



Healthcare 2014: Embracing the New Normal



// So what do we do? Anything. Something. So long as we just don't sit there. If we screw it up, start over. Try something else. If we wait until we've satisfied all the uncertainties, it may be too late. //

— Lee Iacocca

In our conversations with stakeholders – physicians, hospital and health system administrators, health plan executives, board members, and government officials – there is one constant theme: change and uncertainty are the new normal. Strategies and tactics that worked brilliantly in the past are failing. Compensation and governance structures that have served us well are obsolete and prevent us from implementing badly needed reforms.

There are many sources for this uncertainty including ongoing implementation of the Affordable Care Act (ACA), political gridlock, a weakened economy, shifting demographics, and rapid technological advancements (e.g., electronic health records, telemedicine, big data predictive analytics).

Healthcare leaders' reactions are varied:

- **Head in the sand** - ignore changes and uncertainty and carry on as usual
- **Deer in the headlights** - intellectually recognize the need for change, but remain paralyzed for fear of making the wrong decision
- **Exit strategy** - retire or sell one's organization
- **Reality check** - co-create solutions and continue to make midcourse corrections based on measurable real-world results

In working with hundreds of healthcare organizations and carefully studying market trends, we have identified five fundamentals driving the **transformation** of our healthcare payment and delivery system:

1. The industry is **learning** to purchase value, not volume.
2. Providers and payers are **struggling** to find common solutions to universal challenges because healthcare continues to be a local and regional commodity.

3. Stakeholders are **searching** for their purpose and relevancy in a patient-centered healthcare continuum.
4. Consumerism is **emerging** as a driving force in healthcare.
5. Change is **accelerating** due to knowledge derived from disparate and dynamic data.

To lead and succeed in such an environment, one must embrace creative, adaptable strategies. We see success with our clients that have adopted Lee Iacocca's philosophy: first, experiment with pilot projects that make sense given our current understanding of the market; second, objectively monitor results in real time with a willingness to admit failure quickly and inexpensively; third, make midcourse corrections when results conflict with intended outcomes; and fourth, fully engage players from all levels of the organization in all stages of the project.

Taking that critical first step – embracing experimentation – requires one to understand how the five fundamental drivers, each in their own way, are transforming healthcare as we now know it. Then, by visualizing your organization's future role, you can set and correct your course for constructive change.

1. The industry is learning to purchase value, not volume.

// Let go of certainty. The opposite isn't uncertainty. It's openness, curiosity and a willingness to embrace paradox, rather than choose up sides. //

— Tony Schwartz
Founder and CEO, The Energy Company

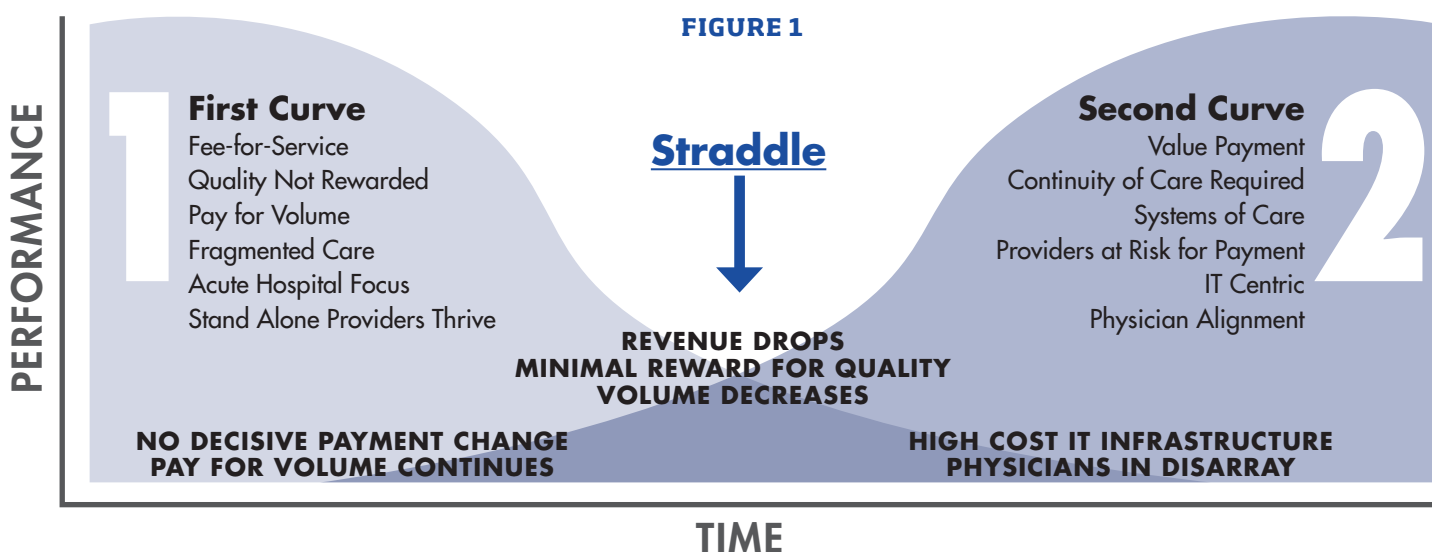
Conservative and liberal healthcare intellectual leaders agree on very little in this time of partisan bickering. However, both factions agree on two things: (1) healthcare contributes to the United States government's budget deficit, where \$4 trillion needs to be trimmed; these deficits are a drag on the economy that hinders real, sustained growth; and (2) without meaningful reductions in healthcare spending, we cannot solve our federal budget deficit problem.

The New England Journal of Medicine asked thought leaders on the right and left to contribute articles on how best to bend the healthcare cost curve. Both sides advocated a transition from fee-for-service payments to some sort of value-based payment model. As part of the ACA, the Centers for Medicare & Medicaid Services (CMS) now is pursuing new programs to explore innovative ways to make this transition. Many commercial payers have been even more aggressive in introducing value-based purchasing.

For decades, we have built a healthcare system that excels at providing care, but which does not necessarily promote health. As a cynical board member once put it, "I don't know if our hospital could withstand a widespread outbreak of health." Continued pursuit of business strategies that have been handsomely rewarded in the past could prove ruinous in the future.

The switch from volume- to value-based payments, however, is a process, not an event. As Figure 1 illustrates, healthcare leaders must gauge the speed at which this transition will occur in their market. Leaders need both a strategy to ensure their organization's survival during this transition period and a strategy to change the provider culture to match the requirements of value-based payments.

It's as if you find yourself with a foot in two canoes, and the river current is swift. Leaders need to find that branch to steady them as they move from one canoe to the other. Pursuing transitional strategies must be at the top of every leader's list of New Year's resolutions.



2. Providers and payers are struggling to find common solutions to universal challenges because healthcare continues to be a local and regional commodity.

// Without the element of uncertainty, the bringing off of even the greatest business triumph would be dull, routine, and eminently unsatisfying. //

— J. Paul Getty

Complicating the two-canoe challenge is the fact that everyone is navigating a different river. Like politics, all healthcare is local. Unique circumstances put a different spin on national trends in each community. Thus, one cannot prescribe the same solutions for a healthcare organization in Minnesota and a similar-sized facility in Alabama.

Take, for example, Medicaid expansion. Under the ACA, states were faced with losing all Medicaid funding unless they expanded coverage to include all persons below 133% of the federal poverty level. The Supreme Court, however, ruled that the federal government could not coerce states to expand coverage by threatening to cut off current funding. Thus, Medicaid expansion became optional.

Now, providers in non-expansion states face different challenges than their counterparts in states that are expanding coverage. And the same is true with regard to

states that sponsor their own health insurance exchanges versus those that opted for the federally-facilitated exchange.

And don't forget the urban-rural dichotomy. As we have learned over and over (or failed to learn despite repeated lessons), what works in an urban environment does not necessarily translate to rural communities. The rural health conundrum - the lack of sufficient volume to generate revenue necessary to cover high fixed costs - requires different strategies to improve the quality of care and the health status of rural residents while reducing costs.

Other community differentiators include payer mix, regulatory climate, patient income level, disease prevalence, philanthropic support, and the composition of the provider community. Each of these factors must be considered in charting the course for a community's healthy future.

3. Stakeholders are searching for their purpose and relevancy in a patient-centered healthcare continuum

// Making systems work in healthcare - shifting from corralling cowboys to producing pit crews - is the great task of your and my generation of clinicians and scientists. //

— Atul Gawande, M.D.
2011 Commencement Address
at Harvard Medical School

Oxford Dictionary declared "selfie" the 2013 Word of the Year. We nominate the phrase "clinical integration" for this distinction in 2014.

Today, we have provider-centered care, as evidenced by the fact we say, "I'm going to the doctor (hospital, physical therapy, pharmacy, etc.)." The vision for tomorrow is

patient-centered care, in which we will say something like, "My healthcare team has developed the plan of care I follow to keep me healthy."

Having long operated in silos, providers now must learn to be part of a patient-centered system through clinical integration. The final rule for the Medicare Shared Savings Program (MSSP), which establishes standards for accountable care organizations (ACOs) to participate in that program, includes the following requirements to ensure these new legal entities provide patient-centered care:

- Perform patient-experience-of-care surveys and develop plans for improvement
- Include a patient on the ACO governing board
- Evaluate the health needs of the population served and design a plan to address those needs
- Identify high-risk patients and create individualized treatment plans
- Establish mechanisms for care coordination
- Educate patients on evidence-based medicine
- Adhere to written standards on patient access and communication
- Impose process for patient access to health records

- Maintain formal process to measure and improve provider performance

CMS' recent announcement that 123 new ACOs would join in the MSSP in 2014 - bringing the total number to nearly 350 - indicates a tipping point from which patient-centered care systems will be the norm, not the exception. However, the fact most ACOs and similar systems struggle with operational issues shows we have a long way to go to achieve effective clinical integration.

Some predict physicians and other providers never will give up the cowboy mentality in favor of pit-crew-like team work. But as Dr. Gawande explained later in that same commencement address, there is every reason to hope:

Recently, you might be interested to know, I met an actual cowboy. He described to me how cowboys do their job today, herding thousands of cattle. They have tightly organized teams, with everyone assigned specific positions and communicating with each other constantly. They have protocols and checklists for bad weather, emergencies, the inoculations they must dispense. Even the cowboys, it turns out, function like pit crews now.

4. Consumerism is emerging as a driving force in healthcare.

// Have patience with everything that remains unsolved in your heart...live in the question. //

**— Rainer Maria Rilke,
Letters to a Young Poet**

For too long, the healthcare consumer has been the most uninformed consumer in the marketplace. Very few of us have a healthcare team that develops a plan of care we can follow to stay healthy.

We lack actionable information regarding price, quality, and alternative treatments. Unable to actively participate in making healthcare decisions, too many of us become passive patients: we don't fill prescriptions or take medications as directed, we don't properly manage our chronic conditions, we don't consider cost in making treatment decisions.

While patient-centered care requires providers to think and act differently in how they care for clients, consumerism is a force that allows individuals to take control over healthcare decisions. Generally speaking, consumerism gives the patient an economic stake in his or her healthcare decisions. Such strategies include, for example:

- Health savings accounts
- High deductible healthcare insurance plans
- Employer wellness programs
- Provider rating programs (e.g., Hospital Compare website)
- Narrow networks

Healthcare providers should not underestimate the impact consumerism will have on their operations. Rather than selecting providers based primarily on personal recommendations, patients will look to objective measures such as price comparisons and scores on quality measures.

We expect the rise of narrow networks – where insureds have strong economic motivations to receive care from a select group of providers – will have a profound impact in

the immediate future. These insurance products will gain in popularity not only because of price, but also because they promise high quality and coordinated care.

One may quibble with the selected quality measures, but no provider will want to find themselves on the outside looking in at these networks. Like high school students studying for the SAT, providers need to learn how to score well on recognized measures or they will find themselves with rejection letters.

5. Change is accelerating due to knowledge derived from disparate and dynamic data.

// The quest for certainty blocks the search for meaning. Uncertainty is the very condition to impel man to unfold his powers. //

– Erich Fromm

Access to huge stores of data that can be sliced and diced in ways never before possible brings the promise of Big Data Analytics. Healthcare – like the banking, insurance, logistics, and other industries before it – will be **transformed** by this new disruptive technology.

Predictive analytics can take the guesswork out of many challenges facing the healthcare industry. It is now possible to analyze existing data sources to identify actionable correlations that can decrease per-capita costs while improving the quality of care. While its healthcare applications are in their infancy, the following are examples of real-life Big Data applications that foretell the future.

- Analysis of Google search terms predicts spread of flu a week earlier than the Center for Disease Control's gold standard disease modeling, thus permitting hospitals to better staff to treat more patients.
- An academic medical center predicts risk of patient readmission using available data sets, thus allowing the system to better focus its efforts to reduce readmissions.

- MultiCare Health System in Washington State identifies \$2 million in missed hospital charges in one year.
- Health insurance company analyzes claims data to determine the likelihood that a certain beneficiary will die within 18 months so that end-of-life counseling can be offered.
- Riskprediction.org.uk uses Big Data Analytics to predict the risk of death in different kinds of surgical procedures.
- By analyzing available data sets, Stanford researchers identify new gene associated with Type II diabetes and cardiac complication associated with common drug interaction.
- Canadian investigators identify infections in neonatal intensive care patients 24 hours earlier by analyzing wireless sensor data that produce 1,260 physiological measurements per second.

In the coming year, innovative leaders will look to Big Data Analytics as they pursue population health management strategies. Analytics firms with practical healthcare experience – like PYA Analytics – can provide the tools to unlock this potential.

// The future ain't what it used to be. //

— Yogi Berra

The challenge of change can be overwhelming. Living in nuance is nerve-racking. But the need to transform to a value-based payment and delivery system no longer is in doubt. Strong leaders will steady their canoes, find a reliable navigator,

grab a branch, and carefully shift their organization's weight to the new canoe. They may get a little wet or suffer a bruise or two, but they will successfully make the transition - and ride bravely to a new and stronger healthcare system.



PYA's integrated team of experts - physicians, executives, accountants, attorneys, nurses, doctors, data scientists, and healthcare guides - are ready to help steady your canoe and navigate the rushing tide of healthcare payment and delivery system reform. Let's talk.

For more information, please contact:

Martie Ross

Principal

mross@pyapc.com

(800) 270-9629

David McMillan

Principal

dcmcmillan@pyapc.com

(800) 270-9629

Kent Bottles, MD

Principal and Chief Medical Officer of PYA Analytics

kbottles@pyapc.com

(800) 270-9629