

# Healthcare Industry Trends and Reform

Presented  
by Wakerly Partners, Inc.  
August, 2010



# Introductions – Ralph Wakerly

- President, Wakerly Partners, Inc., a healthcare strategy and marketing consulting firm serving healthcare related organizations.
- President of C-Suite Resources, a market intelligence and executive advisory firm.
- Nationally recognized consultant with 26 years experience in healthcare, information management, business strategy and marketing.
- Led Market Research for HIMSS Analytics. Conducted Clinical I/T market research project for GE Healthcare.
- Former Vice President Marketing, First Consulting Group/CSC.
- Conducted business strategy, marketing, market research and I/T strategy engagements for more than 75 healthcare related organizations.
- Conducted numerous presentations and education programs for healthcare managers and executives.
- Adjunct Faculty Member teaching marketing, leadership and management at Elmhurst College School for Advanced Learning.



# Topics

- Healthcare Trends
  - Cultural and social
  - Quality
  - Competitive
  - Economic
  - Health Reform
- Technological/IT Trends

# U.S. Healthcare... *Expensive and Controversial*

Healthcare at **\$2.4 trillion**, 17%  
of **GDP**, going to 20% in 2017.

Healthcare I/T  
spending:

**\$80**

billion

Medical  
errors:

**5<sup>th</sup>**

leading  
cause of  
deaths.

**90**

million with  
chronic  
conditions –  
75% of cost.

**46**

million  
uninsured

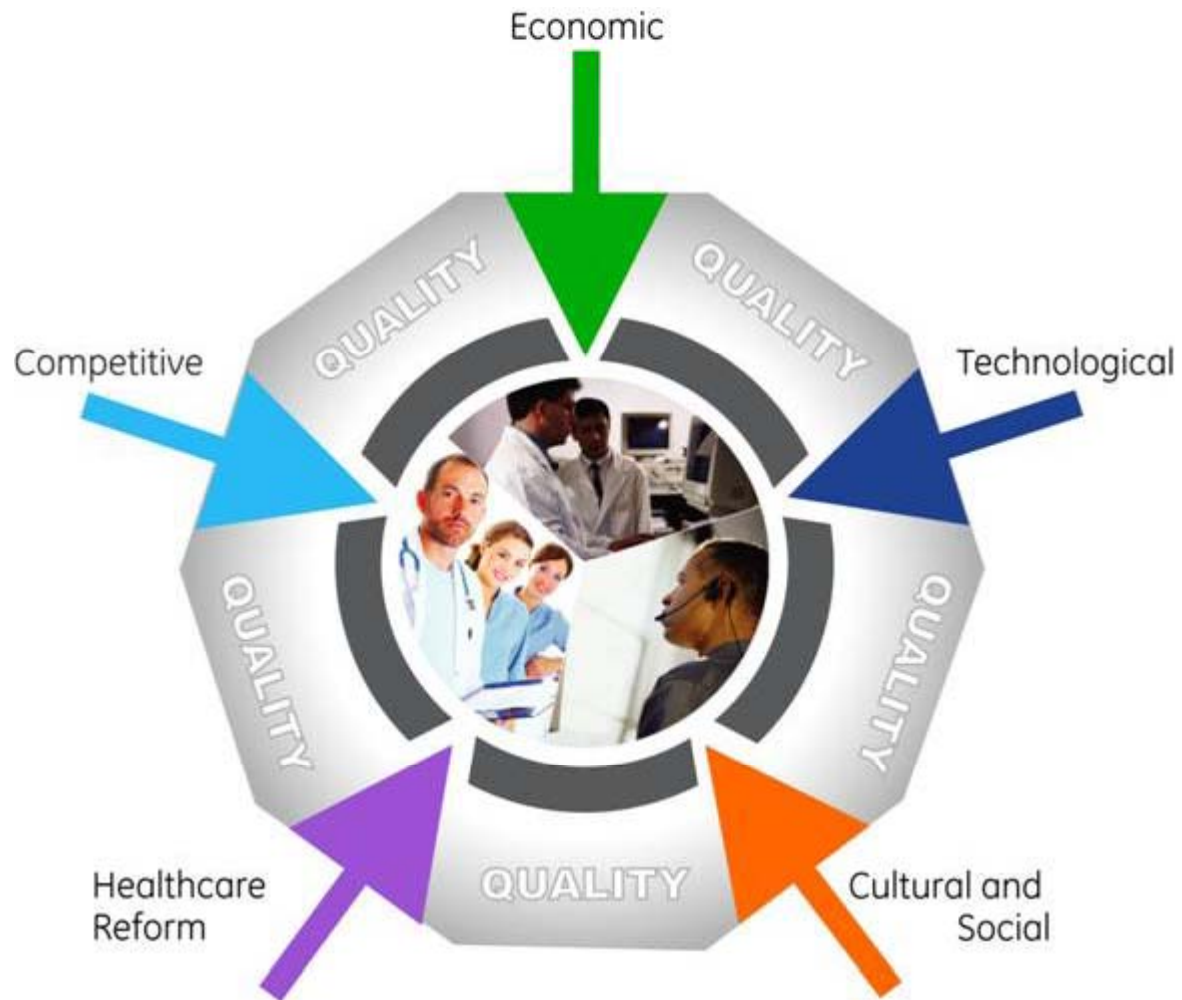
Premiums  
\$12,700/year/  
family

U.S. ranks  
**37<sup>th</sup>**

in WHO quality list



# Healthcare Trends

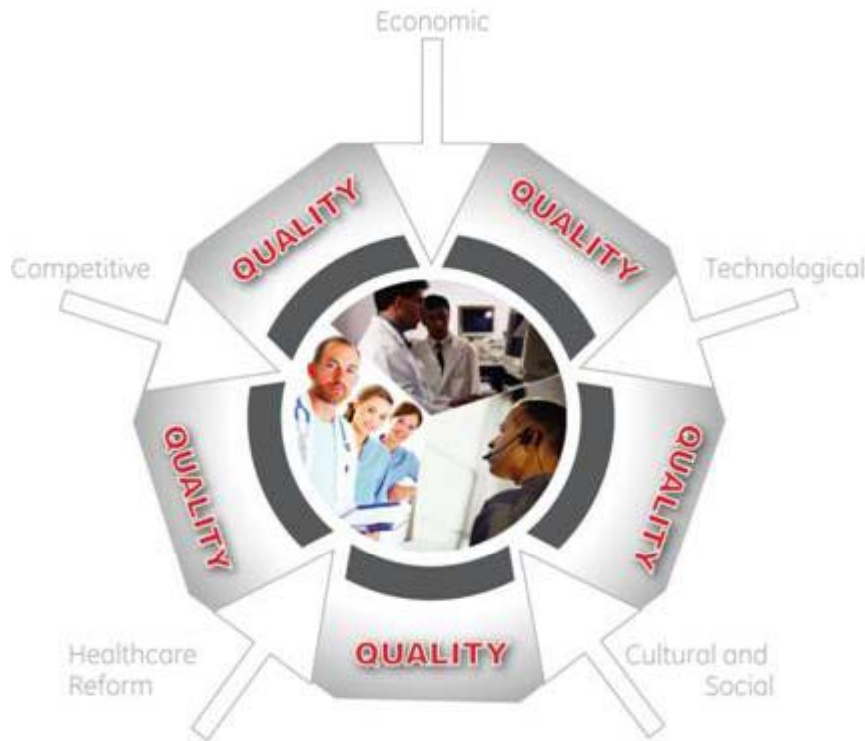


# Cultural and Social



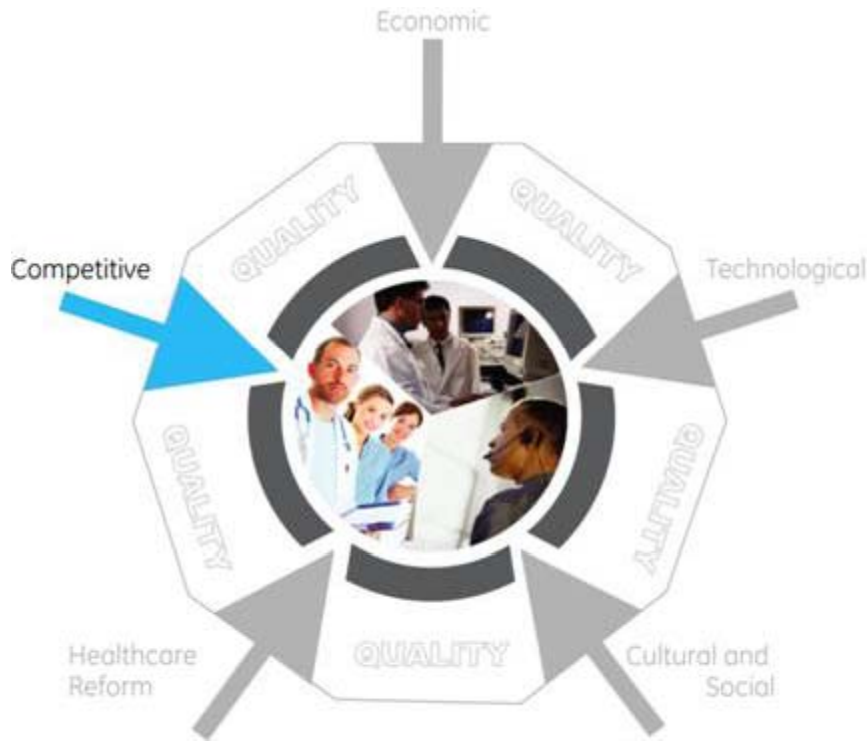
- Aging of America
- Rising uninsured
- Rise of consumerism
- Demand for quality information
- An egocentric medical culture slow to change
- Labor shortages – nursing, primary care physicians and medical technologists

# Quality



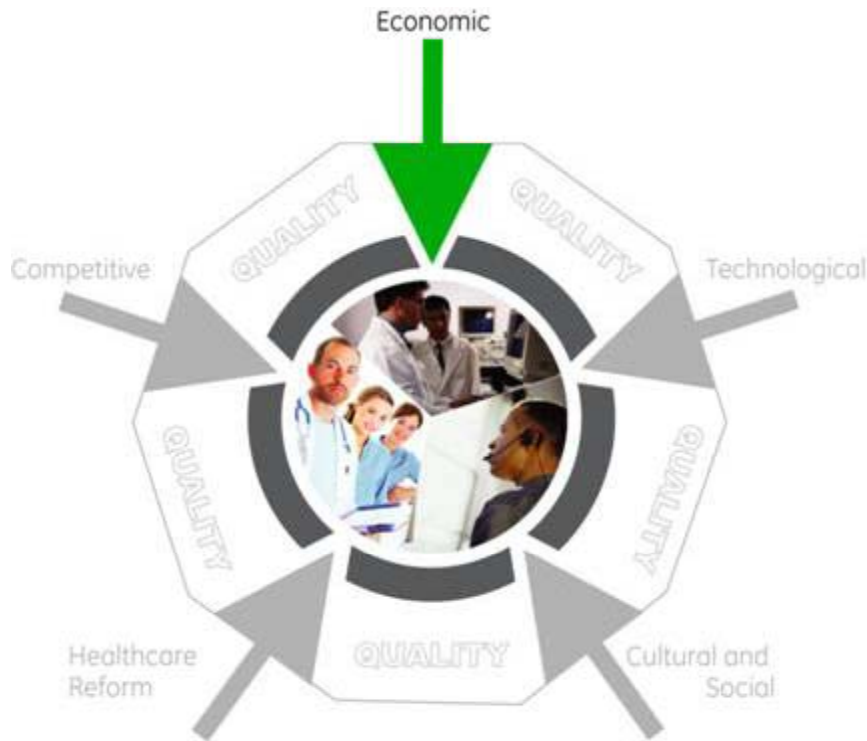
- Meaningful Use Quality Measures
- Pay for performance (P4P) or “Value Based Purchasing”
- “Never Events”
- Employer “Leapfrog” Group initiatives
- I/T as key enabler – decision support and quality reporting
- Clinicians have emerged as key champions

# Competitive



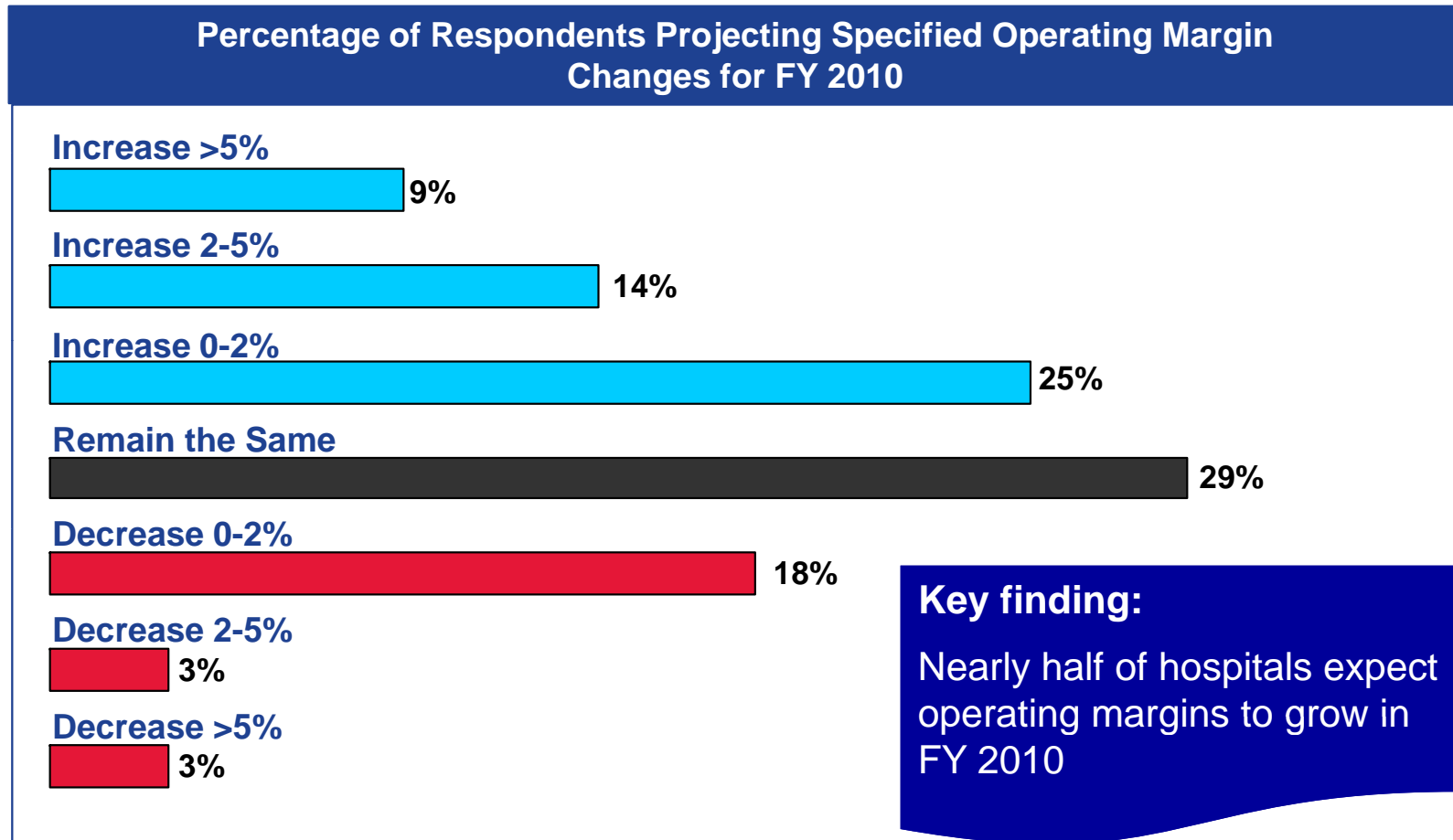
- Retail clinics – Walmart, CVS and Walgreens
- *Consumer Reports* for healthcare
- Importation of drugs
- Ongoing battle for control (providers vs. payors; hospitals vs. physicians; employers vs. payors)
- Accountable Care
- Medical tourism

# Economic



- Unsustainable industry cost increases
- Cost shifting to consumers/employees
- Continued pressure from payors
- Hospital cost structure realignment
- Tight capital
- Continued shift from inpatient to ambulatory

# 2010 Projected Operating Margins



Source: HFMA's Healthcare Financial Pulse ([www.hfma.org/pulse](http://www.hfma.org/pulse), Feb, 2010)



# Planned Capital Projects

## *Anticipated Change in Capital Spending Compared with Prior Fiscal Year*

Type of Expenditure	Change in Capital Expenditures			
	Hold on all New Projects or Substantial Reduction	Some Reduction in Expenditures	No Cutbacks Expected	Increase in Expenditures
New Construction Expenditures	32%	37%	14%	17%
Facilities Updates	21%	41%	24%	14%
Information Technology (Decision Systems) Expenditures	18%	30%	25%	27%
Medical Technologies Expenditures	15%	56%	21%	8%

### Key finding:

New construction most hit by capital limits

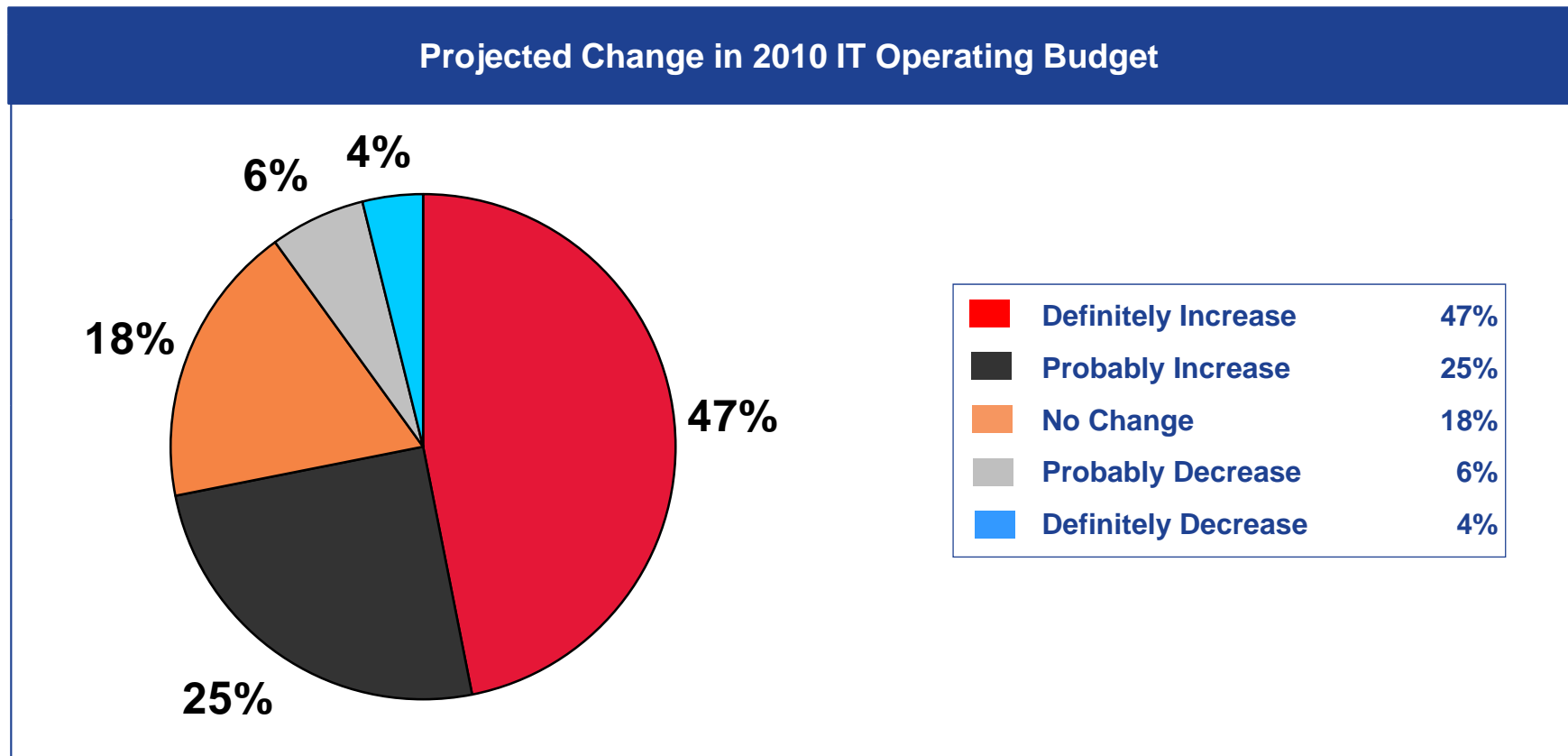
27% of respondents expect an increase in IT expenditures

Source: HFMA's Healthcare Financial Pulse ([www.hfma.org/pulse](http://www.hfma.org/pulse), Feb, 2010)



# Hospital I/T Budgets Are Increasing

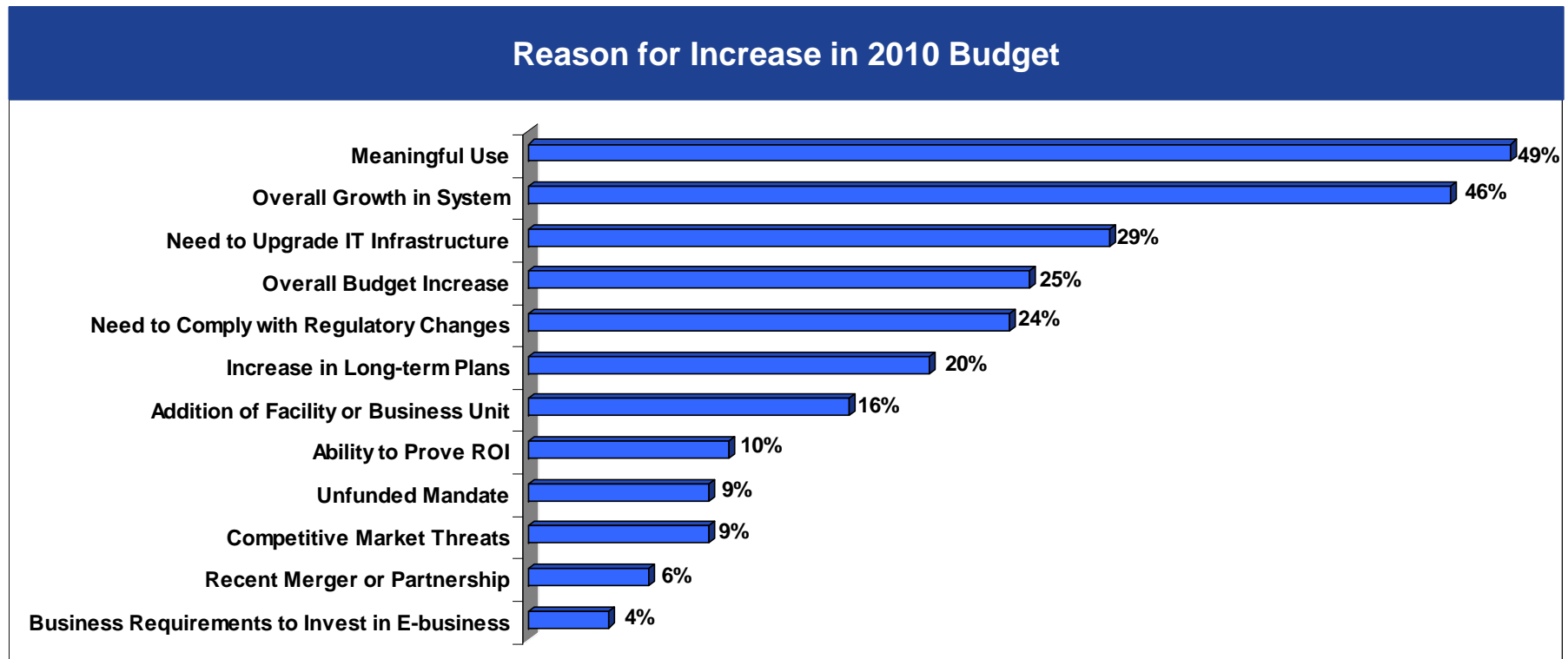
*Almost three quarters (72%) of hospitals surveyed plan to increase their IT operating costs in 2010.*



Source: 2010 HIMSS Leadership Survey



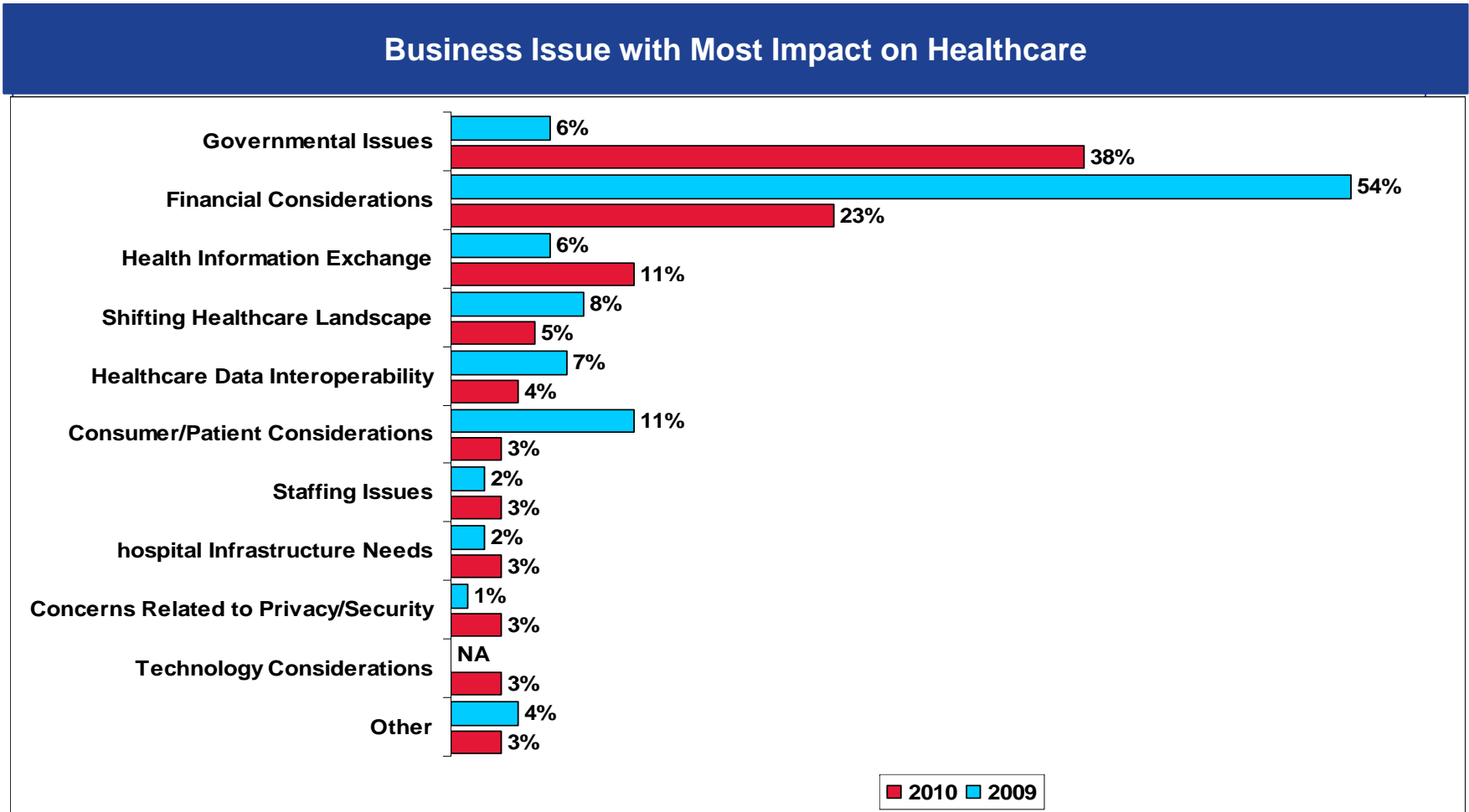
# Reason for Increase in IT Budget



Source: 2010 HIMSS Leadership Survey



# Governmental and Financial Considerations Dominate



# Healthcare Reform

# Healthcare Reform



- Hampered U.S. global competitiveness
- Unsustainable entitlements structure
- Rising uninsured
- Increasing consumer dissatisfaction
- Increasing physician discontent
- High costs of malpractice
- Privacy and security concerns
- Belief that I/T can help

# Health Reform Bill Highlights

Major Elements	Key Provisions
<b>Access to Health Insurance</b>	Requires most U.S. citizens to have health insurance. Creates state based insurance exchanges. Will add approx 32M people with insurance by 2019. Expands Medicaid to 133% of poverty level.
<b>Coverage Mandate – Individuals &amp; Employers</b>	Most individuals must obtain insurance coverage; Employers with 50 or more employees must provide insurance or penalties apply.
<b>Consumer Financial Assistance</b>	Premium and cost sharing credits for individuals/families with income of 133-400% of poverty level (\$18K for family of 3).
<b>Major Funding Sources</b>	Taxes: High income individuals and families (>\$250k /family), health insurance excise taxes  Cost Cutting: Medicare/Medicaid payments.
<b>Financial Impact</b>	Cost: \$938B over 10 years.  Reduce deficit by \$124B over 10 yrs. (projection!)



# Likely Impact on Your Customers

Lower hospital/physician reimbursement and margins – more cost cutting

New revenue sources

Pay for performance

Hospital-physician integration and Accountable Care Organizations

Drive for quality, safety, coordinated care, efficiency

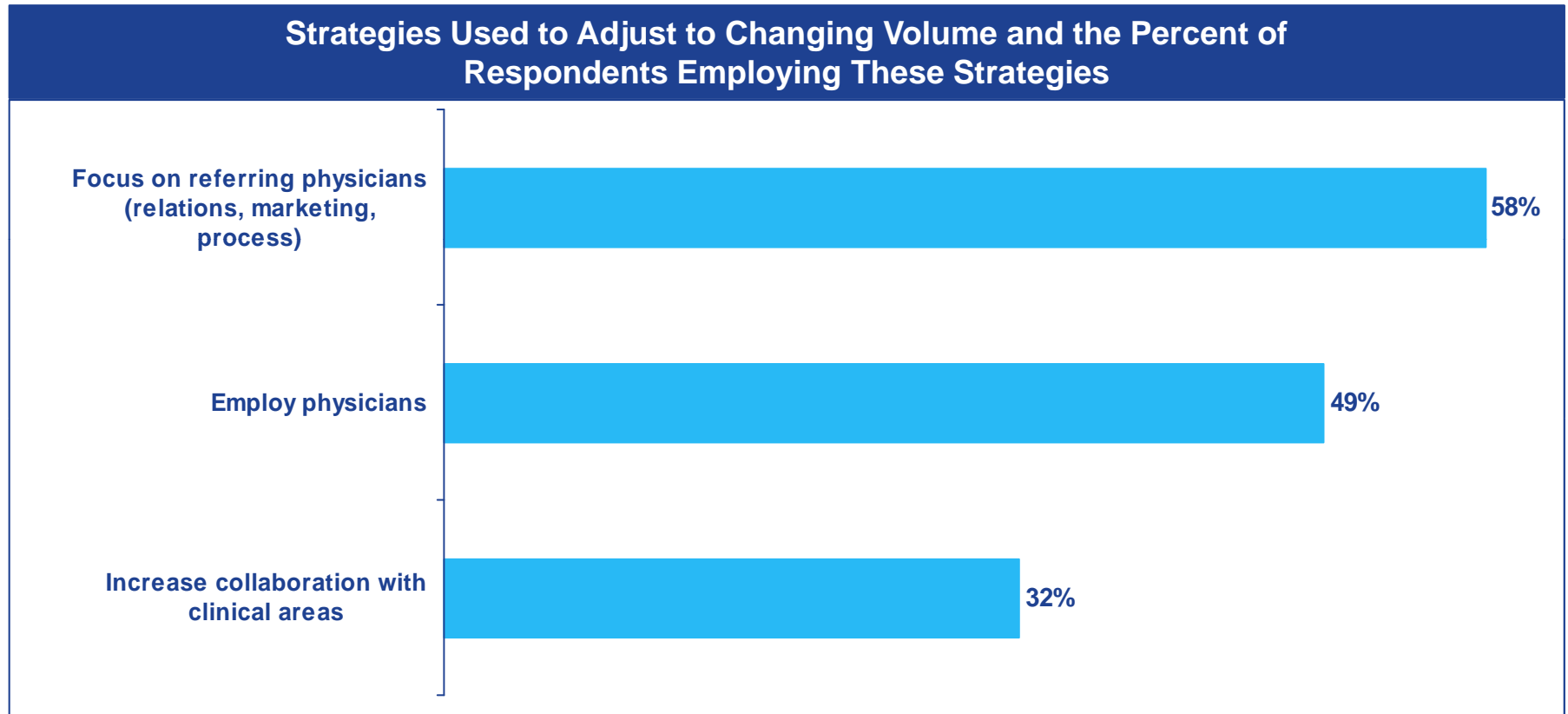
Greater need for business/clinical intelligence

Industry consolidation



# Physician Strategies

Hospitals are pursuing physician referrals, employment and collaboration.



Source: HFMA's *Healthcare Financial Pulse*, July 2009 ([www.hfma.org/pulse](http://www.hfma.org/pulse)).

Considering strategies employed in previous 6 months or planned within 6 months.



# What is an ACO?

An organization comprised of providers who are jointly held accountable for achieving measured quality improvements and reductions in the rate of spending growth.

May include Integrated Delivery Systems, primary care medical groups and virtual networks of physicians.

- Hospital/Health System employed physicians
- Hospital-Physician Contracts
- Physician- Hospital Organizations (PHOs)

Source: Health Affairs May, 2010



# ACO Principles

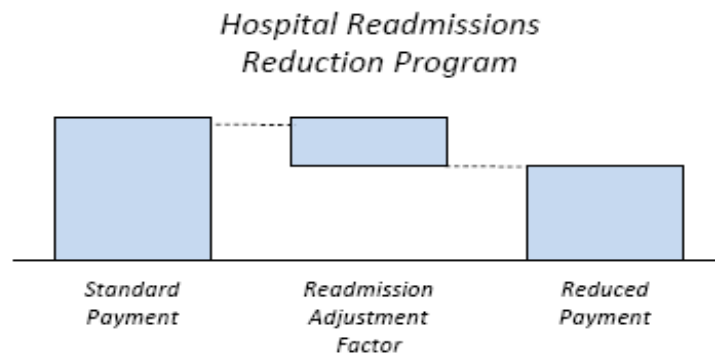
- Provider led organizations with a strong base of primary care that are collectively accountable for quality and total per capita costs across the full continuum of care for a defined population of patients.
- Payments are linked to quality improvements that also reduce overall costs.
- Reliable and progressively more sophisticated performance measurement to support improvement and provide confidence that savings are achieved through improvements in care.

Source: Health Affairs May, 2010



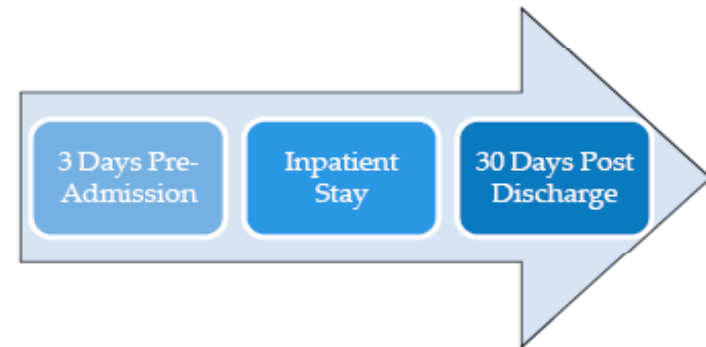
# Migration of Payment Mechanisms

## Starts with Targeting Readmissions...



- Begins on or after October 2012
- Hospitals will have all DRGs reduced by an adjustment factor calculated based on their “excessive” readmissions
- Adjustment factor is calculated as percentage of revenue paid for excessive readmissions divided by total revenue
- Projected \$7.1B in reduced Medicare payments, 2013-2019

## ...Transitions to Bundled Payment *National Pilot Program on Payment Bundling*



- Includes all physician, inpatient, ambulatory and post-acute care services provided during episode period
- Target up to 10 conditions that are high-volume, high variation in readmission rates, high post-acute care costs
- HHS Secretary must begin pilot by January 2013 and may expand at will after 2015

Source: “Transforming the Health Care Delivery System: Proposals to Improve Patient Care and Reduce Health Care Costs,” Senate Finance Committee, April 2009; Advisory Board interviews and

Slide provided courtesy of C-Suite Resources and Integrated Healthcare Strategies.

# ACO Mantra: Clinical Transformation

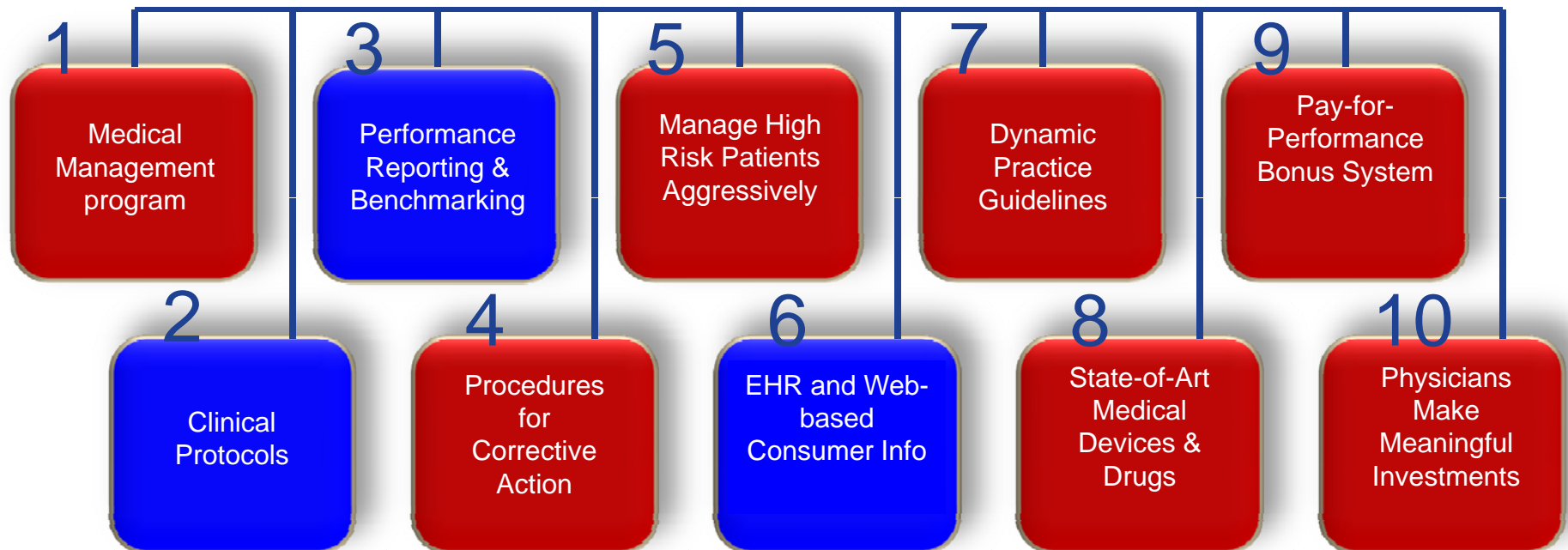
“Clinical transformation is the lynchpin of ACOs’ success, and it does not happen automatically by simply changing payment arrangements and measuring performance. Rather, it requires effective **investment in infrastructure, process and organizational redesign**, and other clinical activities to achieve delivery reforms that can actually produce needed improvements in care (for example, **enhanced preventive care, better care transitions, and chronic disease management**).”

McClellan et al, “A National Strategy to Put Accountable Care Into Practice” Health Affairs, May 2010, p. 982

Slide provided courtesy of C-Suite Resources and Integrated Healthcare Strategies.



# ACO Success: 10 Critical Operational Process Factors



Slide provided courtesy of C-Suite Resources and Integrated Healthcare Strategies. Source: The Health Lawyer, Volume 21, Number 6, August 2009, p. 3

# ACO I/T Implications

- Advanced I/T that supports care coordination – community care plans, access to all current health and disease status indicators, medications etc.
- Ability to track quality measures via discrete data across all care delivery systems with common semantic definitions.
- Ability to apply clinical decision support tools in a consistent and effective manner across all providers who come into contact with the patient and accessible by primary care coordinators
- Effective use of EHR's with discrete data capture, ePrescribing, health information exchange, data analytics and flexible design

# Healthcare Trends - Impact on Information Technology

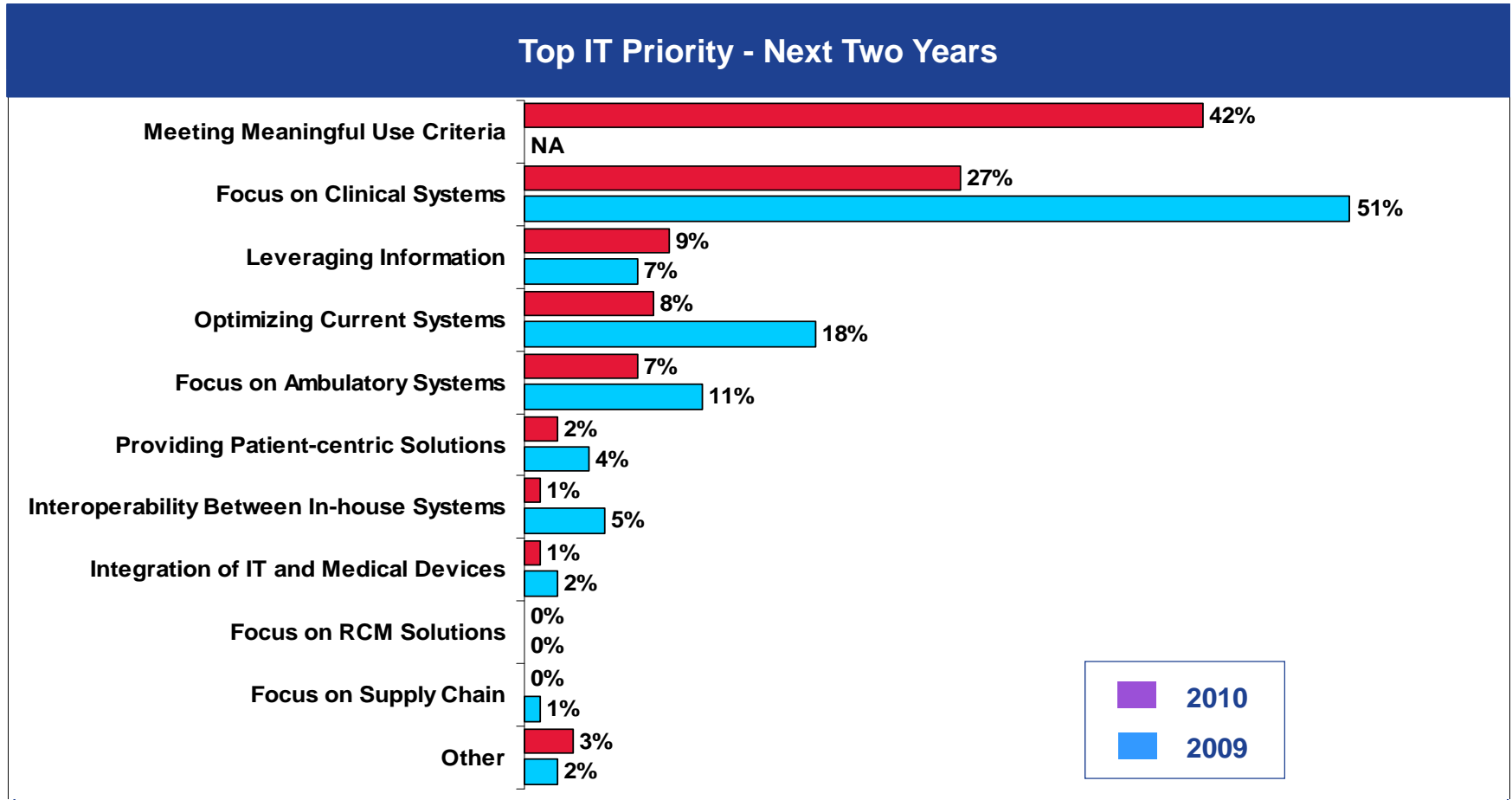
# Technological



- Advanced diagnostic tools and medical devices
- Pharma/biotech – genomics and gene therapy – substitution effects for traditional care
- Growth of clinical I/T
- Increased focus on clinical analytic / data warehouse
- Access to health information on the web
- Aging hospital facilities
- ARRA/HITECH

# Top I/T Priorities

*Hospitals/health systems are focusing on meeting meaningful use criteria and clinical systems over the next two years.*

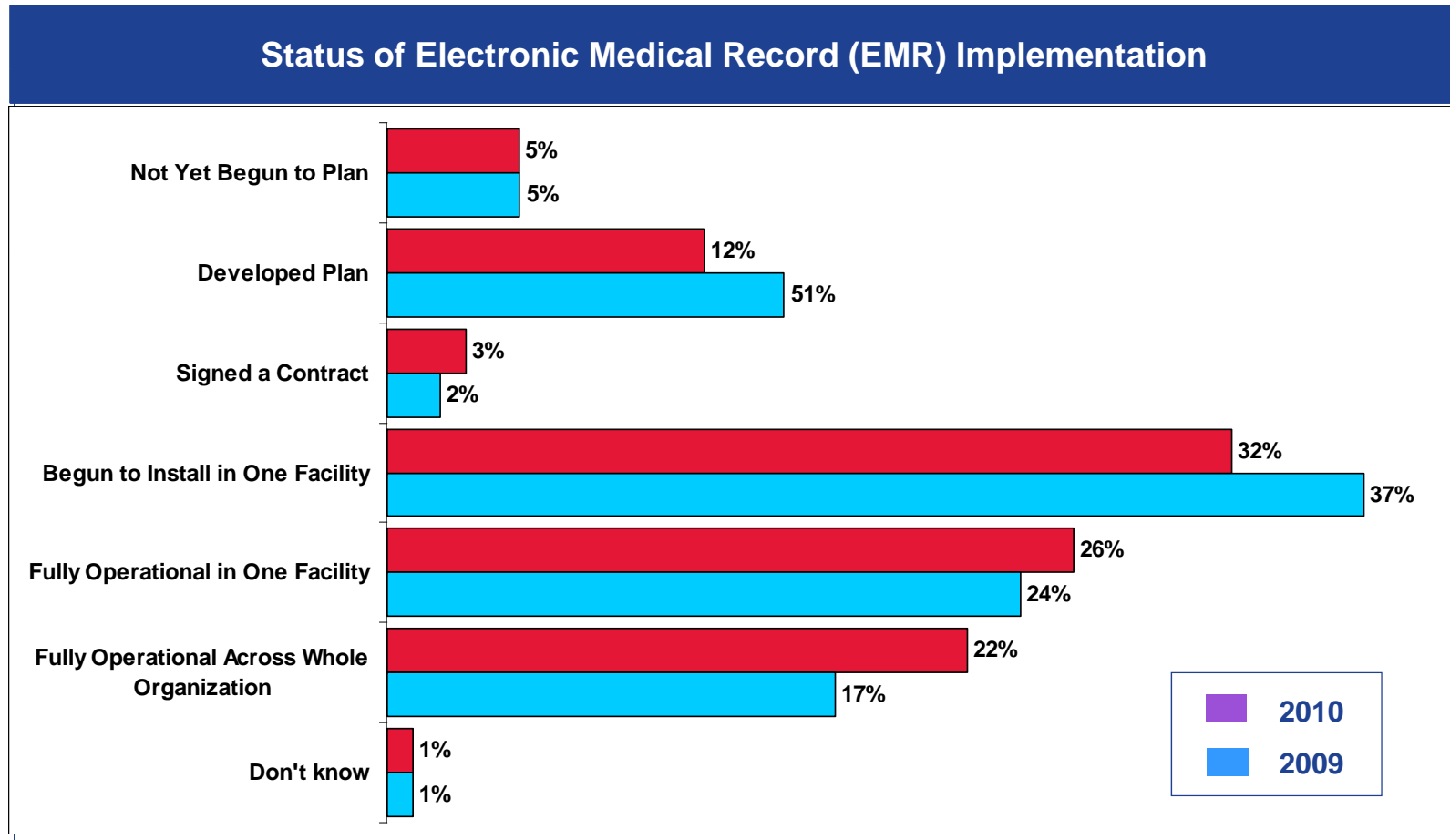


Source: 2010 HIMSS Leadership Survey



# EMR Adoption

*More than three quarters (80%) of hospitals/health systems are at least underway with EMR adoption.*



Source: 2010 HIMSS Leadership Survey



# Who Has a Dance Partner?

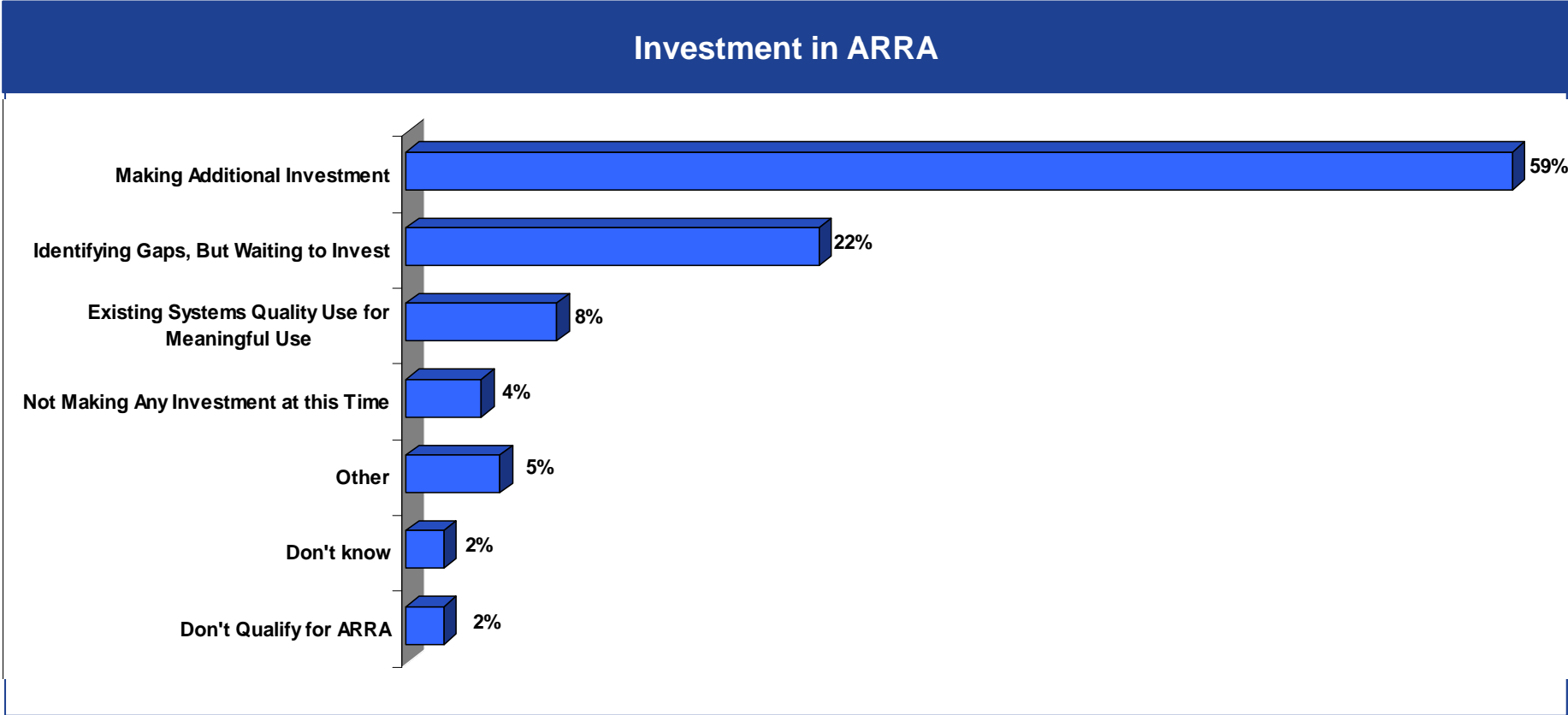
Estimated Number of CPOE (& EMR) Buying Decisions				
Size (operating expense)	Type	No Supplier	Have Supplier	Total
\$250M+	IDN	30	344	374
\$75-\$250M	Regional	115	355	470
\$20- \$75M	Community	176	208	384
\$0-\$20M	Critical Access	931	40	971
Total		1,252	947	2,199

Source: Cerner Investor Presentation, Wells Fargo Healthcare Conference, June 23, 2010



# Majority of Organizations are Moving on ARRA Investment

*Only 8% of organizations' existing systems meet meaningful use criteria.*

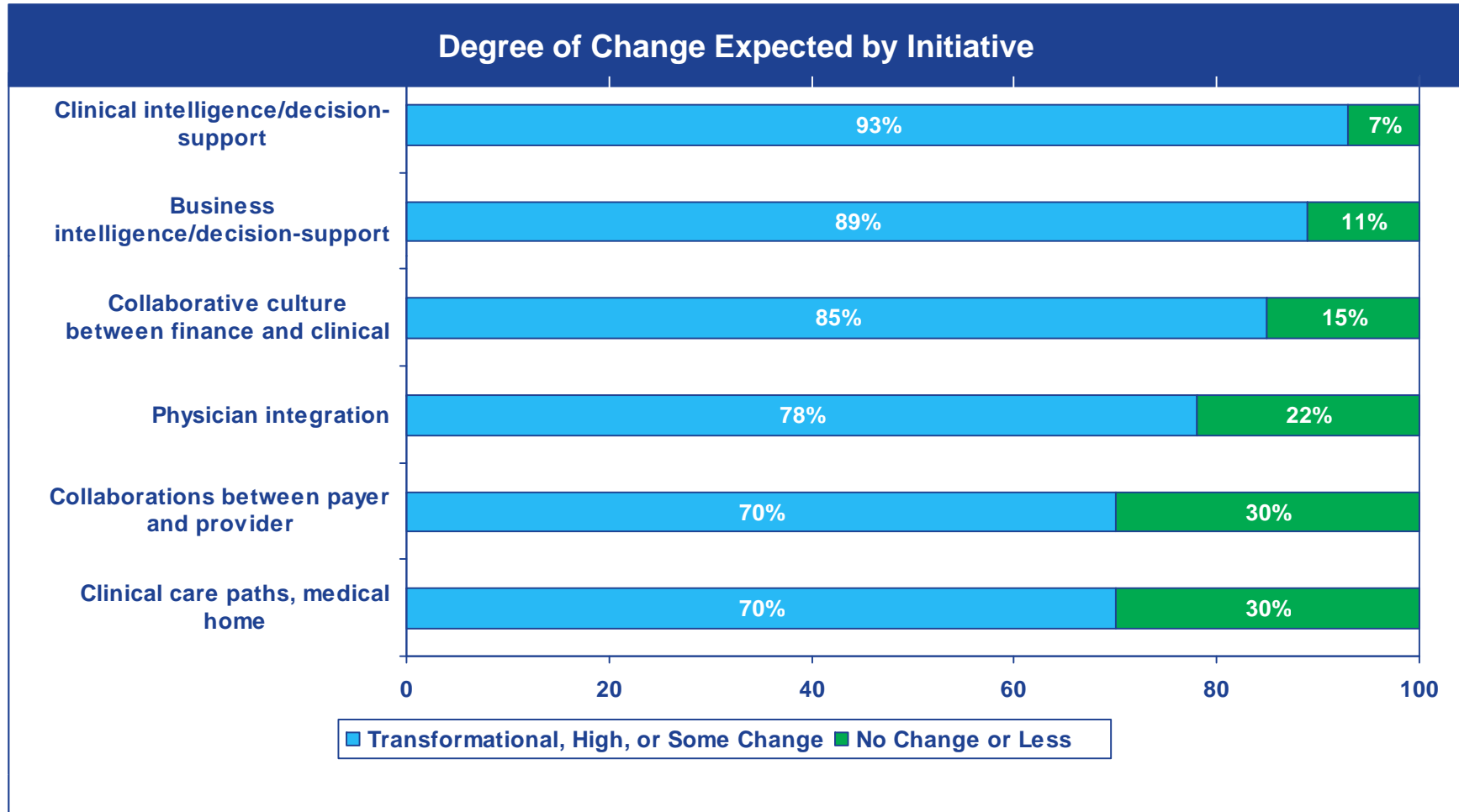


Source: 2010 HIMSS Leadership Survey



# Impact on Information Technology

CFOs at hospitals expect transformational changes in the use of information technology for clinical and business decision support.



Source: HFMA's *Healthcare Financial Pulse*, July 2009  
([www.hfma.org/pulse](http://www.hfma.org/pulse)).

Thanks for Participating!

# Reference Materials

Kaiser Family Foundation on Health Reform: <http://healthreform.kff.org/>

U.S. Government on Health Reform: <http://healthreform.gov/>

AMA view of Health reform:

<http://www.usnews.com/articles/news/national/2009/07/29/ama-healthcare-reform-bill-a-starting-point.html>

HIMSS Leadership Survey: <http://himss.org/ASP/LeadershipSurvey.asp>

HFMA Survey:

<http://www.hfma.org/pulse/surveys/July09PatientVolumeSurveySlides.htm>

# IT Trends

- Intense focus on meeting meaningful use.
- Modestly increasing or stable budgets for most organizations – HITECH incentives vs. economic factors)
- More pressure to show value from I/T investments
- Stronger role for economic buyers and clinicians in I/T decisions
- More will employ hosted services models and possibly outsourcing

# IT Trends

- Growth in HIE and emphasis on hospital-physician integration
- Reallocation of scarce I/T resources and implementation priorities
- Coming - I/T for performance management and reporting
- Growth in mobile and portable devices
- More stringent security and disaster recovery requirements

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