

# Healthcare Forecast 2018: 10 Trends Board Leaders Need to Know



**A Governance Institute Webinar**

**Presented by**

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# Today's Presenters



**Steven T. Valentine, M.P.A.**, Vice President of Strategic Advisory Services at Premier, Inc., leads the West Coast healthcare consulting services. With more than 35 years of healthcare consulting experience, he has considerable expertise in the areas of business advisory services, strategy, transactions, mergers, physician partnerships, and financial analysis and feasibility studies. Mr. Valentine has authored annual “top ten trends in healthcare” articles for *Trustee* magazine, Healthcare Intelligence Network, and The Governance Institute for over five years. He is a nationally recognized author and speaker and is frequently quoted on NPR, in *Modern Healthcare*, *The Los Angeles Times*, *HealthLeaders* and many other publications. Mr. Valentine serves as the Chair of the board and the strategy and finance committee at the Orthopaedic Institute for Children (a UCLA affiliate), and is a board member of Northridge Hospital Medical Center.



**Guy Masters, M.P.A.** is a Principal in Premier’s West Coast healthcare management consulting practice. With 30 years of healthcare experience, Mr. Masters focuses on strategic, business, and service line planning; transaction advisory; mergers; board/governance issues; and competitive positioning strategies for hospitals/health systems, physicians, and payers. He has developed HMOs, IPAs, MSOs, PHOs, IDNs, CINs, medical groups, and direct contract relationships with employers. He is an experienced facilitator of board retreats, conducting strategic planning processes, and forming clinically integrated networks. He also executes physician/hospital alignment strategies, implements growth and operational efficiency strategies, and when required, has closed and re-purposed financially troubled hospitals. Mr. Masters has written more than 80 articles on healthcare trends, strategic and business planning, financial forecasting, managed care strategy, and more.

# Learning Objectives & Continuing Education Information

After viewing this Webinar, participants will be able to:

- Identify major areas impacting hospitals and health systems in 2018.
- Describe actions a board can take in collaboration with management to address issues/trends.
- Discuss strategies their organization should pursue in 2018.
- Prioritize strategies by importance given anticipated trends.

## Continuing Education Credits Available:

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## Continuing Education Information (continued)

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Program level: Overview

No advanced preparation required

Field of Study: Business Management and Organization

Delivery method: Live Internet

Maximum potential CPE credits: 1.0

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# 1. The Population Health March Endures

## What We Expect:

- Hospitals and health systems will continue to make investments in information systems, primary care, medical management, value-based care, and new payment models to support population health management.
- More partnerships will be formed with community organizations and others to address social determinants, population health and reduce costs.
- Continued push to enhance “consumer stickiness” through:
  - Improved patient communication and engagement activities
  - Patient satisfaction incentives
  - Repeat interactions
  - Convenient access to care
  - Get the consumer to seek health information from your website and patient portal

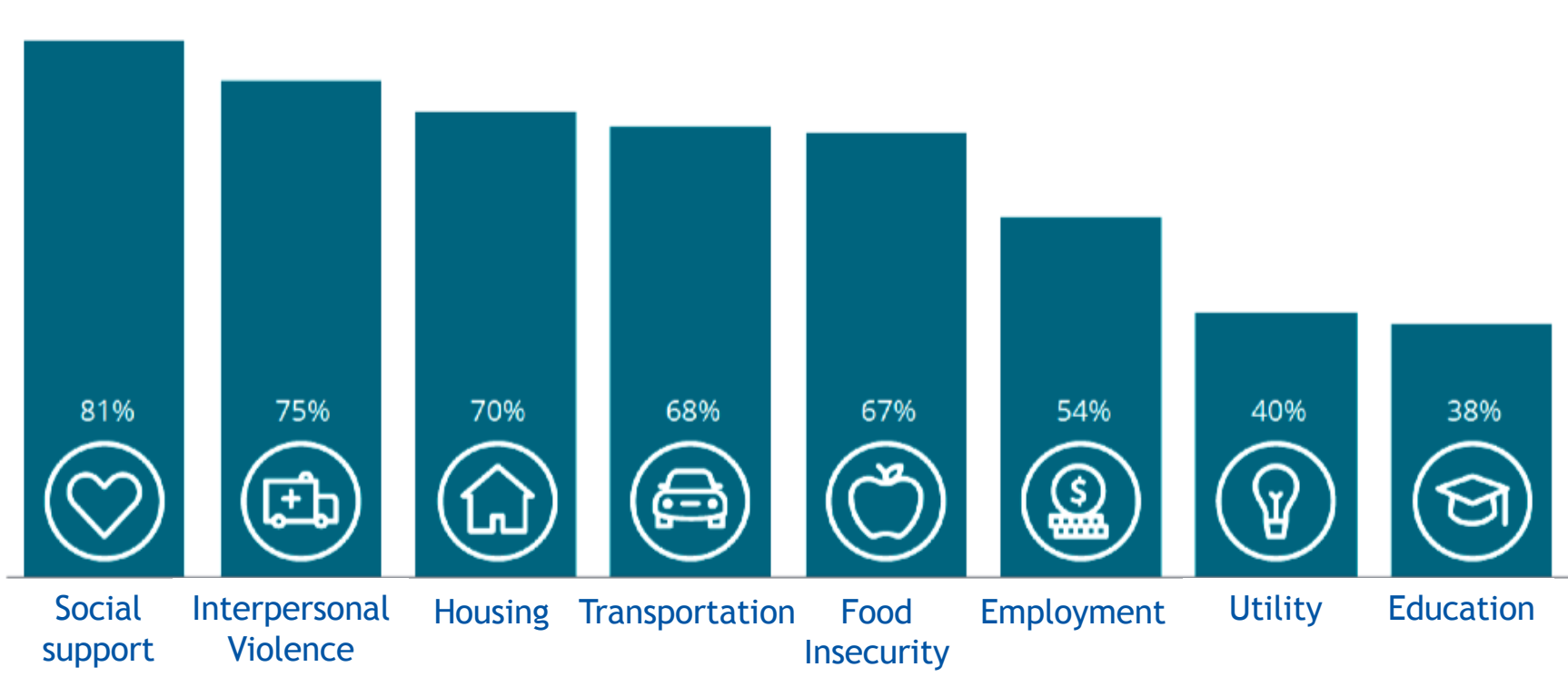
# 1. The Population Health March Endures

## In the Boardroom:

- Evaluate the population that is required for scale and adequate geographic coverage, including determining if partners are needed for success.
- Monitor and benchmark ACO and clinically integrated network (CIN) performance.
  - Use third-party databases/benchmarking
- Enhance collaboration with community organizations to address the social determinants of health.
- Have a plan that identifies community needs, the resources available to address them, and a payer contracting strategy to fund them.
  - Health status indicators
  - HPSA and MVA designations
  - Social needs organizations (housing, meals, transportation, etc.)

# Social Responsibility (continued)

What hospitals screen for:





## 2. Increasing Evolution of Value-Based Care Delivery Models

### What We Expect:

- Healthcare organizations will develop and adopt new care and payment models with increased focus on and use of:
  - Primary care physicians
  - Mid-level professionals
  - Hospitalists
  - Intensivists
- Health plans will avoid paying for certain tests, diagnoses, procedures, and treatments at hospital-based/ -owned facilities. This will drive health systems to:
  - Diversify into freestanding diagnostic and treatment centers (cannibalize self)
  - Set prices for hospital-based services to match market rates (negative financial impact)
- Hospitals will expand services and grow provider networks to include:
  - Retail health centers
  - Urgent care centers
  - Ambulatory centers
- Risk-based payment models will economically incentivize these changes.

## 2. Increasing Evolution of Value-Based Care Delivery Models

### In the Boardroom:

- Pursue stronger alignment with employers and health plans to add value and enhance the patient experience.
  - Enhanced access
  - Digital linkage
- Encourage diversification into new care models, and enter partnerships with ambulatory and post-acute care providers.
- Watch for new value-based payment arrangements, and understand the incentives and compensation models the health system is using.

### 3. Health Plan and Payer Moves

#### What We Expect:

- Health plans will withdraw from health exchanges due to the loss of government subsidies of premiums and cost overruns.
- Insurance premiums will increase significantly from 2017.
- PPO high-deductible plans will grow among employers who will also provide health savings account (HSA) financial support for employees.
- Patients will become more price sensitive with cost-shifting to them.
  - Especially outpatient services and physician visits
  - Pricing transparency will continue to increase
- More employers will pursue direct contract arrangements with hospitals and health systems as a way to reduce costs.
  - Requires an appropriate geographic footprint

## 3. Health Plan and Payer Moves

### In the Boardroom:

- Screen the health system's payer contracting strategy and ask about opportunities to contract directly with employers.
- Encourage management to work with local insurance brokers and employers to understand their benefits and interest in direct contracting.
  - Identify benefit trends
- Monitor and understand the impact of efforts by health plans to implement value-based payment arrangements.

## 4. Physician Slowdown

### What We Expect:

- Baby-boomer-aged physicians are tired!
  - MACRA payment model financial impacts are looming (2019).
  - Practice performance data requirements are onerous - quality measures, patient satisfaction scores, cost-effectiveness data, others.
- Personal retirement accounts have likely rebounded and replenished:
  - Expect a slow-down of physician productivity in 2018, and a wave of retirements and work reductions thereafter.
- Additional workforce shortages loom due to retirement of physicians, C-Suite leaders, nurses, other caregivers
  - Filling these vacancies will create challenges...and opportunities!
  - Drive salaries up?
  - Difficult to fill night and weekend positions.

## 4. Physician Slowdown

### In the Boardroom:

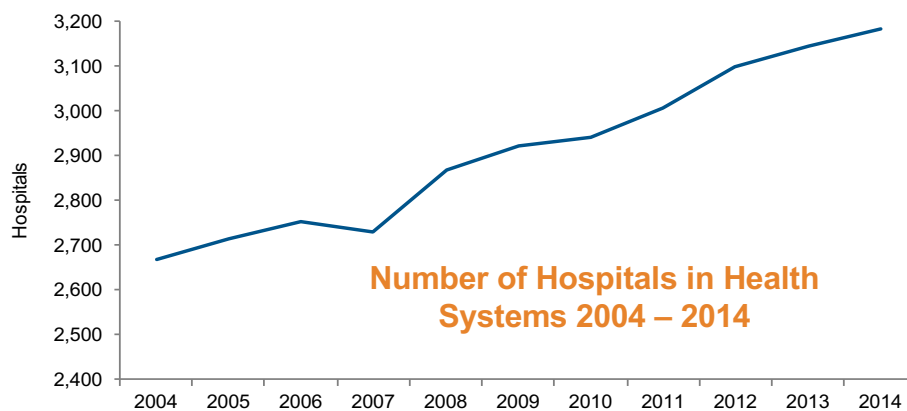
- Develop/update succession plans for the medical staff, C-Suite leaders, nurses, and board members.
- Continue to develop a robust, high-value network of physicians, which is essential to building a foundation that attracts new physicians, and to prepare to effectively manage physician practices and medical groups.
- Provide ongoing MACRA updates, education and support; physicians should have an assessment of their practice to analyze the economic impact on their finances.
- Implement an educational program to enhance, develop, and improve the leadership skills of physicians, as well as for C-suite leaders and managers.
- Ask management for updates on the organization's physician alignment strategies. There should be a plan, metrics, and periodic reporting to measure progress and success.

## 5. Changing Landscape of Competitors

### What We Expect:

- New (and potentially disruptive) partnerships are proliferating.
  - Insurers, pharmaceutical companies, retail chains, others.
  - Insurers and medical groups.
  - Tech companies and other non-traditional players are entering the healthcare space to a much greater degree.
  
- The fight for consumer loyalty and “stickiness” has exploded.
  - Expect it to get worse...

# Continued Health System Consolidation and Alignment



American Hospital Association Annual Survey data, 2014

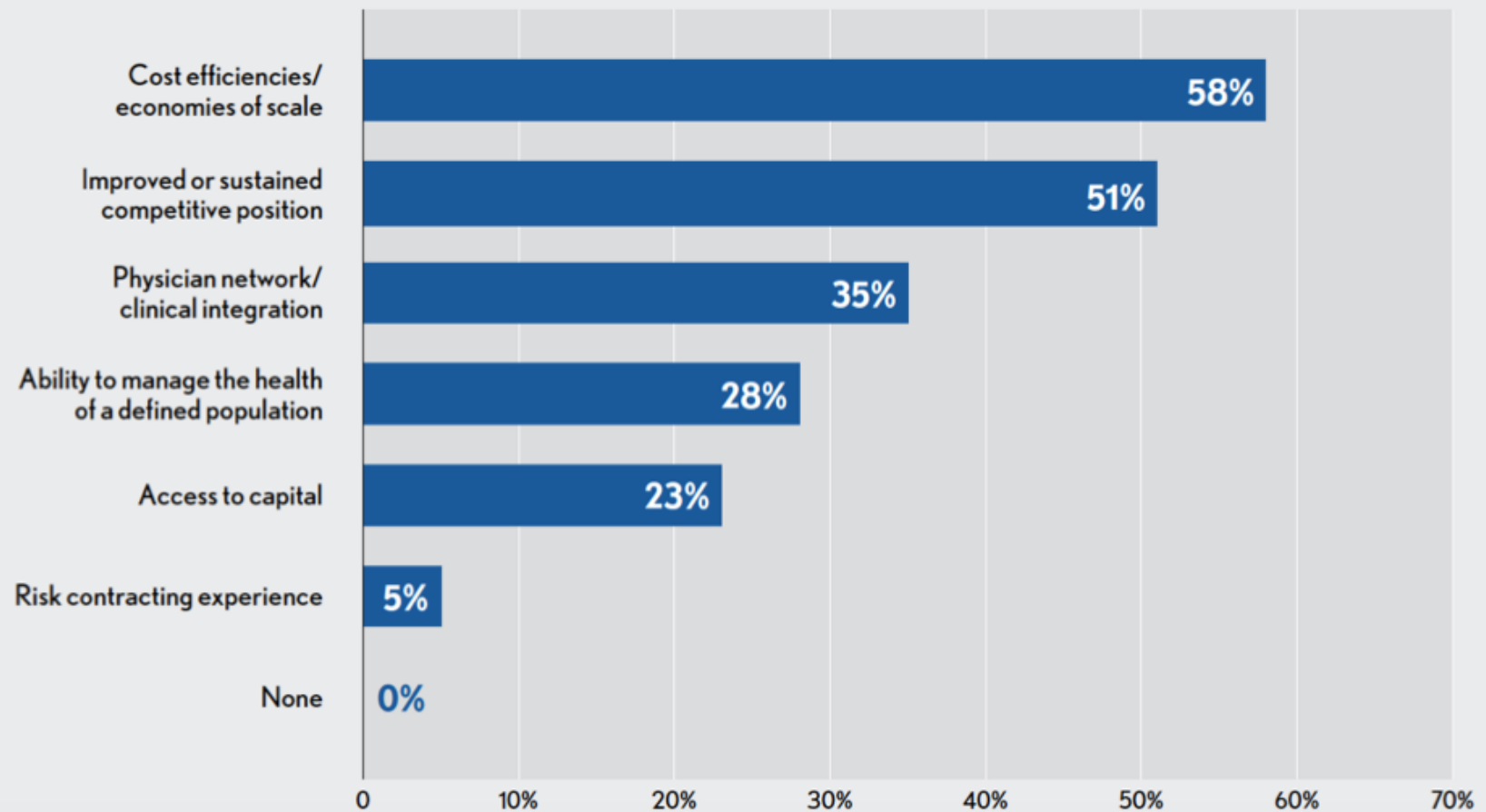
- How big is big enough...  
...and when?
- Realizing the true benefits of scale? Market...  
Operations... CIN...
- Reinforcing board and leadership role changes to support systemness?
- Exploring alternative models of alignment without merging or acquiring assets?



# Rationale for Alignment

## DRIVERS OF ACQUISITION AND AFFILIATION ACTIVITY

What are the most important reasons for an organization to consider a new organizational arrangement?



Note: survey of 145 healthcare executives, percentages above represent those ranked in the top two.

Source: HFMA Value Project Report: Acquisition & Affiliation Strategies, October 2013.

## Selected Major Transactions

-  **CVS Health** to acquire  **aetna**
- United Health's  **OPTUM** buys  **HealthCare Partners**.  
A DaVita Medical Group
-  **ASCENSION** and  **Providence St. Joseph Health** in talks
-  **Catholic Health Initiatives** and  **Dignity Health** will finalize merger
-  **Walgreens** buys 1,900  **RITE AID** stores
-  **CHS Community Health Systems** and  **Tenet** divestiture activity
-  **Advocate Health Care** Tomorrow starts today.™ and  **Aurora Health Care** to merge
-  **Steward** acquires  **IASIS HEALTHCARE**

## CVS: One-Stop Shopping

**“The healthcare system is going to undergo a lot of change... Change is good for companies looking for opportunities.”**



Helena Foulkes,  
CEO, CVS Pharmacy

**“We are bringing healthcare to where people live and work.”**



Larry Merlo  
CEO, CVS

## 5. Changing Landscape of Competitors

### In the Boardroom:

- Ask management to periodically report on industry developments in this area.
- Understand the organization's digital strategy to compete and gain “stickiness” from physicians and consumers.
- Assess what partnering opportunities are possible to pursue with the “digital players” for your organization.

## 6. Consumer Empowerment

### What We Expect:

- Stickiness centers on getting consumers to connect, engage, and be loyal.
- Consumers are demanding more information as they bear a larger share of their healthcare costs:
  - Pricing information (HD PPO plans)
  - Quality ratings
  - Customer reviews
  - Patient satisfaction scores (access)
- Stickiness will be pursued through:
  - Patient portals
  - Wearable devices
  - Patient electronic medical record
  - Educational programs
  - Screenings
  - Customized information targeting patients based on current and anticipated healthcare needs

## 6. Consumer Empowerment

### In the Boardroom:

- Ask management to present the organization's consumer communication and engagement plan, and identify strategies connecting your organization to the consumer.
- Monitor industry developments in this area to track potential opportunities and threats.

## 7. The Accelerating Path from Volume to Value

### What We Expect:

- A continued reduction in inpatient use due to fewer admission and shorter lengths of stay due to:
  - Value-based incentive payment models (in both commercial and public markets).
  - MACRA's Quality Payment Program will encourage creating new APMs such as bundled payment models and ACOs that align with risk-based incentives.
- Hospital-based outpatient volume will soften as patient volume is re-directed to less-costly provider settings.
  - Expect that volume will also move from traditional outpatient settings to office, ambulatory and/or home settings.

## 7. The Accelerating Path from Volume to Value

### In the Boardroom:

- Understand and actively monitor the organization's plan to transition from volume to value.
  - Additionally, what strategies are in place to grow market share?
- Educate yourself on how the Quality Payment Program will change incentives and metrics for physicians.
- Ask management to keep the board informed about the organization volumes (admissions, length of stay, emergency department visits, outpatient, etc.), the ambulatory options in the market, and the changing payment incentives to use less-costly outpatient services.



## 8. Cyber Risks

### What We Expect:

- Cyber-attacks will continue to increase and become more sophisticated.
- Ransomware, phishing, and human error will test the vulnerability and exploit weaknesses in security systems.
- New technology advances and healthcare applications will have a potential dark side of creating more entry points for cyber breaches and hacks:
  - Wearables, portals, medical devices, information exchanges/data warehouses, EMRs, and others may result in cyber weak-points.

### In the Boardroom:

- Ask management to provide their cybersecurity plan and identify the resources required to stay current in this new cost center.

## 9. Continued Consolidation

### What We Expect:

- Downward pressure on prices and revenue will drive further consolidation.
- Many mergers have not realized the hoped-for positive results and advantages that were assumed.
  - Rationale is:
    1. To gain economies of scale
    2. Enhanced credit rating
    3. Diversity risk (broad geography, employer change, Medicaid, health plan termination)
- Mergers in the future will focus on capturing market share, building brand awareness, concentrating resources in a market (facilities, CINs, ACOs, etc.) and achieving greater economies of scale.

## 9. Continued Consolidation

### In the Boardroom:

- Track your organization's financial performance, market position, and strategy execution.
- Monitor your market and what is happening with competitors for potential affiliations, partnerships, and alignments with traditional and non-traditional “market disruptors.”

## 10. Cost Reduction and Management - Again

### What We Expect:

- Anticipate reductions in payments and incentives for care at lower-cost due to:
  - CMS
  - Value-based payment models
  - Drug cost increases (more use, higher prices)
  - Narrow and tiered networks
  - Losses on owned physician practices
  - Volume shifting away from hospitals
  - Health plans not paying for hospital outpatient services (more expensive)
  
- Doubling down on cost management will be essential!

## 10. Cost Reduction and Management - Again

### In the Boardroom:

- Continue to focus on new models of care, increase automation efforts where there are repetitive tasks, reduce expenses in non-patient care areas, negotiate vendor discounts, and collaborate with other organizations to enhance your market position.
- Ensure that management regularly provides to the board a standard dashboard report tracking cost and revenue metrics.
- It is management's responsibility to manage costs and the board's responsibility to ask questions and be kept informed.

# Questions & Discussion



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