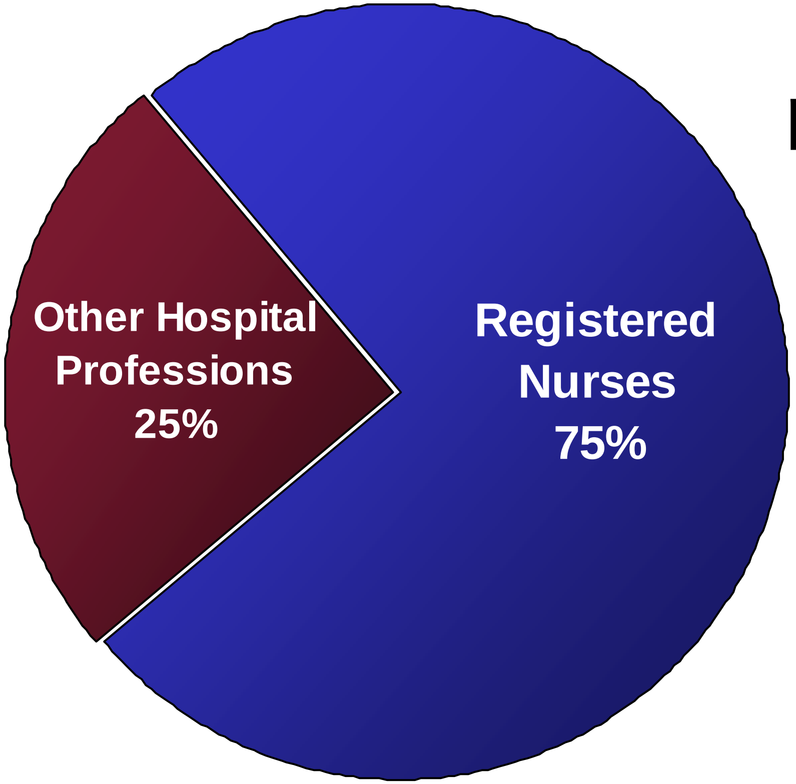


Source: Department of Health and Human Services' Health Resources and Services Administration and the Bureau of Labor Statistics, Occupational Employment Projections to 2010

Workforce Shortages

Staffing/Personnel Shortages



Up to 168,000 hospital positions are unfilled today

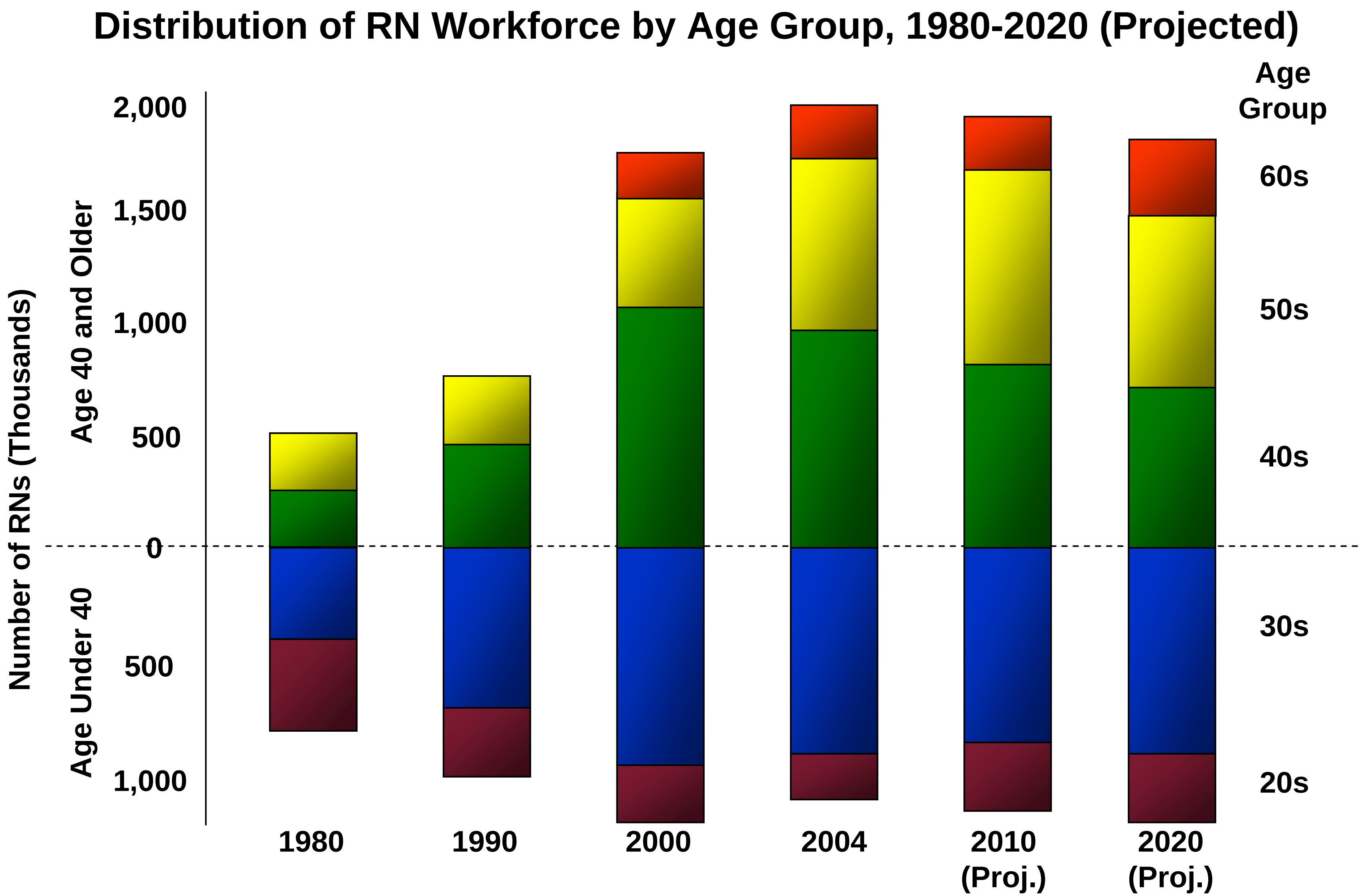
Up to 126,000 RNs Needed Today

Hospital positions included in survey:

Registered Nurses
Pharmacists
Radiological Technologists
Laboratory Technologists
Billing/Coders
Housekeeping/Maintenance

Source: AHA Special Workforce Survey

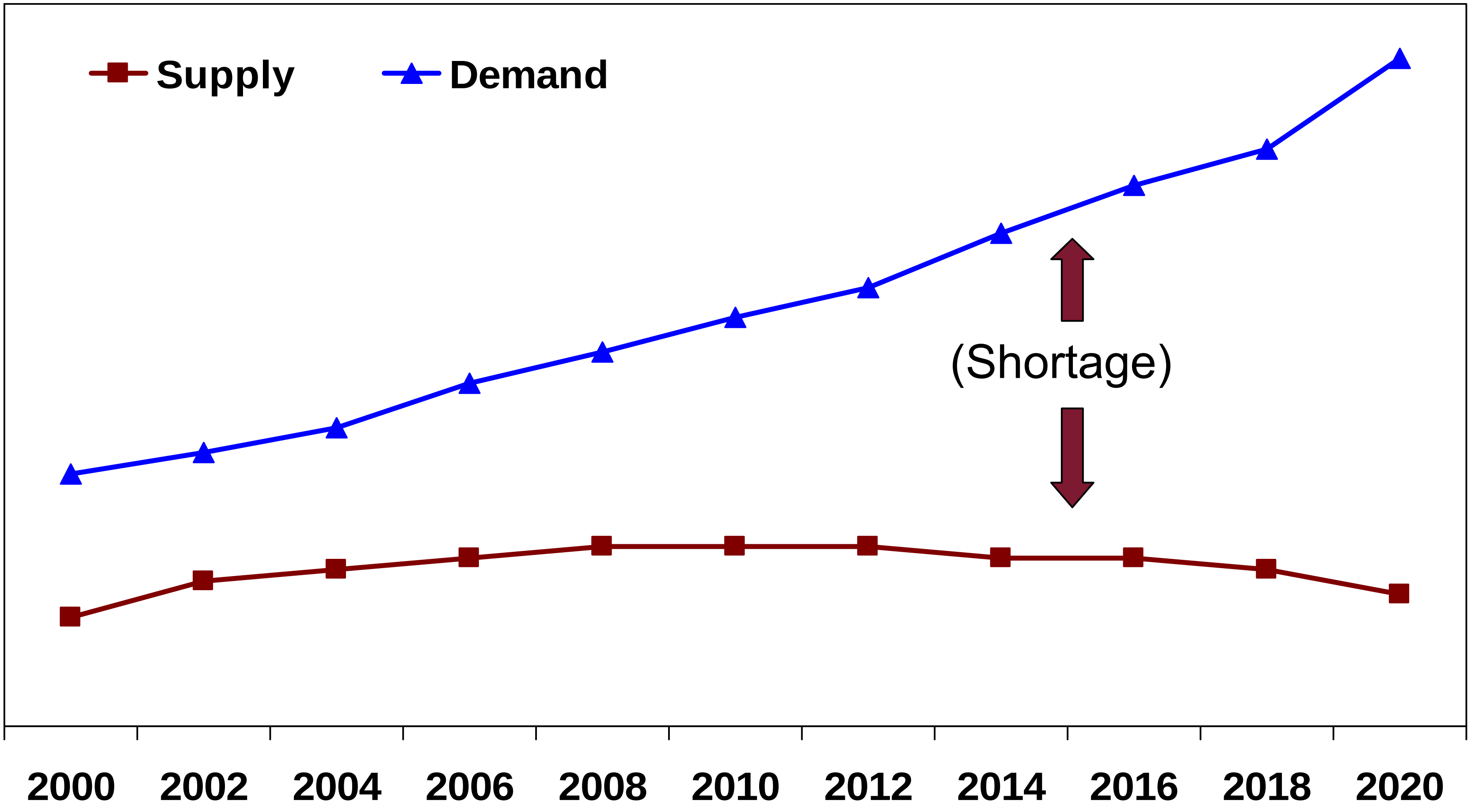
Workforce Shortages



Source: Bureau of Health Professions, Health Resources and Services Administration, 1980-2004. *Findings from the National Survey of Registered Nurses*. Projections for 2010 & 2020 derived from The Lewin Group analysis of the *National Sample Survey of Registered Nurses, 2000.*

Workforce Shortages

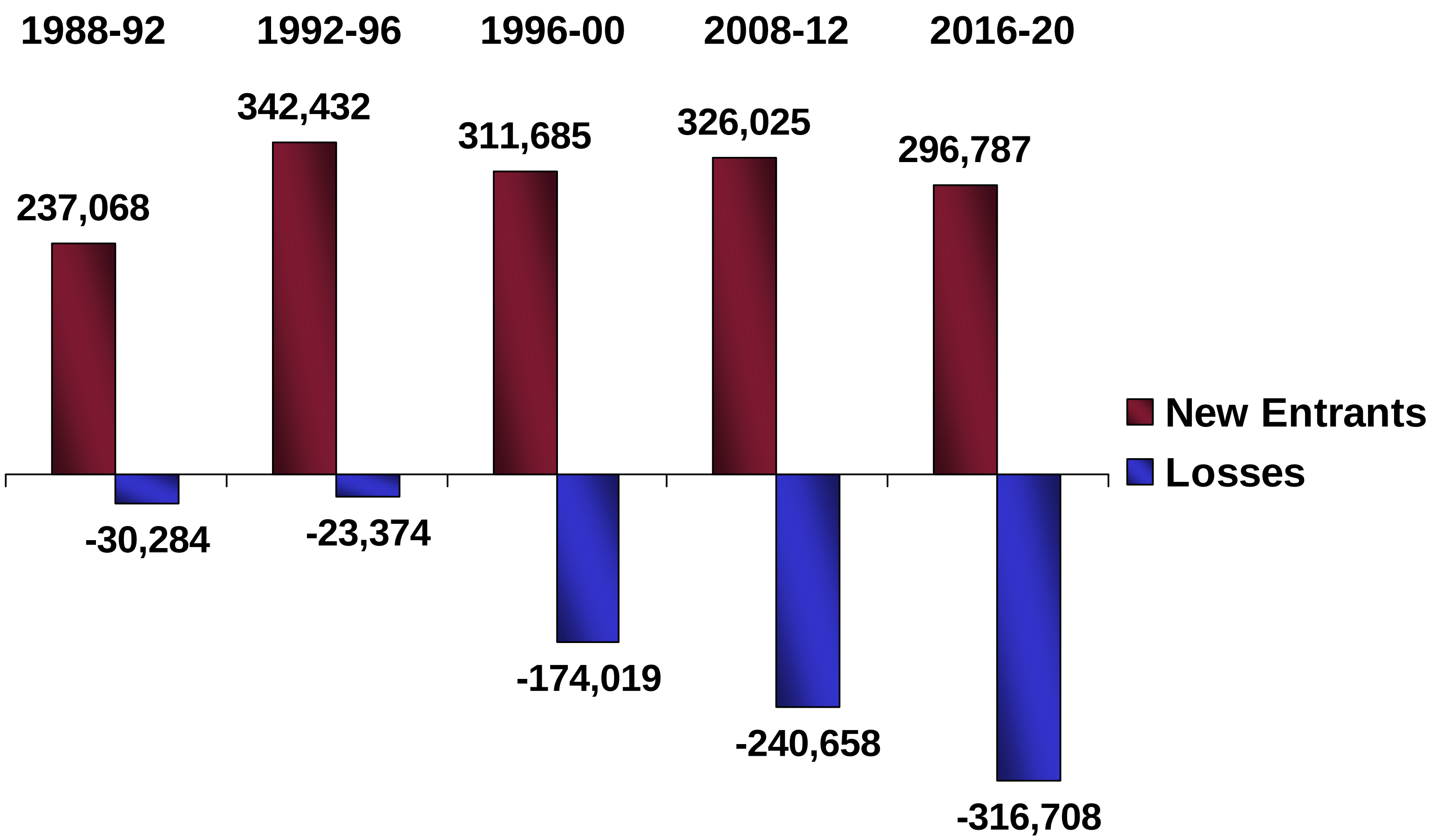
National Supply and Demand Projections for FTE Registered Nurses: 2000 to 2020



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

Workforce Shortages

If Current Trends Continue, the Number of RNs Giving Up Their License will Outnumber the Number of New Entrants



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

Annual applicants for basic RN programs	320,000
Annual admissions into basic RN programs	145,410
Annual graduates from basic RN programs	78,476
Pass licensure exam	74,327
New nurses leave first job within 2 years	-52%

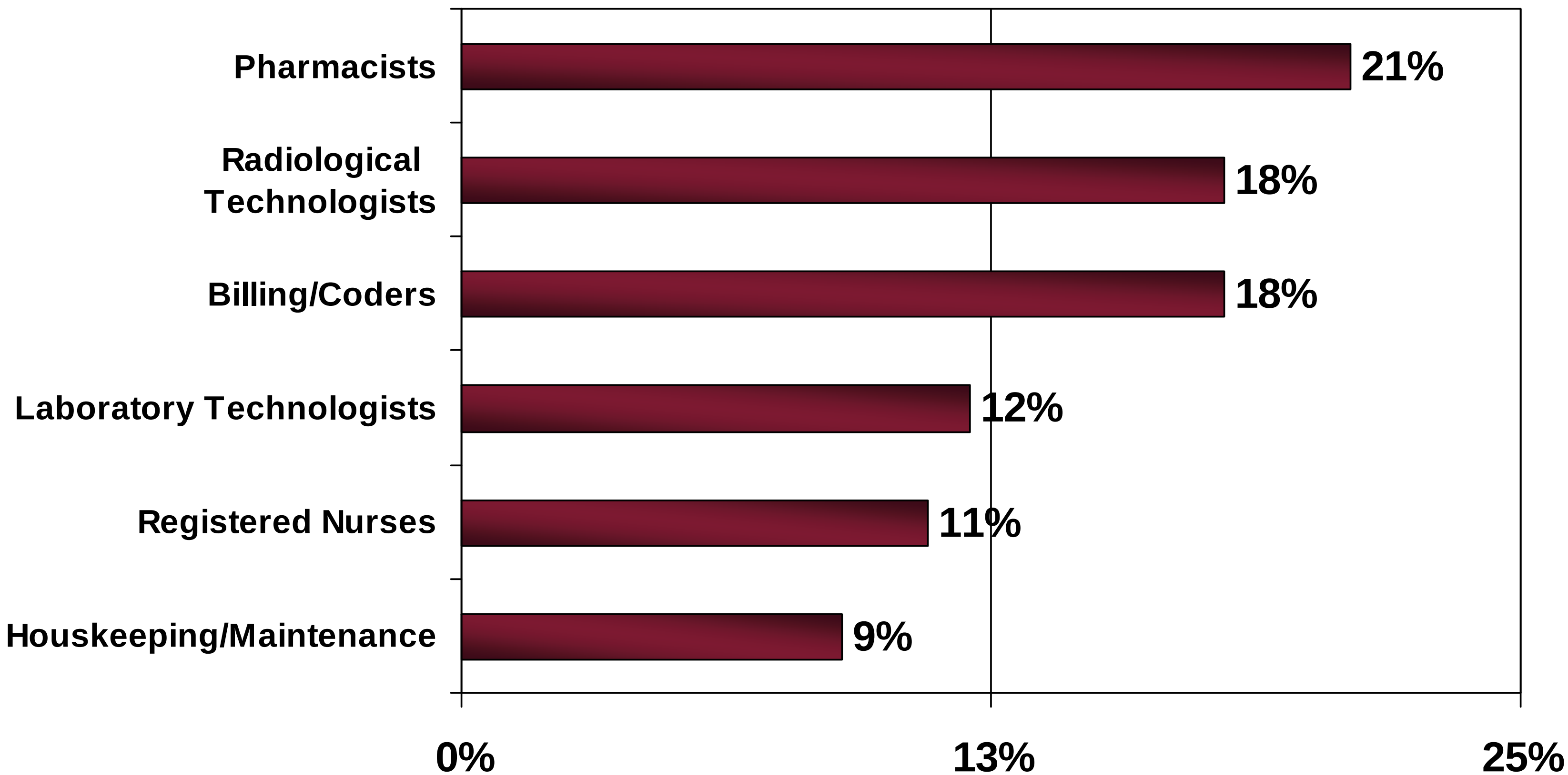
Source: "What Works: Healing the Healthcare Staffing Shortage" by PricewaterhouseCoopers' Health Research Institute & National League for Nursing; Advertising Supplement to *Modern Healthcare*

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



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

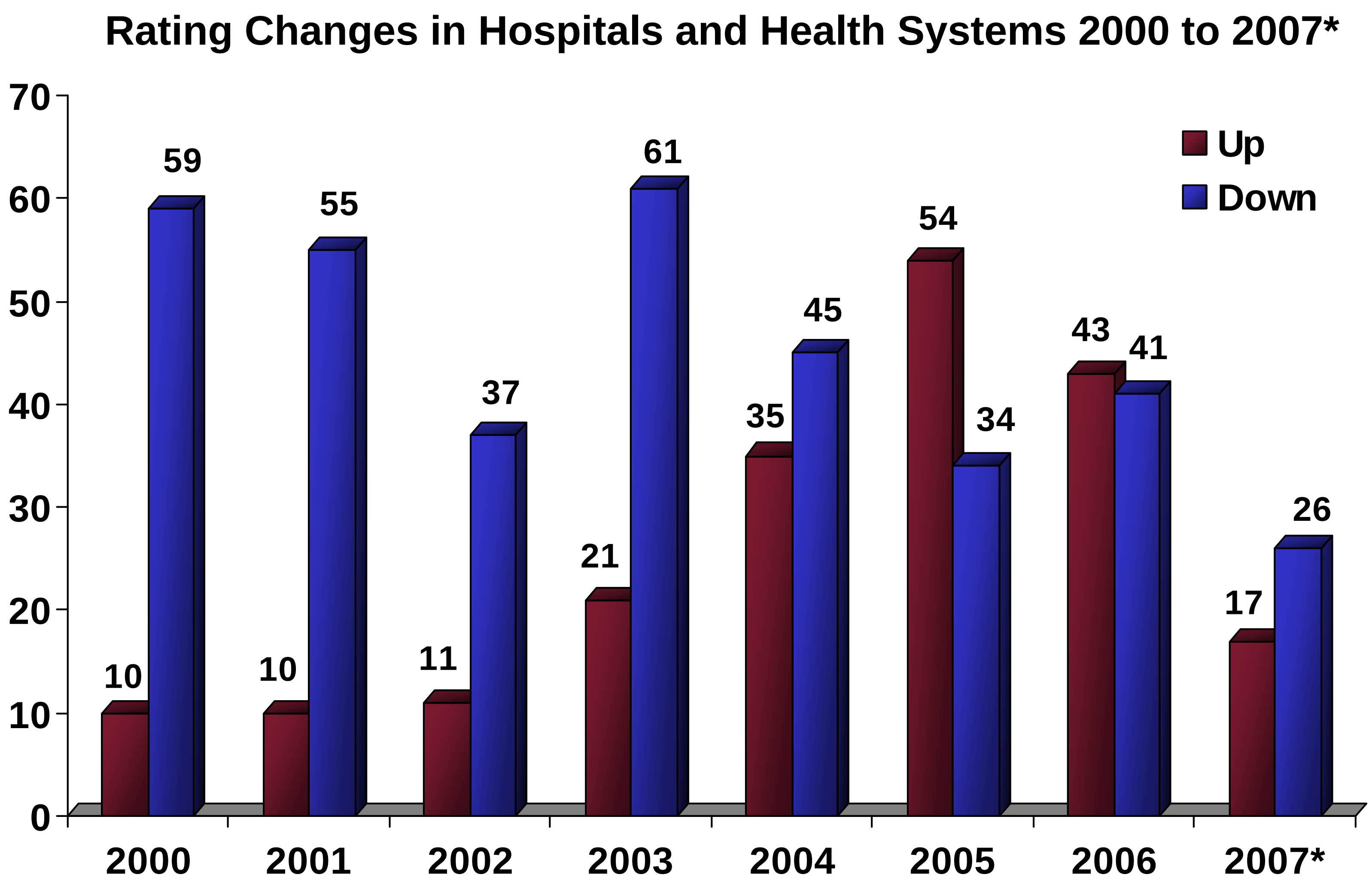
Finance and Access to Capital

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

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

Source: *FutureScan 2008: Healthcare Trends and Implications 2008-2013;* ACHE Health Administration Press; 2008

Investment and Debt Strategies Become Aggressive

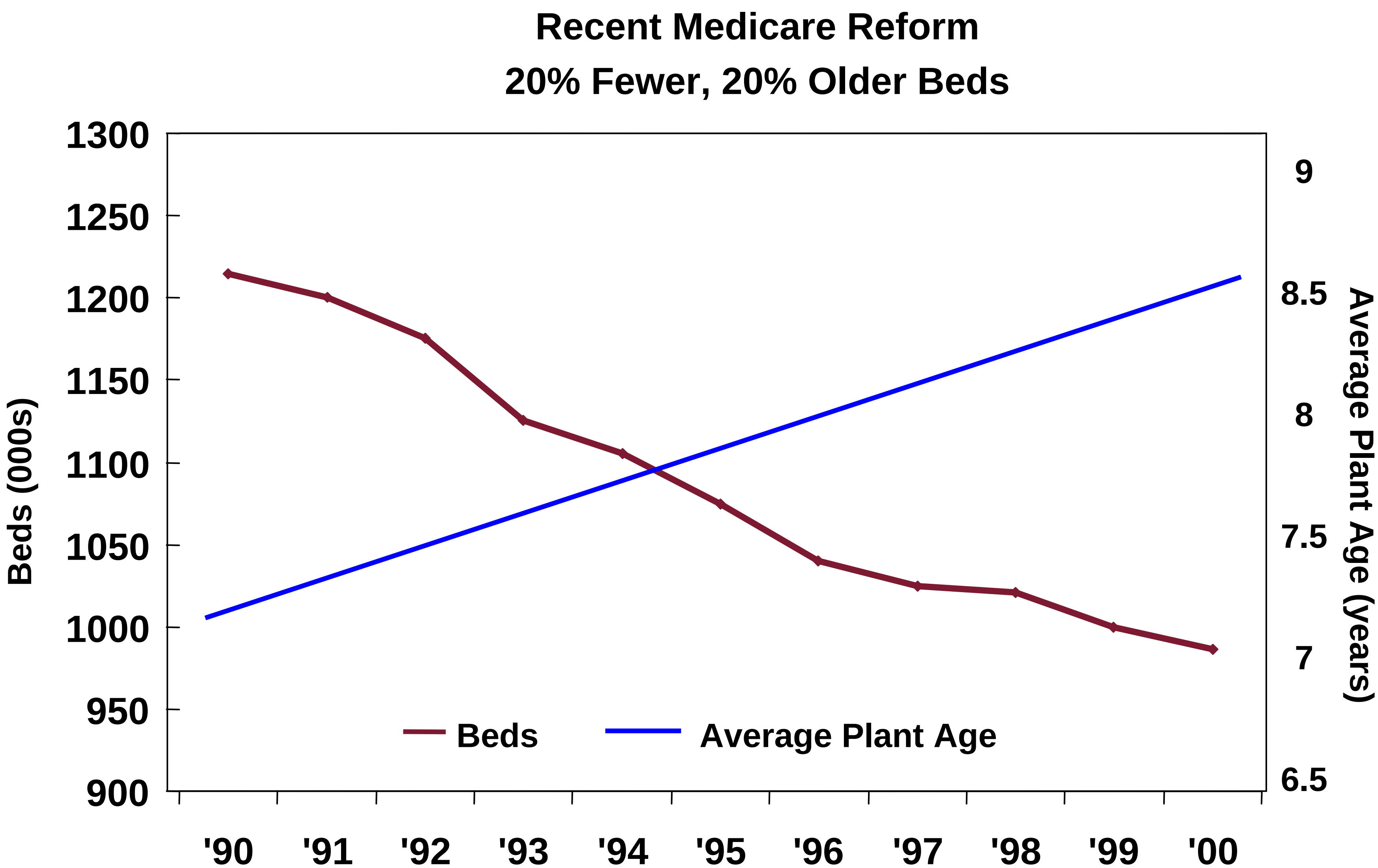


* = Through September 24, 2007

Source: Standard & Poors; September 2007

New Operational Risks as Large Capital Projects Become Operational

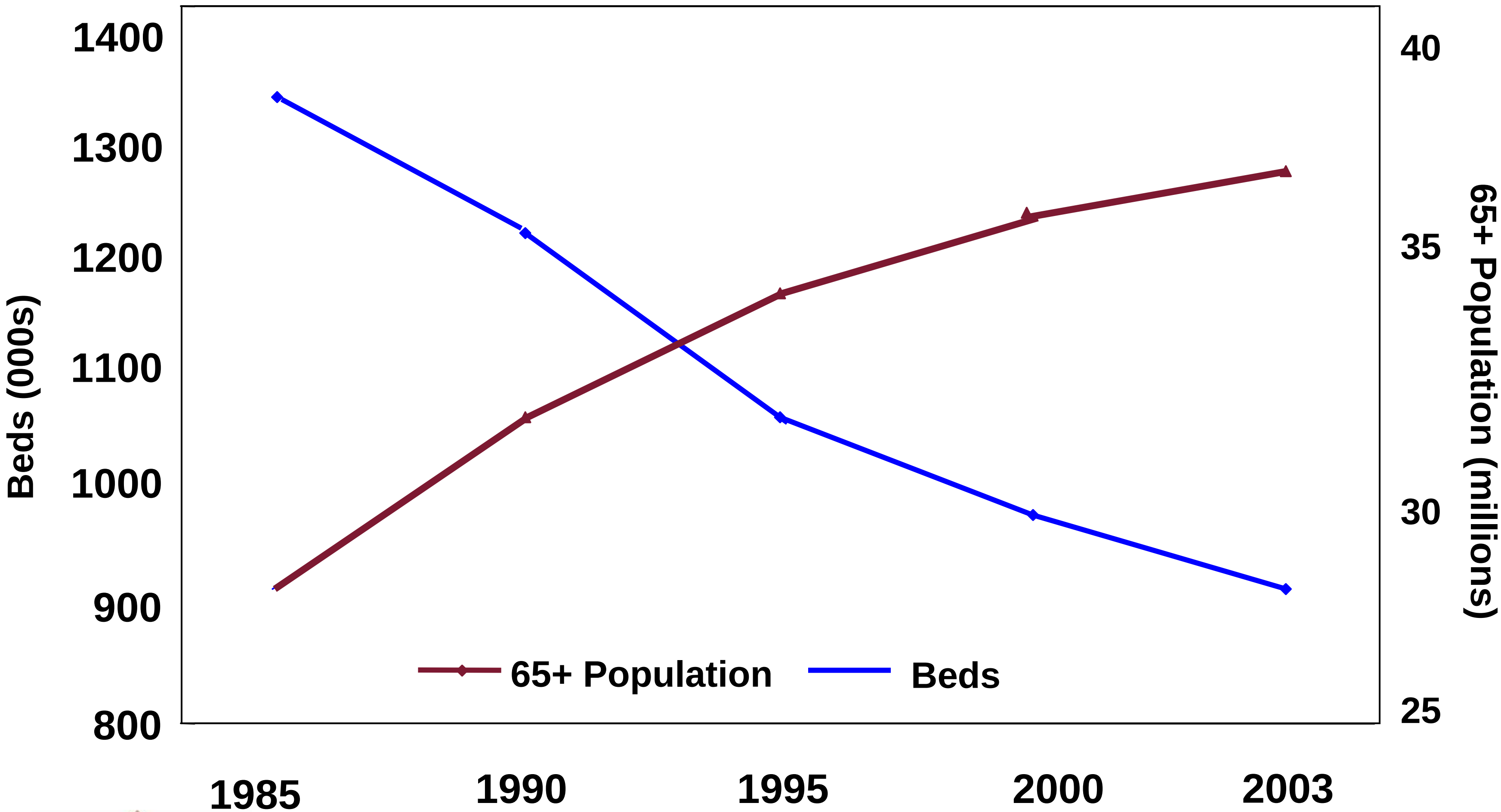
New Operational Risks



New Operational Risks

Under-Investment vs. Projected Need

Demographics vs. Bed Growth



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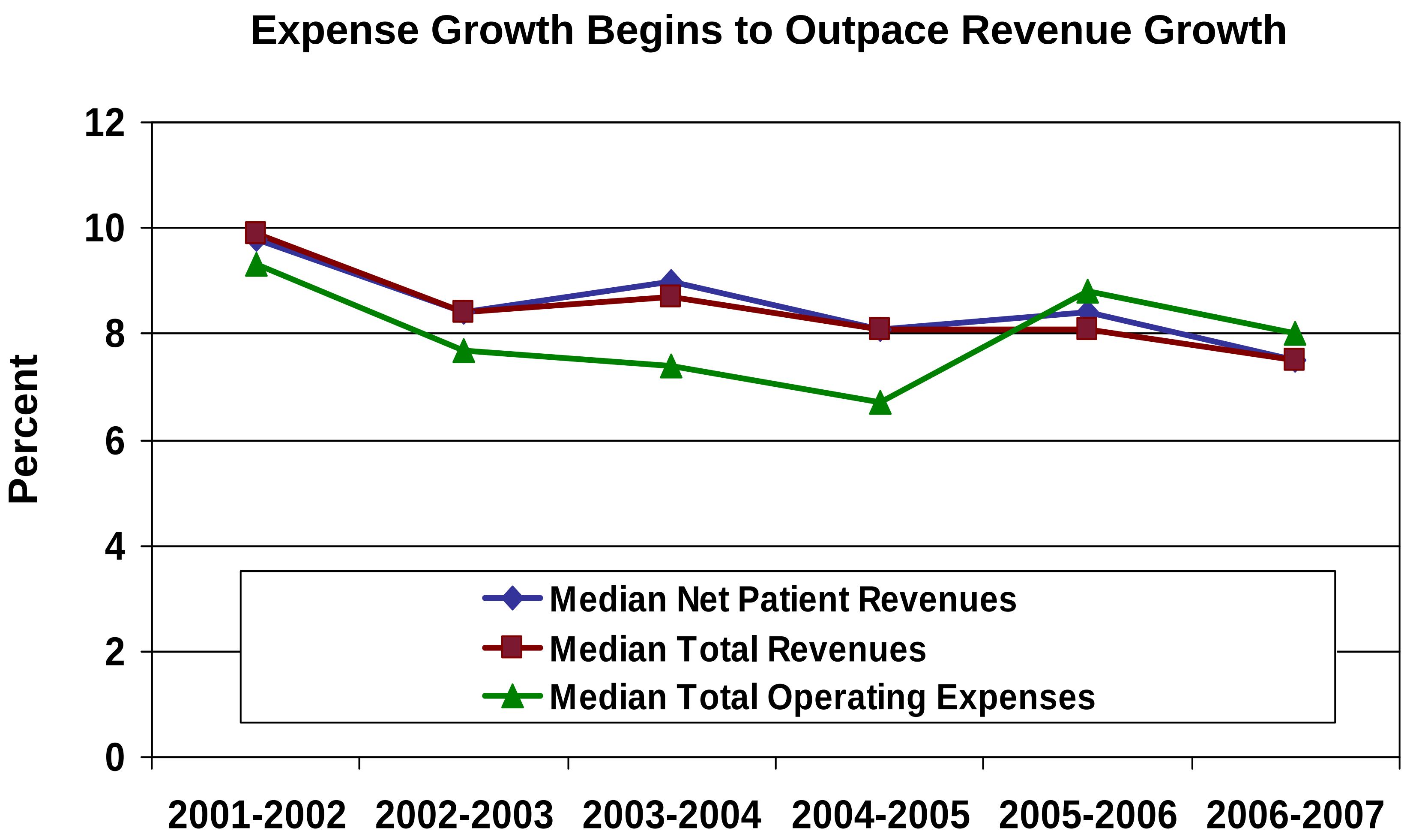
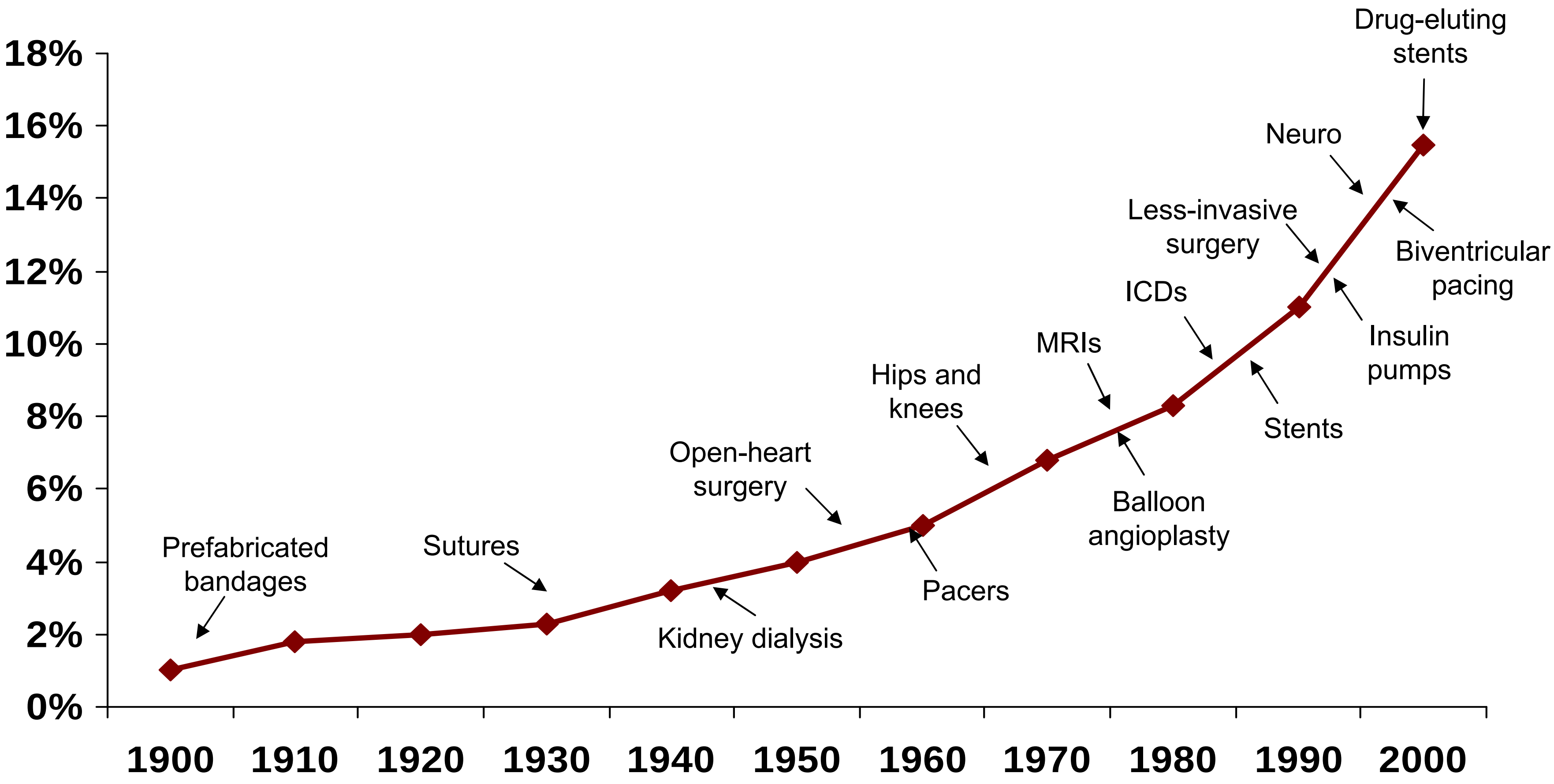
New Operational Risks



Source: Moody's U.S. Public Finance – Not-for-Profit Healthcare Sector: 2008 Industry Outlook; January 2008

New Operational Risks

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



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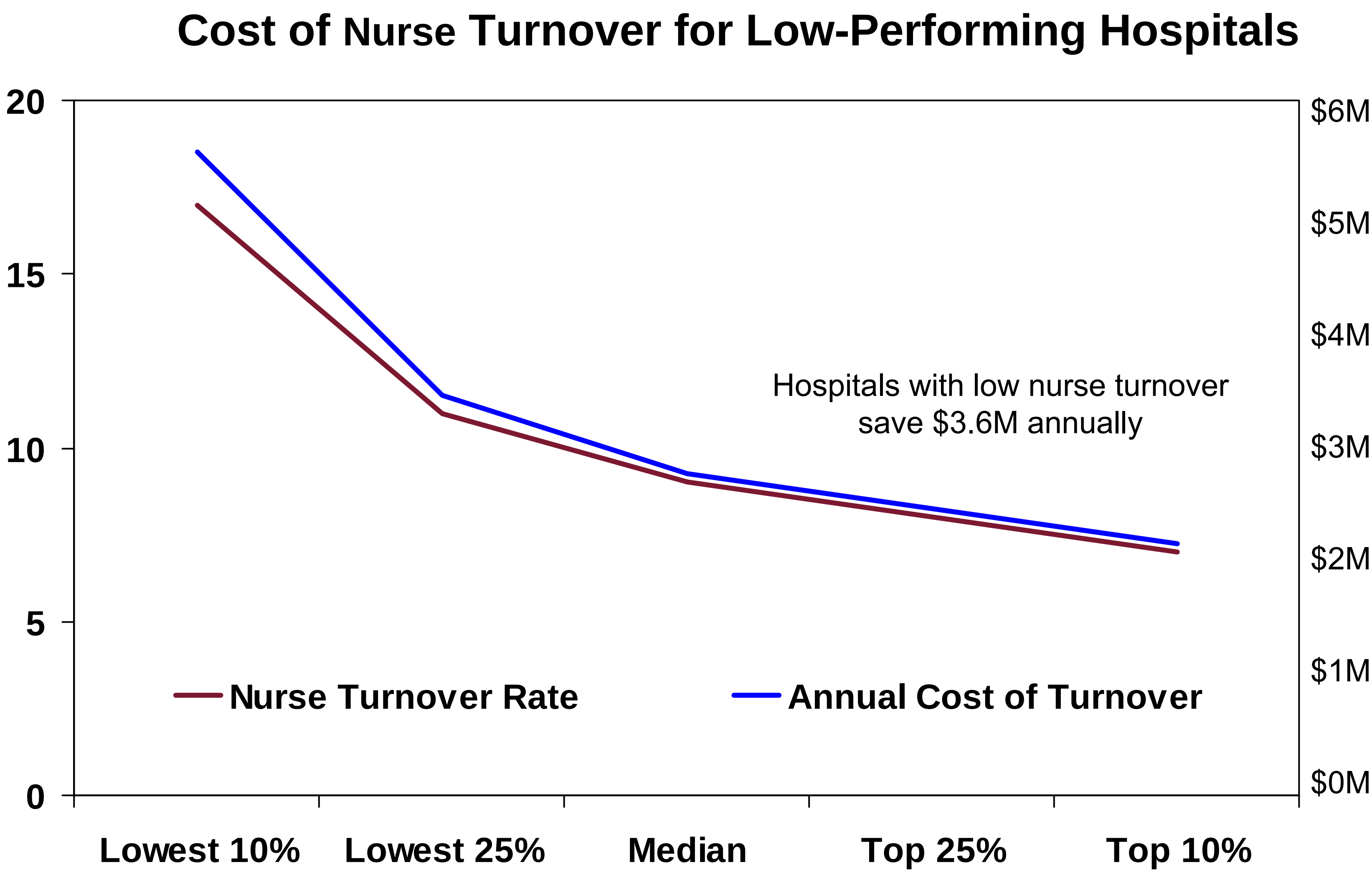
New Operational Risks



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