



**Act Boldly in The Face of Uncertainty
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Simple But Powerful Solutions That Produce Results has championed a central theme: **FOCUS (Strategy) + EXECUTION + LEADERSHIP = RESULTS**. In this issue, we suggest actions that **must be taken despite uncertainty of Reform**.

Over the past several months we asked many healthcare executives across the country about their revenue expectations in the next 2-3 years. We also asked how they were preparing their organizations for the uncertain future. Specifically:

1. What happens to revenue if some form of reform package becomes law?
2. What happens to revenue if reform does not happen this year?
3. What must you do to prepare for either scenario?

As expected, opinions varied by geography, by market position, size of organization and readiness for change. Not surprisingly, most leaders suggested that hospitals and physicians should expect rates of revenue to decline or fail to keep up with costs.

Here is what we heard about **Hospital Revenue**:

Medicare

- Reform: Rates will not keep up with inflation in the short term; likely to be reduced post reform.
- No Reform: Rates will be essentially frozen and then reduced quickly. Expect further reductions through “quality improvement initiatives” i.e. never events.

Medicaid

- Reform: Coverage will expand but rates will not keep up with inflation, many states have already capped or reduced payment; they will declare “problem solved
- No Reform: Rates will be essentially frozen and then reduced quickly

Commercial Insurance

- Reform: Rates will increase for policy holders but not for providers – co-pays and deductibles will create more self pay and write offs. Rate reductions will be past directly to providers and consumers
- No Reform: Same as above; insurers will also use “healthcare costs” to ratchet down payments to providers

Un/Under Insured and Self Pay

- Reform: Funding will be reduced significantly for uncovered patients and services.
- No Reform: Funding will be reduced significantly

Hospital leaders expect physician payment rates to mirror their own under both scenarios and further expect physicians to offset reductions by seeking increased payments for services to hospitals and expanding competitive initiatives.

Implications

Regardless of your expectations of the outcome of the reform initiative it's likely that at best, rates of revenue for most payors barely keep up with inflation. At worst we will see absolute decline. Either of these possible outcomes will require providers to be clinically and operational efficient to maintain margins. No one is expecting significant rate increases. No one believes that they will fully recover rate reductions through post reform volume increases. Most observers believe that the impact of reform, at least in terms of new "insured volume" will not be seen for several years. Most also believe that failure to pass a reform measure will produce immediate rate reductions.

Keep in mind important lessons coming out of Massachusetts: while coverage has been expanded considerably as planned, increased demand for services has strained capacity particularly for primary care and emergency department services requiring new investments, and costs are higher than expected. Attention is now being paid to "controlling" costs.

So what **imperatives** must hospital executives pursue regardless of the result of the reform initiative? Here is what I heard.

1. Paint a clear picture of what is required for success; and align the entire organization (governance, physicians, executive leaders, middle managers, employees, payors, and community) on your new reality - use alternative scenarios if they help provide clarity - create triggers to track changing conditions.
2. Refine your clinical portfolio and your growth strategy to reflect what you do well, what you have capacity for and what you can afford – prune where necessary. It's a mistake to assume all new volume will be valuable.
3. Get costs in line with revenue expectations quickly– think Medicare minus rates as the new norm.
4. Align with your physicians to: refine your clinical portfolio, ensure clinical efficiency and effectiveness, create sustainable compensation models, service provision arrangements, and recruit/retain sufficient medical manpower.
5. Make bundled or captivated payments a viable option.
6. Match your network of hospitals, physicians, non-acute services and ambulatory services to your clinical portfolio.
7. Leverage the skills and talent of middle managers to manage costs, improve efficiency and develop new opportunities.
8. Speed up decision making; learn to move with incomplete information.

Most importantly, in times of change and challenge, leaders *must boldly communicate their vision constantly and hold themselves and others accountable for executing their plan*. You also must be prepared to turn on a dime. As several leaders told us, we are operating in the midst of a storm 24/7 with weather forecasts describing conditions as "uncertain."

If you would like to discuss how these ideas might be helpful in your situation, please call or email.



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