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SURVEYING THE GROUND – HEALTHCARE
Cuts to hospitals since 2010 in addition to the ACA

Impact of Hospital Cuts Since FY 2010

- Reduction in Post-acute Care Update ($3.2b)
- Bad Debt ($2.1b)
- Medicaid DSH ($20.7b)
- 3-Day Window ($4.2b)
- Long Term Acute Care Hospitals ($3b)
- Two-midnight Offset ($2.4b)
- MS-DRG Coding Offsets ($50.4b)
- Sequestration ($58.3b) including cuts from the Bipartisan Budget Act of 2013 and Military COLA Fix

1Bad debt included in Middle Class Tax Relief and Job Creation Act of 2012 (MCTRJCA); Medicaid DSH cuts included in MCTRJCA, American Taxpayer Relief Act of 2012 (ATRA), Bipartisan Budget Act of 2013, Protecting Access to Medicare Act of 2014 and Medicare Access and CHIP Reauthorization Act (MACRA); 3-day window cut included in Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010; MS-DRG coding cuts included in ATRA, MACRA as well as CMS regulations (estimate of excess cuts based on hospital analysis); offset for two-midnight policy included in FY 2014 Final IPPS Rule; sequestration amount estimated from CBO Medicare Baseline and AHA projections of Medicare spending. Includes extension in Bipartisan Budget Act of 2013 and Military COLA Fix; Long Term Acute Care Hospital payment cut from Bipartisan Budget Act of 2013; and cut to post-acute care update from MACRA. Excludes ACA-related reductions.
Medi-Cal Coverage Expands (ACA)

- Providing coverage to more than 12 million residents – that’s nearly one in three Californians, includes half of all children

- Access barriers are amplified by the Medi-Cal provider rate reductions enacted during California’s economic downturn

- Expanding coverage without ensuring access to needed care is a problem

- Facts / backlash

Nearly 1 in 3 Californians depend upon Medi-Cal
Demand for Services Surges

- The Medi-Cal expansion is driving increased demand for health care services in California’s hospitals.
- More than 200,000 additional Medi-Cal patients a year are being admitted to hospitals for acute care.
- Hospital Medi-Cal outpatient visits have grown by more than 3.6 million a year under the coverage expansion.
Coverage Does Not Equal Access

- The demand for care is driving an estimated one million more Medi-Cal enrollees to hospital emergency rooms.
- Reduced payments to primary care doctors has reduced access to basic medical care.
- Many Medi-Cal patients turn to overcrowded hospital emergency rooms.
Medi-Cal Under-Funding Crisis/Cost Shift

- Medi-Cal uncompensated care in hospitals exceeds $6 billion a year
- Cost shift reaches 55% in 2020

Cost of Providing Care and Services

- Private payer
- Medicare
- Medi-Cal
There are fewer patients who can’t pay their bills

By decreasing the proportion of hospitals’ clinical volume comprised of uninsured patients, hospital uncompensated care costs decreased by over $1 billion, going from $2.7 billion in 2013 to $1.7 billion in 2014.

The Greater Bay Area and Los Angeles County saw the most significant decline in dollars with each reporting over $200 million less in uncompensated care costs in 2014 vs 2013.

San Joaquin Valley saw the largest drop on a percentage change basis of 50%.

Decrease in Uncompensated Care Costs from 2013 to 2014

Note: Uncompensated Care = Bad Debt + Charity (after cost-to-charge ratio is applied)
Source: OSHPD Quarterly Reports
Health care spending per capita by source of funding adjusted for differences in cost of living (2013)

Source: OECD Health Data 2015.
The U.S. is an anomaly in health and social spending patterns

Source: OECD
Future Payment Models

Prepaid

**Population Health Manager:** Integrated delivery system and/or health plan with the ability to provide and/or contract for a full continuum of services across all levels of acuity; well positioned to develop own insurance products and/or manage full provider risk

**Population Health Comanager:** Regional provider organization, clinically integrated with other organizations, that forms a value-based delivery system; well positioned to participate in PHM and risk-bearing arrangements, in a delegated and/or direct fashion

**Multiproduct Participant:** Provider organization that works within a network(s) managed by a Population Health Manager/Co-manager to provide a defined set of services for a broad population base comprised of both government and private-pay patients; critical role in future delivery system

**Single Product Participant:** Provider organization working within a network managed by a Population Health Manager/Co-manager, to provide specified and targeted services and/or population; these organizations will be critical components of narrow networks

**Contracted Participant:** Smaller niche providers, some of which may serve rural communities, that provide population access points under contractual arrangements; they face significant risk of commoditization
The New Health Economy is changing the health care landscape and driving deal activity in the market

New entrants are redefining care delivery models

Fact: Of the 38 Fortune 50 companies with a major stake in healthcare, 24 are new entrants

Payors are shifting risk to providers & consumers and incentivizing low cost quality care

Fact: By 2018, 50% of health systems are expected to apply for an insurance license

Healthcare players are expanding their scope of services to capture additional revenue streams

Fact: Total hospital transaction value increased from $1.9B in 2012 to $18.6B in 2013

Healthcare players are coming together to achieve scale and maximize efficiencies

Fact: Consolidation has increased more than 50% since 2009

Health care leaders will need to adjust their strategy to align with the new definitions of success in the New Health Economy

Source: Hospital Physician Alignment
The Future of Integrated Health Care, PwC
Future of Hospitals

- Changes in utilization and services
- Changes in payment models
- New relationships, alignments and partners
- Aligned clinical and financial incentives
- Coordinated care
- Risk
Challenges for Hospitals

- Fixed assets and expenses
- Time/cost of transformation
- Creation of coordinated care partnerships and arrangements
- Differentiation
- Financial stability
- Unity