

Healthcare Trends in 2007

Hoping to Build on 2006 Growth

Some pundits are of the mind that healthcare has been in crisis for the last 25 years. Most recently, the threatened demise of primary care, spiraling healthcare costs, physician and staffing shortages and reimbursement woes have been getting a lot of ink, virtual and otherwise.

But depending on the industry segment you talk to, the situation may not be as dire as reported. This was evident from the responses to the Healthcare Intelligence Network (HIN) September 2006 monthly survey, which asked hospitals, employers, health plans, providers and others to evaluate the state of their industry and share expectations for 2007.

Renewed Focus on Wellness Is Boon for DM Vendors

By a two-to-one margin, the 156 healthcare organizations responding to the HIN survey said 2006 was a better year than recent ones. As an industry, those responding in the affirmative experienced more of everything — more sales, revenue, patients, products, members, growth and overall activity. Clearly, these increases contributed to their optimism. Upon closer examination of responses by industry segment, however, this buoyancy was tempered by various events and trends.

For starters, as the industry focus on disease management (DM) widens to embrace wellness and lifestyle management, DM companies are reaping the benefits. Last month, Dr. Thomas J. Foels, associate medical director of the Independent Health Association, reflected on the Disease Management Congress' name change to the Health Management Congress in his opening comments: "We are moving beyond managing illness to managing the entire continuum of care," said the 2006 congress co-chairman, adding that the new congress name reflects this direction.

All 10 DM companies responding to the HIN survey said the last 12 months reflected an improvement in business. There is "an increased interest in care management services. Employers are willing to spend on products that have no [demonstrated] return on investment (ROI), such as wellness," commented one DM vendor. "More companies are prioritizing wellness and health promotion," said another. "The greater interest in nutrition within the healthcare industry and in healthcare trends within the food industry," mentioned by a third DM company, may open up new business opportunities for this industry segment. An "alignment of public and private interests" and the launching of new statewide Medicare and Medicaid projects were also behind the confidence exhibited by DM organizations.

Health Plans Holding Steady

The benefits of the wellness focus are spilling over into the health insurance sector. "We're seeing fewer admissions and more compliance with disease management programs," said one health plan that looks back positively on 2006. Overall, 60 percent of responding health plans are pleased with their business outcomes of the past year. Fallout from Hurricanes Katrina and Rita continues to affect them, but plans responding in the affirmative cited more clients and "new products, better sales" as key factors in their positive outlook.

Investment in information technology (IT) appears to have paid off for this sector. "We implemented 'claim scrubbing' technology that dramatically improved our cash flow," contributed one health plan. Said another: "[We experienced] growth in transactions and



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Expectations for the Industry

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adoption of a portal." Adoption of and adherence to cost containment strategies paid off for other health plans.

For the 40 percent of responding health plans (23 in total) who experienced a negative past year, there appeared to be no one overall trend influencing their assessment of the last 12 months. Rising healthcare costs in general and pharma costs in particular, administrations in flux and/or resistant to change, and cost pressures from providers contributed to the gloomy outlook expressed by these health plans.

Rising Costs of Uncompensated Care, the Uninsured Top Hospitals' Concerns

Financial worries due to the rising number of uninsured patients and volume of uncompensated care plagued hospitals and health systems who responded. The added woes of debt, reduced reimbursements from payors and continued recovery from the Hurricane Katrina evacuation led nearly 58 percent of the 28 responding hospitals to look unfavorably on the last 12 months. "It was not as solid a year financially," said one hospital that experienced a decrease in market share over the last 12 months. Another hospital saw "flat to declining patient volume" and also noted increased costs. Two other hospitals said attracting and keeping professional staff was the biggest challenge they faced in the last 12 months and the chief reason for its negative assessment of the period.

Some hospitals shared the lessons they learned in 2006. "Consumer-driven healthcare is here now, and we aren't ready," said one hospital. "IT is critical to patient care," said another hospital. The time required to implement IT solutions can frustrate staff, shared another hospital. "When technology solutions become available, physicians and others have an expectation that the solutions will be implemented regardless of other funding or resource priorities," this hospital said.

Many of these issues affect even the 42 percent of responding hospitals looking back favorably on 2006. Addressing nursing shortages, attracting paying patients in the face of growing numbers of uninsured, demonstrating clinical quality and providing outcome data, and attacking the underlying causes of healthcare costs are some issues that will loom large for responding hospitals in 2007.

Physicians Cautiously Optimistic

Despite current commentary/feeling on the demise of primary care, the 10 physicians who responded to the HIN survey were largely positive in their evaluation of the last 12 months. These physicians attributed their optimism to closer cost management and the presence of more patients and more overall growth. "Our practice had a better handle on claims past and present," responded one physician practice. "Revenue cycle management and a stable staff" were behind another's positive assessment. Reacting to the shortage of medical professionals, one physician group said it is already contacting 2008 residents and fellows.

For the physicians who responded, comprehending and adapting to rapid changes in health plan options and associated reimbursement issues pose a significant challenge. "There is no 'standardized' way to file a claim," noted one physician. "Each carrier has their own code edits, which are all different. You can't just rely on the CCI (Correct Coding Initiative developed by the Centers for Medicare and Medicaid Services) to promote national correct coding methodologies and to control improper coding leading to inappropriate payment in Part B claims)."

Healthcare Issues Garnering the Most Attention in 2006

- ✓ Quality improvement
- ✓ Consumer-driven healthcare
- ✓ Disease management
- ✓ Electronic medical records
- ✓ Wellness and health promotion

Source: September 2006 HIN online survey, "Healthcare Trends 2007"

Disclaimer: HIN survey results are not based on a scientific sampling but on the number of responses to the HIN monthly online survey at www.hin.com.

The Rest of the Industry

The seven employers who responded to the HIN survey offered a guarded assessment of their economic health over the last year. Fewer than half were satisfied with financial results of the last 12 months. Sales and reimbursements were down, they noted, while their insurance premiums and overall healthcare costs rose.

For the remaining 77 respondents, whose service lines cut a wide swath across the industry, the financial view of the past 12 months was decidedly a rosy one. Eighty percent of these organizations, representing consultants, educators, data service providers and other industry service providers, said the calendar year 2006 was better than previous ones. To maintain that momentum in the year to come, their goals are to effectively handle new growth while still providing high-quality services, handling new growth and retaining talented employees.

Advice from an Expert

Dr. Peter Kongstvedt, a partner in the health and managed care consulting services division of Accenture, recently delved into some of the trends shaping today's healthcare industry. "Grow your core business by introducing new types of niche market core products and place new focus on targeted products," he advises in *Healthcare Trends & Forecasts in 2007: Performance Expectations for the Healthcare Industry*. "Also, grow non-core business by adding ancillary products and partnering with other plans to create alliances." (See "Related Resource" for ordering information.)

How They're Coping with Staffing Shortages

- ✓ "Training all staff to be better observers and initiators of quality assurance" (hospital);
- ✓ "Already contacting 2008 residents and fellows" (physician);
- ✓ "Making new alliances and expanding work team" (hospital marketing team);
- ✓ "Increased staff and formed linkages and networks" (school of healthcare management);
- ✓ "Extensive recruitment" (consultant);
- ✓ "Creating more desirable workplace" (DM company);
- ✓ "Reevaluating model; adding per diem support during crunch times" (employee assistance program); and
- ✓ "Creative recruiting, offshore resourcing" (IT vendor).

Source: September 2006 HIN online survey, "Healthcare Trends 2007"

New Ventures in 2006

Despite the economic restraints imposed on some parts of the industry, most respondents continued to create new products and services. More than 125 of the 156 respondents reported launching at least one new venture in 2006. The varied initiatives reflect the current and emerging trends meriting industry attention — healthcare requirements of aging baby boomers, disaster preparedness, federal mandates for cultural sensitivity and electronic medical records and a growing reliance on technology and the Internet. The following is a sampling of services initiated by respondents in 2006:

- ✓ A marketing consulting firm launched a new campaign aimed at baby boomers about to "age in" to Medicare;
- ✓ A disaster preparedness program integrating all aspects of healthcare management and business continuation was put into place by a military health system;
- ✓ A non-profit community clinic initiated a multicultural health project designed to improve communication and education in its growing Hispanic community and improve access to culturally sensitive healthcare;
- ✓ A medical technology company produced a fully standardized, web-enabled patient monitoring system;
- ✓ A pharmaceutical company has initiated a partnership with domestic violence shelters; and
- ✓ A study on sleep, of late linked to a multitude of health problems, is in the works at a hospital.

In addition to these innovations, some areas in which new initiatives were reported by more than one respondent included:

“(The greatest lesson of 2006 was) not realizing the impact the shortage of medical providers would have on healthcare facilities. We need to encourage healthcare facilities across the nation to have a recruitment and retention plan in place.”

A physician responds to 2006 HIN online survey, “Healthcare Trends in 2007.”

health coaching, consumer-driven healthcare products, wellness and smoking cessation.

Related Resource

Consumer-driven health plans, workplace wellness, consumers' clamor for hospital and provider quality data, Medicare Part D implementation and the threat of an influenza pandemic were just some of the issues demanding the attention of the healthcare industry in 2006. In *Healthcare Trends & Forecasts in 2007: Performance Expectations for the Healthcare Industry*, Peter Kongstvedt, M.D., F.A.C.P., dissects healthcare's forces of change, performance expectations and challenges for the upcoming year. This special report also takes a closer look at the responses by hospitals, health plans, physician organizations and industry vendors to HIN's “Healthcare Trends 2007” online survey.

Dr. Kongstvedt, a partner in the health and managed care consulting services division of Accenture, reveals the topics that will continue to consume the healthcare C-suite and delineates the new challenges awaiting the industry in 2007. You'll get his thought-provoking commentary on emerging industry trends, including:

- ✓ The soaring cost of healthcare;
- ✓ The return to wellness;
- ✓ The promotion of evidence-based medicine and its link to pay for performance;
- ✓ Mergers and acquisitions leading to market consolidation;
- ✓ The increasing adoption of electronic health records;
- ✓ The impact of the uninsured;
- ✓ and much more.

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