

# Modern Healthcare

## 7<sup>th</sup> Annual TrendWatch Presentation Outline February 25, 2008

### 1. MANDATED USE OF INFORMATION TECHNOLOGY

- A. This is good news for IT providers and vendors.
- B. The government is considering mandating the use of certain types of information technology as a condition of participating in the Medicare and Medicaid programs.
  - 1. In November, the American Health Information Community, or AHIC, recommended to HHS Secretary Mike Leavitt that he push for federal legislation requiring physicians to use electronic prescribing systems if they wanted to participate in the Medicare program.
  - 2. In December, Leavitt lobbied Congress to include the e-prescribing mandate in its end-of-the year Medicare bill.
  - 3. Despite bipartisan support, the provision didn't make it into the final stripped down version passed by Congress.
  - 4. Sure to be considered again this year with the biggest lobbying push coming from the health insurance lobby, as we reported in our Feb. 18 issue.
- C. Health insurers are pushing the mandated use of IT as a condition of their contracts with providers.
  - 1. On Feb. 14, Blue Cross Blue Shield of Massachusetts announced that it will require hospitals and physicians to use computerized physician order entry systems, or CPOE, by 2012 as part of the Blues pay-for-performance program.
  - 2. Other health insurers surely will follow suit.
- D. What does that mean for IT providers and vendors?
  - 1. Increased volume of business and increased revenue.

### 2. PROVIDERS NOT CHARGING FOR MEDICAL ERRORS

- A. As many of you know, Medicare has announced that starting on Oct. 1 of this year it will stop paying hospitals for eight types of medical errors.
- B. As Medicare goes, so go most private health insurers.
- C. Hospitals are trying to get the jump on insurers, do the right thing for patients, up the stakes on their own staffs to do a better job and grab some positive publicity by announcing that they won't bill for certain types of medical errors.
- D. Our latest count has hospitals in at least six states agreeing not to bill patients or insurers for as many as 28 so-called "never events" as defined by the National Quality Forum. Those states are: Colorado, Massachusetts, Michigan, Minnesota, Oregon and Vermont.
- E. We expect hospitals in other states to follow suit. Who wants to be the last state to say it's OK to charge someone for cutting off the wrong leg?

F. What does that mean for IT vendors?

1. Systems that help hospitals identify medical errors before they happen will be in demand as never before.
2. Same with systems that identify when a medical error has occurred link up with the finance department and then stop the bill from going out to the patient or the insurer.

### **3. CHANGES IN MEDICARE REIMBURSEMENT SYSTEM**

A. Medicare's decision not to pay for eight types of medical mistakes is just one of the many reimbursement changes on the horizon for hospitals and other healthcare providers. Among them are:

1. The new DRG system, which took effect on Oct. 1. The system expanded the number of DRGs from 538 to 745 to more accurately account for the severity of a patient's condition.
2. Medicare's proposed pay-for-performance system, which it calls "value-based purchasing," that would incorporate clinical performance and outcome reporting to hospital Medicare payments. CMS proposed the system to Congress in November, and many expect Congress to approve the plan this year.
3. And next month, Medicare will start posting hospital patient satisfaction results on its Hospital Compare Web site. Hospitals had to start reporting those results last July to the government through the HCAHPs program if they want to get their full Medicare payment update in fiscal 2008, which also began last Oct. 1.

C. What does that mean for IT vendors?

1. Again, plenty. With the new DRG system accurate coding of Medicare patient bills is essential, especially because CMS has instituted something called a "behavioral offset" to guard against upcoding, or inflating the severity of a patient's illness to increase reimbursement.
2. The proposed P4P system will put enormous pressure on hospitals to install systems that track, measure and report clinical performance.
3. And the patient satisfaction surveys demanded by the HCAHPs program also require better ways to survey patients and report that information to the government.

### **4. RENEWED INTEREST IN HOSPITAL JOINT OPERATING AGREEMENTS**

A. In many markets, hospitals consolidation has maxed out to the point in which another deal would result in an antitrust investigation or challenge from the Federal Trade Commission or Justice Department.

B. But that hasn't stopped the pressure to look for partners. That pressure is coming from:

1. Need to reduce costs through operating efficiencies.
2. Need to increase leverage with managed-care plans.
3. Need to share clinical expertise to improve their performance.

C. So hospitals are looking at other forms of partnership just short of merging.

1. Joint operating agreements in which hospitals remain separate legal entities but coordinate their operations through a common parent organization.
  - a. St. Mary Mercy Hospital in Livonia, Mich., and St. Joseph Mercy Health System in Ann Arbor, Mich., formed a JOA earlier this month.
  - b. Two systems in Milwaukee, Columbia St. Mary's and Froedtert & Community Health, formed a JOA in January called Progressive Health that oversees a combined five hospitals.

2. Alliances through which they can look for ways to work together short of doing anything illegal in the eyes of the FTC or Justice Department.
  - a. Earlier this month the Moses Cone Health System and Wake Forest University Baptist Medical Center formed something called the HealthCare Alliance to work together.
  - b. Last year, three Maine health systems—Eastern Maine Healthcare Systems, MaineHealth and MaineGeneral Health—created an alliance to purchase supplies and coordinate technology investment.

D. What does this mean for IT vendors?

1. In a word, interoperability! A word you'll hear more than 1,000 times over the next week.
2. Hospitals that are going to work together through something short of an all-out merger likely will use and continue to use different financial and clinical IT systems. So in order for those JOAs and alliances to fulfill their promise, all those systems will need to be able to talk to each other.

## 5. HOSPITAL LAYOFFS

A. Many hospitals across the country will be facing increased financial pressures this year.

1. In 2006, acute-care hospitals in aggregate set a record for net revenues and net profit. Total net revenue that year was \$587.1 billion, and total net profit was \$35.2 billion. Those figures are according to the American Hospital Association.
2. When the figures come out this fall, we expect similar results from 2007.

C. But all good things must come to an end.

1. President Bush's fiscal 2009 budget proposal calls for a \$64 billion reduction in hospital Medicare payments over the next five years.
2. Poor market conditions are raising the cost of borrowing money and reducing investment income at many healthcare systems.
3. A government report to be released at 12:01 a.m. EST on Tuesday, Feb. 26 will release the following figures.
  - a. National healthcare expenditures will hit \$4.3 trillion in 2017, or double what they are now. That will represent 19.5% of the gross domestic product compared with 16% of the GDP now. It will put enormous pressure on the government, employers, insurers and all payers to better control healthcare spending, and that means hitting healthcare providers in their pocketbooks.

D. Starting to see a few cracks, and those cracks are usually layoffs, which you haven't seen much in healthcare over the past few years.

1. Earlier this month, Empire Health Services, a two-hospital system based in Spokane, Wash., said it was eliminating 130 full-time equivalent positions.
2. Last week, Middle Tennessee Medical Center in Nashville said it would lay off 36 people, or 3% of its workforce.
3. Its not much evidence to go on, but we think it's a sign of more to come this year.

E. What does that mean for IT vendors?

1. Hospitals under financial duress will be looking to reduce costs.
2. Any type of system that automates a function previously performed by a human being will be in demand as they look to reduce their head count.