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Hospital and Health System Governance for the Future of Value-Based Care

By **Eric Weaver, D.H.A., M.H.A., FACHE, FACMPE, FHIMSS,**
Executive Director, *Institute for Advancing Health Value*

Now is the time for hospital and health system boards to fully commit to a value-based care transformation strategy. The deteriorating financial performance of hospitals and health systems has prompted ratings agencies, the American Hospital Association, and other industry insiders to warn that current conditions are not sustainable. This colossal downturn, coupled with the unsustainable financial trajectory of the entire fee-for-service-dominated American healthcare industry, are canaries in the coal mine signaling a looming financial meltdown. Adverse institutional impacts can only be ameliorated if hospital boards truly embrace the tenets of the "Quintuple Aim"—a value-based focus on health equity; clinician well-being; and the pursuit of better health, improved outcomes, and lower costs. This prioritization of governance is an investment that has the potential to be a game changer, not just for the health system, but for society as well.

The move to value-based care is just as much a moral imperative as it is an economic one. Improving care delivery for purposes of improving population health and health equity should be of paramount concern in the post-pandemic era. Governing boards must respond to the elevated national awareness of health inequities in our country following the COVID-19 pandemic. Board members must serve with resolve and determination to right the wrongs of the past. Inequities in underserved and marginalized communities are longstanding and can no longer be tolerated. The recognition of the inequality created by disparities in care has been greatly magnified under the microscope of the pandemic, and this cultural zeitgeist for health equity is not just a fleeting moment in time. There will assuredly be consistent pressure on boards for accountability to address health disparities in the years to come, and this will be a force multiplier for health system value transformation.

The landscape of the healthcare industry is changing at a hyper-accelerated rate. It is hard enough for hospital executives to make sense of industry signals as daily

consumers of healthcare intelligence, but the role of a board member may be even more challenging due to learning curve challenges and an ever-collapsing window for strategic planning. The pace of industry disruption is unprecedented, and the gestalt of the new value paradigm is difficult to understand for those not following the movement underway. Conventional thinking anchored to an incumbent fee-for-service business model will not bring about organizational sustainability. If they have not done so already, board members need to become educated in the tenets of value-based care to understand why adopting financial risk in a health system's revenue portfolio will be necessary to ensure population health and equitable health outcomes.

➜ Key Board Takeaways

- Recognize that the long-term financial sustainability of your health system is dependent on value-based payment adoption.
- Become informed on the severity of health disparities in your community and hold your hospital or health system accountable to a health equity strategic action plan. COVID-19 has irreparably changed the healthcare operating environment and brought about an elevated societal awareness of preexisting health inequities. Health equity has now emerged as the new focal point in value-based care.
- Stay educated on the value movement:
  - » CMS aims to transition all Medicare beneficiaries to accountable care relationships by 2030; however, employer-based value-based disruption will likely happen much sooner.
  - » The new ACO REACH program for traditional Medicare beneficiaries will be a tipping point for health equity transformation in the value movement.
- Prepare your health system to deliver care in a more "asset-light" model in the future.
- Don't wait. Value transformation takes time and requires significant capital investment in infrastructure. The time to act in preparedness for the emerging value economy in healthcare is now.

Strategically Planning for Value-Based Care Adoption

The transition to value-based care is inevitable, and hospitals and health systems not prepared will experience irreparable and catastrophic damage to their business viability. Although the exact timing of mandated risk-based payment models is a "best guess," there is sound evidence that we are approaching an inflection point in the value movement. At a national economic level, the macro-pressures to transform a $4 trillion healthcare system at a proportional cost of 20 percent of GDP will be unrelenting in the years to come. This is especially true when considering the current inflationary environment and global stressors, coupled with looming insolvency of the Medicare trust fund and a "silver tsunami" of aging baby boomers.

As healthcare costs continue to rise, alternative models are gaining traction, and CMS aims to transition "the vast majority of Medicaid beneficiaries into accountable care relationships by 2030."[1] While this doesn't sound like an aggressive timeline to reach full penetration for value in the Medicare program, it is possible that the industry will reach a critical mass well before that time. The CMS agency responsible for testing ways to inject more value in healthcare programs is actively trialing mandatory payment models, and information is forthcoming by end of year for us to learn just how aggressive mandated policies will be in the years to come. Additionally, there is a significant reengineering of pay-for-performance models to include health equity as a key financial measure for success, and that will eventually lead to a requirement that all hospitals conduct disparities impact assessments and health equity reports to monitor whether institution-level policies proactively reduce health disparities. The tipping point for health equity is the ACO REACH payment model, which begins next year.

The federal pressure on hospitals to adopt value-based payment is just one high-magnitude vector to consider in board-level strategic planning. Another, and even more pressing force, are self-insured employers. In thinking about this transition to value-based care and changes that are happening to the revenue profile of health systems, boards also need to think about the impact of commercial contracts shifting more towards risk-based payment. Employer-sponsored health insurance has risen 54 percent since 2009.[2] The employer healthcare market was already dysfunctional and ineffective in producing value in health, with "poor health" costing employers $530

1 Chiquita Brooks-LaSure and Daniel Tsai, "A Strategic Vision for Medicaid and the Children's Health Insurance Program (CHIP)," *Health Affairs,* November 16, 2021.
2 Kaiser Family Foundation, "Benchmark Employer Survey Finds Average Family Premiums Now Top $20,000" (press release), September 25, 2019.

billion on top of the $880 billion they already spend in premium dollars.[3] Hospitals will soon no longer be able to rely on lucrative commercial insurance contracts to subsidize losses on the public pay side. Employers have been the "sleeping giants" for far too long; they have now awakened and are ready to hold the healthcare industry accountable for cost and quality outcomes. Direct-to-employer contracting, bundled payments for episodes of care, centers of excellence in regional hubs, direct primary care, and intensive benefit redesign will soon be the norm.

The last factor boards should consider in value-based strategic planning is the move to asset-light care delivery models. As care becomes more virtualized and hospital procedures shift more and more into the ambulatory setting (or home?) the "hospital of the future" will need to be *asset*-light. In this model, the focus would be on providing higher levels of emergency, medical, and surgical care, with capacity weighted toward more intensive patient management. The acute care facility would be supported by a network of connected and expanded ambulatory resources (outpatient surgery, post-acute care services, home care—all enabled by remote monitoring technology). In the advent of value-based care with more of an emphasis on ambulatory care and consumerism, the role of an inpatient hospital will invariably change where it is no longer at the pinnacle of care, but instead a provider on the continuum.

Value transformation takes time. It requires significant capital investment in infrastructure, and the culture change in care delivery will take years. If your board has not begun thinking about its value-based care adoption strategy, now is the time!

The Governance Institute thanks Eric Weaver, D.H.A., M.H.A., FACHE, FACMPE, FHIMSS, Executive Director, Institute for Advancing Health Value, for contributing this article. He can be reached at eric.weaver@wgu.edu.

3 Bruce Japsen, "Poor Worker Health Costs U.S. Employers Half Trillion Dollars A Year," *Forbes,* November 15, 2018.