GOOD GOVERNANCE CASE STUDY

An Online Series by **The Governance Institute®**

Health First Prepares for the Future Healthcare Business Model

(Part One)

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Health First Prepares for the Future Healthcare Business Model

(Part One)

Organization Profiled

Health First, Rockledge, Florida

Steven P. Johnson, President and CEO
James Shaw, Chair, Health First Board of Trustees
Drew Rector, Executive Vice President and Chief Strategy Officer
Edye Cleary, RN, Ph.D., Senior Vice President and Chief Quality Officer

Organization Profile

Health First is a not-for-profit, integrated delivery network serving Brevard County, Florida. Formed in 1995 when Holmes Regional Medical Center merged with Cape Canaveral Hospital to form Health First, its current statistics include:

- 40,000 inpatient visits
- 155,000 emergency department visits
- 3,400 babies delivered
- 117,000 patients cared for through Health First Medical Group

The Health First Integrated Delivery Network includes:

- Holmes Regional Medical Center (514 beds, Melbourne, FL)
- Cape Canaveral Hospital (150 beds, Cape Canaveral, FL)
- Palm Bay Hospital (152 beds, Palm Bay, FL)
- Viera Hospital (84 beds, Viera, FL)
- 25 Health First outpatient sites

Health First Health Plans, established in 1996, serves more than 62,000 members in Brevard and Indian River counties. The system also includes Health First Medical Group, an integrated network of more than 300 multi-specialty physicians and mid-level providers.

Outpatient services include:

- Fitness centers
- Home care
- Hospice
- Medical equipment
- Medical rehabilitation
- Urgent care

Statement of Interest

Health First President and CEO Steve Johnson begins all his meetings by talking about what's going well. Every two months, Health First holds a meeting of about 300 of its top managers. After welcoming everyone and describing the agenda, Mr. Johnson walks around the room with a microphone, and everyone has a chance to share what's going well in their area of work. Every quarter, he schedules 15 minutes during the system board meeting to make a "what's going well" presentation.

"I do this regularly for two reasons," Johnson said. "First, it nourishes the soul to hear that things are going well. Second, this is a way we can identify best practices and share them throughout the system."

During the past two-and-a-half years, Health First has experienced major changes. Four independent hospitals started to act like a unified organization. Physicians started to receive scorecards on their quality and safety, cost-effectiveness, and patient satisfaction. Half of the system board members were persuaded to make room for new people with different skills and fresh ideas.

After long discussions (and 15 different drafts), the Health First Board of Trustees defined its primary purpose as "improving the health and wellness of our community while striving to provide locally the broadest/deepest scope of services that are sustainable in the long term." In support of that purpose, the system is developing an integrated network that will offer the full continuum of care to its patients.

It seems that one reason the system has weathered this turbulent process of change is Johnson's vigorous leadership style. "I don't want a cupcake board," he said. "I want really smart people asking me hard questions."

Before he came to Health First, Johnson was president of hospital operations for SSM Health Care, a seven-hospital system in St. Louis that was the first healthcare organization to receive the Malcolm Baldrige National Quality Award. That experience left him with a "full speed ahead" attitude towards efforts to improve quality and create patient-centered care.

Drew Rector, who is now Executive Vice President and Chief Strategy Officer at Health First, was previously a hospital president at SSM Health Care as well. He recalled one management team meeting soon after he arrived at Health First, when he challenged Johnson quite strongly during the discussion. "Afterwards, one of the executives who had been at Health First for quite a while told me, 'Drew, you never confront the CEO.' I said, 'This is my second time working with Steve Johnson. If you don't challenge him, you won't work for him in the future.' This is a guy who doesn't want 'yes people' around. He seeks out people who will push one another, in order to end up with the best possible decisions."

In this case study, we will examine some of the factors that make Health First a leader in preparing for our future system of healthcare. Part One will cover the effects of having a health plan within the system, incentivizing teamwork, partnering with physicians, and the strategic context for healthcare. Part Two will look at board reorganization, quality measurement, and the benefits of defining an organization's purpose.

Health Plan Paves the Way to Full Continuum of Care

Health First has had a health plan since 1996, and that gives it a big advantage in developing a fully integrated healthcare network. The plan is licensed as both an insurance company and an HMO. It provides commercial insurance for large and small groups, Medicare Advantage, as well as individual plans both on and off the marketplace. The plan has been rated at four-and-a-half stars by CMS for four consecutive years.

Johnson arrived at Health First about two-and-a-half years ago, with responsibility for taking what was then a hospital company and helping to turn it into a health system. "It meant we needed to completely change the structure of the organization," he recalled. "We were highly siloed. Each component was an individual business, held functionally by a parent holding company, but operating independently, with its own brand, structure, and strategy."

Health First is now on its way to a complete transformation, with its four hospitals starting to function like a single hospital

with four locations. There used to be four hospital presidents. Now there are two, one for the tertiary trauma center, and one for the three community hospitals. The chief operating officers in each hospital report directly to the chief operating officer for the system. "That's because we don't want the hospital presidents worrying about the staffing level on 4 West today. We want our hospital presidents focused on the big picture, our strategy, metrics, and developing a new culture," Johnson said.

In the past, Health First, like most hospital systems, put the hospital squarely in the center of its mental map. Other system components, such as home health or DME or a health plan existed to serve the hospital and its patients.

Now, Health First has an operating structure with four equal divisions: the hospital division, an outpatient and wellness division (which includes all ambulatory services), a physician company division, and a health plan division. They operate as co-equal partners.

> "We tend to think about the history of serving the community for 75 years, and preparing to serve it for the next 75 years. Given the financial pressures in healthcare today, it makes sense for us to partner with other organizations with similar motives. Together we can plan how to make our mission-oriented services viable for the coming decades. We see them as allies in a common cause."
>
> *—Steven P. Johnson, President & CEO*

"The leaders of the divisions bring specialized expertise to our organization," Johnson said. "For example, the chief operating officer of the hospital division is a nationally recognized expert in the application of Lean in health systems. His job is to use that specialized expertise to help run the entire enterprise. He is not here to advocate for the hospitals; he is here to advocate for the best possible positioning of the system as a whole."

As more people are covered by the health plan and the system continues to offer high-quality, cost-effective care, it should be

able to lower the price for employers and individual purchasers. "This structure allows us to start developing creative incentives. Instead of paying physicians based on the number of procedures they do, we want to implement incentives that pay physicians for helping to keep people healthy," Johnson said.

Because it includes the health plan, Health First is able to accept first-dollar risk. In the 1990s, many hospitals and physician networks were paid on a capitated basis, per member per month. "In that model, insurance companies take 15 to 20 percent of each dollar to cover their administrative overhead and profit, and they off-load the underwriting risk on the provider," Johnson said. "They have the license and you have the risk. Now, because we are the health plan, all 100 pennies of that insurance dollar stay here. We have 100 percent of the risk, but we also have 100 percent of the dollar."

As a community-based organization, Health First has an incentive to manage risk responsibly. It needs to generate a 3.5 to 5 percent net margin to keep the system stable and cover repairs and expenses. "But everything above that operating margin will be reflected back through the health plan in increasingly competitive premiums," Johnson said. "Our board is in complete alignment with this strategy and goal."

Health First monitors commonly used health plan metrics such as urgent care visits, emergency room visits, outpatient diagnostics, outpatient surgery, and inpatient surgery, all measured in terms of "per 1,000 members."

Health plan members benefit from a full range of fitness services, including membership to four Pro-Health & Fitness Centers. There are also peer-based support groups for people who are dealing with medical issues like cancer or heart surgery.

Because it has a health plan, Health First has expanded options for the use of existing space. It is considering whether to use certain areas more flexibly to create swing units. They might partner with existing community providers; they might offer expanded options for long-term and skilled nursing care.

Growing the health plan is an important aspect of Health First's strategic vision. "We need to increase our health plan membership because the health plan is the integrator of our integrated delivery network," said James Shaw, Board Chair. Currently it has about 70,000 members, and Health First would like to grow to about 250,000 members. "We are moving from a model based on sickness and episodic care to a model based on wellness. At that scale you have the ability to build a robust organization."

"As we grow the number of members in the health plan, we have an increasing ability to do population health management," said Rector. "We can develop systems that will be effective across several counties, and manage an entire population in a coordinated fashion."

Health First is a local organization ($1.3 billion in annual revenue), and it enjoys significant benefits because of that, Rector added. "Physicians in the community have easy access to the plan's chief medical officer. We are putting clinical algorithms in place, founded on evidence-based care guidelines. But when a physician contacts our medical officer and says, 'Member X, who had nine outpatient visits, really needs another three,' it is easier to build in that flexibility just because we're local. We realize that

extra outpatient visits can prevent an inpatient surgery, so we're willing to make the investment."

As Health First expands its health plan and delivery network, Johnson envisions a fully integrated system in which cardiologists are paid competitively, but have no particular incentive to do procedures. "I want to see a payment system in which a specialist's income depends on how well the patients are, how satisfied those patients are with their care, whether care is cost-efficient, and whether primary care physicians are satisfied with collegial relationships. That is what should drive their pay, not how many times they do a particular procedure."

Because the system is now an integrated organization, it has begun putting the name Health First on each component hospital and clinic, each press release, every public event. "We measure this objectively using an outside company," Johnson said. "Our community recognition has changed dramatically in the past 24 months. People now recognize Health First as a unified brand, with a very positive reputation."

Innovative Incentives

How do four separate hospitals act and think as one hospital with four locations? How do executives move towards thinking about what's best for the system as a whole, and not what is best for their immediate facility?

One way is to change the financial rewards. At Health First, senior executives have 75 percent of their incentive compensation at risk based on the whole system's performance, and 25 percent of their incentive at risk for their individual area.

Health First sets system-wide goals every year, based on three areas of focus:

- Quality/no harm
- Stewardship, which includes efficiency and growth
- Customer experience

Within each of these areas of priority, "SMART" goals are determined: specific, measurable, attainable, relevant, and timely. Then the system-wide goals are broken down into specific goals for each hospital, each department, and each component within the system, in an aligned fashion. The information is written on

goal boards posted in the hallways, and they are updated each month with objective data, trend lines, and action plans.

This year, for the first time, the system implemented variable merit-based incentive compensation for all employees. Half of the variable merit increase will depend on the percent of goals their team reaches, while the other half will depend on their individual performance.

For example, if the system can afford a 3 percent general increase, that means possible merit increases range from 0 to 6 percent. If a team met 100 percent of its goals, an employee on that team would receive at least 3 percent. A high performer on that team would receive a full 6 percent increase, and a medium performer on the same team would receive a 4.5 increase. A low performer would not receive any increase and must improve to retain his/her position.

Partnerships with Physicians

Because Health First knew it was essential to grow the health plan, that meant it needed a larger base of primary care physicians. In 2013, it acquired MIMA, a large multi-specialty group with about 120 physicians and 50 mid-level providers. Health First Medical Group now totals 250 physicians and 60 physician assistants and advanced practice registered nurses. In addition, about 1,150 independent practitioners are aligned with Health First.

Acquiring a major medical group often poses challenges in community and physician relations. Many independent physicians may be quite concerned about what it means to be employed or aligned as part of a system. "We looked for ways of involving physician leaders in these discussions," recalled Shaw. "We set up a system physician advisory council that includes community-based physicians and health system leaders. I sit on that from a board perspective, and we've found this a very useful way of promoting accurate communication, being transparent about what you're doing, and getting people involved in the process of understanding and implementing change."

Health First is developing a series of quality measures for its employed physicians, and also the independent but aligned physicians who are part of the Health First community. Individual physician scorecards look at the same three system-wide areas of focus listed above.

Within the medical group, some of this information is posted publicly (primarily the satisfaction data). "We want the physicians and staff to think about possible reasons for patient satisfaction or dissatisfaction," said Rector. "It might be differences in scheduling patients and how long they have to wait, for example. Right now we are giving out the other scorecards individually, and letting our medical staff leadership start to work with the physicians in understanding and responding to that data."

Health First is also collecting data on a number of the National Committee for Quality Assurance's (NCQA's) Healthcare Effectiveness Data and Information Set (HEDIS) measures that are relevant to the health plan for Medicare Advantage and relate to primary care practice. Rector is already thinking about ways the system might implement similar measures in specialty practice.

The available databases and measures vary enormously. "For example, the American College of Cardiology and the Society of Thoracic Surgeons have two of the best databases in medicine," Rector noted. "On the other hand, we do thousands of total joint replacements in this country every year, but there is no national registry in orthopedics."

"The current healthcare system is likely to change, and preparing for that change means providing physician scorecards. As a forward-thinking health system, we want to lead change, and that means our physicians need to be aware that these measures exist."

—Drew Rector, Executive Vice President & Chief Strategy Officer

In the future, the hospital will present data to both employed and independent physicians who have staff privileges within the system. The focus will be a three-domain scorecard, showing quality, cost, and patient satisfaction benchmarked against their peers within the health system and nationally. "We're trying to prepare them for the future," Rector said. "The current healthcare system is likely to change, and preparing for that change means providing physician scorecards. As a forward-thinking health system, we want to lead change, and that means our physicians need to be aware that these measures exist."

Eventually, Johnson envisions a whole menu of options for independent physicians. "As we get more and more first-dollar risk premiums, we can create incentive pools based around quality and disease prevention, in a way that we haven't been able to do in the past. There are a whole range of options for mutually satisfying relationships with physicians—all of them with the patient/member at the center."

Expanding and Forming Partnerships for the Future

Last year, Health First expanded its health plan into the area immediately to its south, to expand its membership base. It is currently also expanding into the area to its north with a Medicare Advantage plan.

It has also formed a partnership with Florida Hospital, part of the Adventist Health System, using what is called a private label product placement. This means Florida Hospital puts its name on the health plan and the health plan expands using Florida Hospital's providers.

"We felt the need to gain additional scale, but we didn't want to acquire anyone and we didn't want to be acquired," Johnson said. "Instead, we took our most precious asset, our health plan, and talked with a number of health systems in our part of the state. We have every reason to believe this partnership will be successful, and we'll be able to move across the state with them. They have 23 hospitals in Central Florida, and hopefully we'll be able to grow our plan significantly, with benefits for us and for them."

Health First is open to partnerships with other not-for-profit healthcare organizations, so the health plan partnership with Florida Hospital could be the first of many. "Not-for-profit hospitals are embedded in their communities," Johnson reflected. "At Health First, we tend to think about the history of serving the community for 75 years, and preparing to serve it for the next 75 years. Given the financial pressures in healthcare today, it makes sense for us to partner with other organizations with similar motives. Together we can plan how to make our mission-oriented services viable for the coming decades. We see them as allies in a common cause."

> "Our basic premise is that the macroeconomics underlying healthcare are unsustainable. A production model that generates healthcare consumption of 18 percent of GDP in a country with $17 trillion in debt is unsustainable. This means we have to fundamentally change the value equation."
>
> *—Steven P. Johnson, President & CEO*

The Big-Picture Context for Today's Hospitals

While Health First's strategy does prepare the organization for value-based purchasing, that isn't the main point. "In designing our strategy, we've tried to behave agnostically toward ACA and value-based purchasing," Johnson said. "Our strategy does fit well with what is required for value-based purchasing and the standards of laws like ACA, but if that law gets overturned tomorrow, our strategy won't change."

"Our healthcare costs are 50 percent higher than France, the industrialized country with the next highest healthcare costs," he added. "We could just wait for the government to resolve this problem, but the government usually doesn't face up to major complex problems until it is absolutely forced to do so. When it does, it takes a chainsaw to a scalpel problem. We don't want to wait for that to happen; we want to get in front of the problem."

Just a few years ago, though hospitals didn't make money on Medicare patients, it was evened out due to cost shifting from private health plans. "That's not going to be there anymore, so we have to be able to function well at Medicare breakeven," said Shaw. "Why are we doing everything we're doing? Because the older business model is not sustainable."

In a recent example, six months after Johnson arrived at Health First, the state passed a 12.5 percent across-the-board cut to Medicaid. "I talked with legislators in Tallahassee at the time, but we couldn't get them to change their minds. They said, 'Oh, you hospitals, you always figure out how to make things work,'" Johnson recalled.

Even after this massive cut, Health First was able to generate a positive bottom line last year. "We think the cuts we've taken in Medicare and Medicaid over the last two years are only the beginning," Johnson said. "We intend to have a positive bottom line this year also, by rigorously behaving as a system, expanding our health plan, and rapidly harvesting savings through Lean."

"Getting to Medicare breakeven is a matter of survival," Shaw said firmly. "If someone doesn't believe that, we don't really have the time to try to convince them. However, our perception is that organizations that cannot put together an integrated delivery network, and cannot adapt to Medicare breakeven—they are not going to be around in the future."