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FYA – *For Your Advantage*, is a free twice-monthly newsletter published by TrendLeader Connections.

With every issue, FYA provides insights into the topics that concern healthcare leaders today and the challenges that will be faced in the near future.

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Good News, Bad News and Reality

There's good news, bad news and then there's reality. The good news first.

President-elect Barack Obama's plan to extend healthcare to uninsured Americans will provide a boon to hospitals, along with medical centers and hospital equipment makers, according to Moody's Investors Service.

"Moody's estimates that the annual cost of the plan could be on the order of \$100 billion to \$200 billion, inclusive of participant contributions, on top of current annual government spending of about \$800 billion," the rating agency said in a report last week.

"The expected spending could positively affect the top-line growth of many healthcare providers," the rating agency added, noting that the agenda of Obama's Democratic party includes increasing research funding and providing \$10 billion over five years to healthcare providers to build up electronic information systems.

The agency added that for-profit and non-profit hospitals alike could benefit from the plan, which was a cornerstone of Obama's campaign. The plan will raise some revenue by taxing larger employers that do not offer health coverage, Moody's said.

Because the plan would increase the number of insured patients and the amount of reimbursement for care, hospitals could benefit directly and indirectly, Moody's also said.

"The improvement would be direct, through reimbursement, as well as indirect, if more people seek primary care treatment in a more appropriate setting such as a physician's office or a clinic, for example, rather than in an emergency room," Moody's said. "This would free capacity and reduce pressure at hospital (emergency rooms), many of which are operating well-above capacity."

But the agency said there may be some negative effects on hospitals and insurers, as well.

Here's the bad news.

The plan's mandate to coordinate care better through improved information technology and provisions to tie payments for Medicare, the federal healthcare program for the elderly, to performance may impose greater costs.

"Also, hospitals could find themselves in tougher contract negotiations with insurers that may experience tighter margins under the Obama plan. Lower rates of reimbursement growth could, in turn, put new pressure on hospital margins," the agency said.

The president-elect's plan may take years to implement as the country tries to

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Good News, Bad News and Reality (Continued...)

untangle its current economic snarl that includes a growing deficit, Moody's warned.

Moody's revised its not-for-profit healthcare outlook for the worse thanks to the foundering economy and shaky financial markets. Moody's lowered its outlook to negative just two months after analysts described the sector's performance as stable for the coming year to 18 months. Since then, "disruptions in the credit and liquidity markets have worsened and the prospects of a protracted recession have increased," according to Moody's.

Tumultuous debt markets have made it more expensive and more difficult to borrow, a significant problem for the capital-intensive healthcare industry, the report said. Tightened credit markets mean fewer banks that are willing or able to lend and investors who demand higher interest rates. Not-for-profit hospitals in short-term debt markets also face heightened risk that bonds must be rapidly repaid or that deals to hedge interest rates will go sour, analysts noted.

Stock market volatility in recent months rapidly compounded losses to investment portfolios that not-for-profits rely on for cash reserves. Poor investment performance may also force hospitals to pour more cash into defined-benefit pension plans. Broader economic threats include a growing number of uninsured patients, state cuts to funding for the safety net insurer Medicaid, and stress on revenue from private payers seeking to control costs and patients who delay care. Moody's analysts said mergers and acquisitions will likely increase, and capital projects may be delayed.

The reality according to most observers is that President-elect Obama can't – and won't – ignore healthcare reform in his first months in office, but changes may be less ambitious than he promised during the campaign

Healthcare still ranks among Americans' top concerns, according to polls, far behind the economy, but vying for the next spots along with energy, war and terrorism.

With the meltdown of the economy, we should expect

changes in healthcare that are phased in or incremental – reform described as a "down payment" on greater strides in the future once the economy has stabilized.

Candidate Obama made healthcare reform a centerpiece of his campaign, building on the existing employer-based system but calling for near universal coverage for all Americans to address the 46 million people without health insurance.

His proposals, estimated to cost \$60 billion to \$100 billion a year, included creating a public plan available to those who did not have access to coverage, along with expansions of some government programs and a mandate to cover all children.

Even with money in short supply, making that \$100 billion idea a long shot, the new president could expand some existing programs to cover more people, make changes to the Medicare program to save money and encourage less-controversial efforts such as improved health information technology, price transparency and wellness programs.

About



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Negative Outlook for Not-For-Profit Hospitals

By Rick Kneipper, Chief Administrative Officer and Co-Founder of PHNS

The apparently never-ending series of bad economic news hit not-for-profit hospitals last week when rating agency Moody's released a report entitled "Not-for-Profit Healthcare Sector Outlook Revised to Negative from Stable." The report states that while "most hospitals showed resiliency when initial economic weakening began in late 2007, in recent months we have begun to see greater-than-anticipated erosion in performance and liquidity." The report also expresses concern regarding the tightening debt markets for not-for-profits, and the rapidly rising cost of debt for those not-for-profits who are able to access the debt markets.

Moody's report also predicts increasing pressure on revenues during these tumultuous economic times:

"The not-for-profit hospital industry operates under a challenging business model characterized by fierce competition and third party reimbursements designed to control cost inflation while also maintaining market efficiencies. Hospitals therefore face significant challenges even during the best of economic times, but when the economy worsens, the challenges intensify. In the current economic downturn, we expect to see growth in reimbursement-based revenues lag growth in costs by a widening margin."

The following is a summary of the near-term and long-term risks that Moody's identifies as the basis for its "negative" outlook for not-for-profit hospitals:

Short-term risks:

- Hospitals' access to capital financing is impaired – including the restricted capacity for bond insurance, the collapse of the auction rate market, and the loss of inexpensive and widely available liquidity support and credit substitution from commercial banks
- Variable rate debt adds risks – including failed remarketing of variable rate bonds, spikes in both short-term and long-term rates, reduced demand

for fixed rate hospital bonds and unfavorable movement of swap rates

- Investment losses are weakening balance sheets and reducing available liquidity
- Near-term increased pension funding and physician employment

Near-term risks:

- Material increases in defined benefit pension contributions in 2010 due to the large declines in pension valuations
- Prolonged and deep decline in absolute liquidity and measurements such as days cash on hand

Long-term risks:

- Increases in charity care levels as unemployment reaches its highest level since 1993 and more individuals lose their health insurance because of layoffs or employers who no longer offer health insurance
- Increasing bad debt exposure
- Softening of discretionary demand, particularly for surgeries
- Reductions in Medicaid reimbursement as state economies weaken
- Likely reductions in Medicare as the Trust's insolvency is predicted to be in 2020, only 12 years away

After all that bad news, the report concludes that "For most hospitals, sound management decisions about operating costs and capital investments, coupled with skilled oversight and direction from hospital boards will be of special importance over the next year or two."

I would like to hear your comments.
Send them to:
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Nation's Pastime Could Hold Answer

A *Wall Street Journal* reporter asked "What can doctors learn from baseball managers?" Plenty, say an increasing number of healthcare professionals, who are looking at the revolution in baseball statistics – "sabermetrics," famously employed by Oakland As manager Billy Beane to build better teams with cheaper players.

Healthcare experts have been inspired by this system to question established medical practices and to help develop better and cheaper healthcare.

In the medical profession it's called evidence-based medicine. It's the development of best healthcare practices based on data that show which treatments and protocols work and which do not. So far it has generated more interest than adoption among traditional healthcare providers.

Of course, there are no medical equivalents to baseball statistics such as VORP (value over replacement player) or WHIP (walks and hits per inning pitched). But experts say healthcare organizations could control costs and improve care if they made greater use of the data that they routinely collect and, for the most part, ignore.

That's where the baseball comparison comes in, says David Merritt, project director for the Center for Health Transformation, an advocacy group founded by Newt Gingrich, the former speaker of the House of Representatives. "Until you have data on past performance, which hopefully will indicate future performance, it's almost impossible to tell who's going to be a major-league ballplayer and who's not," Mr. Merritt says. "A similar analogy can be made to a physician who's treating patients every day and not utilizing the tools and technology of the modern world."

"Billy Beane changed the game," says Stephen

Schoenbaum, executive vice president for programs at the Commonwealth Fund, a foundation that supports healthcare programs. "It's become a competitive issue to try to do better and better on the data."

In Salt Lake City, doctors at Intermountain Healthcare say a data review of neonatal intensive care showed late-term pregnant women were receiving elective inductions too often. A change in standards has helped keep the number of expensive caesarian sections below the national average while making deliveries safer and less complicated.

In La Crosse, Wis., doctors at Gundersen Lutheran Health System say the high rate of patients using advance directives allows them to save about \$2,000 on hospital and physician services per patient in the last six months of life.

Information on Hand Medical centers have been focused on improving the biological treatment of illnesses, but broader questions about the use of costly resources remain unanswered, says Dr. Elliott Fisher, director of the Center for Health Policy Research at Dartmouth Medical School.

"Many of them have excellent data systems that would let them try to figure out how to provide better care, but that's not what they're focusing on," he says.

Costs are often driven by judgment calls such as whether a patient can be treated at home or needs to be in a hospital. Does a patient need a specialist, or will a primary-care doctor or nurse do?

Robust data are necessary but not sufficient to solve healthcare's ills, Dr. Fisher argues. That, he says, requires integrated systems using electronic records, performance measurements and payment reform that rewards value over volume.

About



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