

## The State of Healthcare

HFMA Region 9  
7<sup>th</sup> Annual Conference  
New Orleans, November 15, 2009

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President & CEO  
HFMA

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## Presentation Overview

- Perfect Storm:
  - Economic Downturn
  - Financial Market Turmoil
  - Healthcare Reform/Payment Reform
- What's Different This Time?
- What Providers Can Do Differently

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## Economic Downturn

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## Economic Downturn Too Much Leverage

Current-Account Balance and Its Components  
(Seasonally adjusted)

Economy based on credit

New Housing Units Started in the United States  
(Seasonally Adjusted)

Housing bubble bust only starting to recover

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## Economic Downturn GDP & Employment

Quarterly changes in GDP

Quarterly changes in GDP

Monthly change in unemployment rate

Source: Bureau of Economic Activity, 11/2009

Source: Bureau of Labor Statistics, 10/2009

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## Financial Market Turmoil

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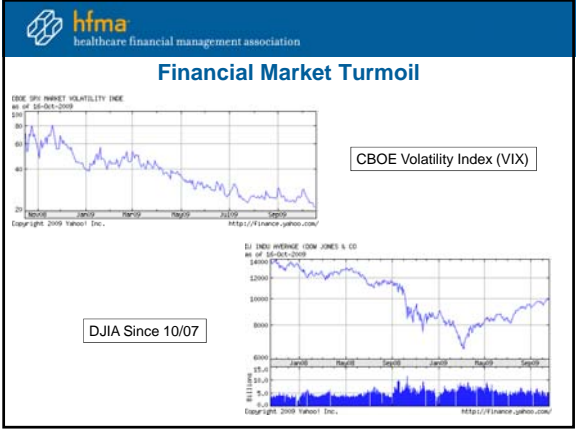
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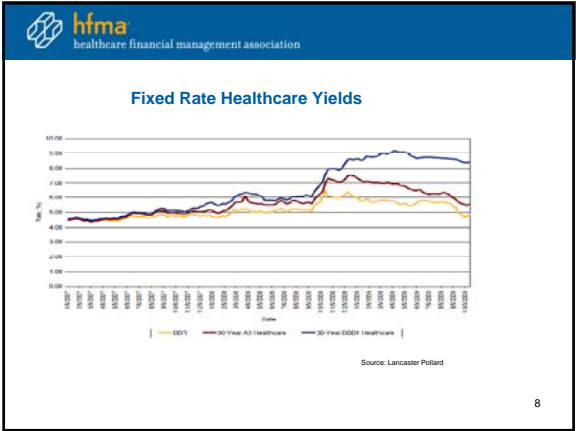
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**Credit Market's Reaction**

Moody's Not-For-Profit Healthcare Quarterly Review: Third Quarter 2009

"For the first time following three consecutive quarters of unprecedented heavy rating downgrade activity, the sheer number of rating downgrades notably declined. While it would appear that the downgrade rating pressure is easing, we are maintaining our negative outlook on the industry until federal healthcare reform is finalized. Additionally, rating activity in the current fourth quarter should be very revealing. . ."

—Moody's Investors Service, Oct. 2009

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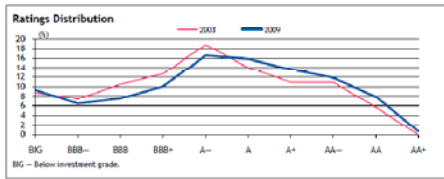
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## Declining Hospital Credit Quality



\*SG= Speculative Grade  
\*As of 9/15/2009

Source: Fitch Ratings, Aug. 2009 10

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## Healthcare Reform Payment Reform

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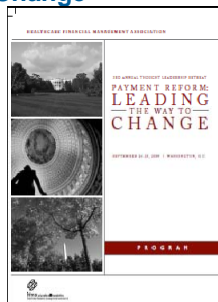
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## Payment Reform Driving Change



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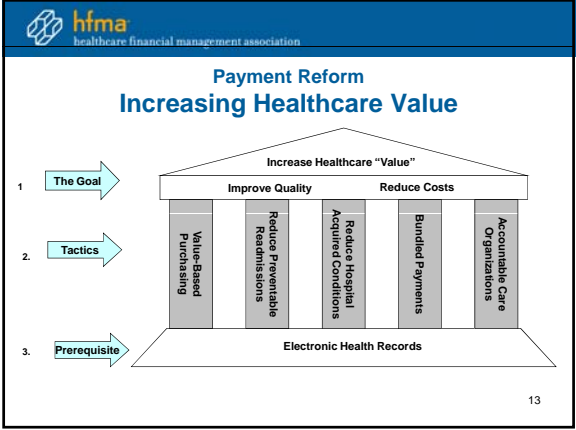
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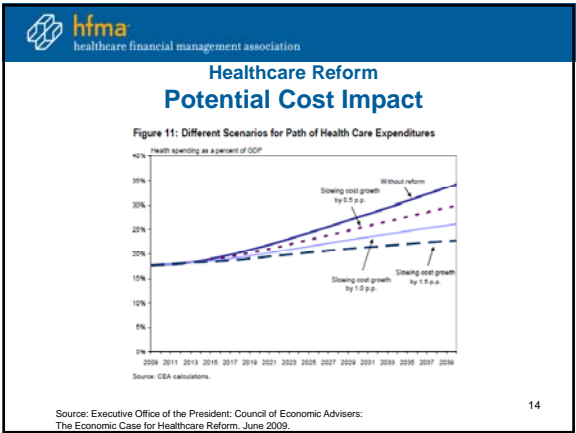
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## Senate and House Reform Proposals

Senate based on the bill reported by the Senate Finance Committee.  
Comments on the Senate public option are based on comments by Majority Leader Harry Reid.

	House Bill (HR 3962)	Senate Bill*
Cost	Net \$894 B	Net \$719 B
Increased Coverage	36 million	29 million
Primary Funding Mechanism	- Taxes top end of income distribution - Penalties levied on individuals and businesses who don't comply with mandate	- Taxes on "Cadillac" plans - Savings from delivery system
<b>Coverage Expansion</b>		
Individual Mandate	-Penalizes uninsured individuals 2.5% of income up to cost of coverage	- \$750 per uninsured adult by 2017
Employer Responsibility—Pay or Play	-Exempts employers with payroll under \$500K -Penalizes employers 8% of payroll if they don't contribute 72.5% of the premium for individuals; 65% for families	-Required to pay a flat fee for any employee receiving eligibility subsidies
Medicaid Expansion	-Expands to 150% of FPL -Feds pay 100% of cost through 2014, then 91% thereafter	-Expands to 133% of FPL
Subsidies	-Sliding scale subsidies up to 400% FPL	- Sliding scale subsidies up to 400% FPL

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### This Time It Is Different

- Perfect Storm:
  - Economic Downturn
  - Financial Market Turmoil
  - Healthcare Reform – Especially Payment Reform
- Significant momentum and opportunity to transform care and service delivery

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### All this adds up to...



**The Burning Platform:**  
Opportunities for  
Transformational Change

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### What Providers Can Do Differently **Recognize That the Platform is Burning**

- Cultivate a culture of innovation and change
- Drive toward increased value – lower cost and higher quality
- Invest wisely for efficiencies and outcomes
- Become patient/consumer centric
- Focus on the challenges and opportunities healthcare reform will bring

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### What Providers Can Do Differently Prepare for Payment Reform

- Build strong physician integration
- Develop risk management abilities
- Develop pricing capabilities

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### What Providers Can Do Differently Build Strong Physician Integration

Integration Approaches and Degree of Integration According to Key Factors

Integration Approaches	Integration Factors		
	Aligns incentives	Mitigates revenue redistribution	Fosters information flow
Part-time compensation	Low	N/A	Low
Gainsharing	Medium	N/A	Low
IT sharing	Low	N/A	Medium-High
Structural integration	Medium-High	Medium-High	Medium-High
Employment	High	High	Medium-High
Accountable care organization/full integration	High	High	High

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### What Providers Can Do Differently Develop Risk Management Abilities

Degree of Population Risk Transferred to Provider By Payment System




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### What Providers Can Do Differently Develop Pricing Capabilities

- Move toward flexible pricing capabilities
- Gain an understanding of service costs
- Learn to reassemble costs in flexible packages
- Prepare to price services based on outcomes
- Work toward tracking costs and utilization patterns across care settings and over time

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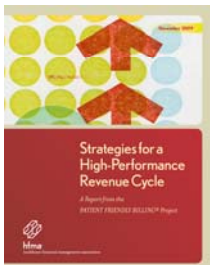
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### What Providers Can Do Differently Focus on Revenue Cycle Improvements



- Foster a culture that recognizes the importance of the revenue cycle
- Master areas important to organizational circumstances
- Accelerate execution of improvements

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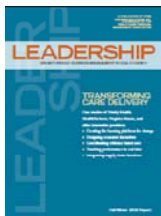
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### What Providers Can Do Differently Transform Care Delivery



- Create the burning platform for change
- Design economic incentives
- Coordinate evidence-based care
- Track performance in real time
- Integrate supply chain functions

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### What Providers Can Do Differently Recognize That the Time is Now

“What is striking about the healthcare providers that are profiled in this report is that they are not waiting for needed payment system modifications. They have flung themselves into the care delivery systems that will be needed in the future. In the process, they are improving the quality of patient care and saving dollars—which, in turn, is helping them stay afloat during an exceptionally risky economic period.”

-HFMA's *Leadership* Fall/Winter 2009 Report

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