It’s No Longer Just About Treating the Patient: Administrative Aspects of Medicine and What We Need to Know

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Disclosures

Consultant:

• Cardinal Health
• Maquet
• Medtronic
US Healthcare: Overview

$2.9 trillion = cost of US Healthcare in 2013
  • Equivalent to 17.4% of GDP
    ($9,255/person, 3.6% increase year over year)

Total US GDP: $15.5 Trillion

CMS.gov, research/data statistics
The Health Spending Slowdown May Be Over

The yearly increase in America's total medical bill jumped in 2014

World Gross Domestic Product

1. U.S. $15.0T
2. China $7.3T
3. Japan $5.9T
4. Germany $3.6T
5. France $2.7T
National Health spending projected to reach $5 Trillion dollars by 2022; reflecting a growth assumption of 6% per year.

<table>
<thead>
<tr>
<th>Year</th>
<th>USA Healthcare Spending (In Billions)</th>
</tr>
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<tbody>
<tr>
<td>1972</td>
<td>$93</td>
</tr>
<tr>
<td>1982</td>
<td>$335</td>
</tr>
<tr>
<td>1992</td>
<td>$858</td>
</tr>
<tr>
<td>2002</td>
<td>$1,638</td>
</tr>
<tr>
<td>2012</td>
<td>$2,793</td>
</tr>
<tr>
<td>2022</td>
<td>$5,009</td>
</tr>
</tbody>
</table>

CMS.gov, research/data statistics
Workplace Health Premiums Continue to Rise

2014 Health Premiums:
- Single Coverage = $6,025
- Family Coverage = $16,834

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits.
US Healthcare: Medicare

- Projected change in Medicare enrollment

2012 Annual Report Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds.
Healthcare Reform Goals

Access

Quality

Cost

QUALITY = VALUE

COST
Health Care Reform Timeline

2010
- Market Basket & Productivity Cuts
- Dependent Coverage to Age 26

2012 - 2013
- Value Based Purchasing
- Readmission and HACs Penalties
- Pharmaceutical and Medical Device Fees
- ACO’s in MCR

2014
- Individual Mandate/Health Exchanges Open
- Medicare & Medicaid DSH Cuts
- Insurer Fees

2018
- Full Impact of Medicaid DSH Cuts
- Cadillac Tax
<table>
<thead>
<tr>
<th>MEASURE</th>
<th>FY2013</th>
<th>FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process of Care (Core Measures)</td>
<td>70%</td>
<td>45%</td>
</tr>
<tr>
<td>Patient Experience (HCAHPS)</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Outcomes (30-day Mortality)</td>
<td></td>
<td>25 %</td>
</tr>
</tbody>
</table>
Value Based Purchasing - Pay For Performance, Just A Sample…

• Time to Cath Lab
• % of Heart Failure Patients given Discharge Instructions
• % of pneumonia Patients whose initial ED Blood Culture was performed prior to the administration of the first dose of antibiotics
• Antibiotic Received one hour prior to Surgical Incision
• Cardiac Surgery Patients with Controlled 6am Postoperative Serum Glucose
• Patient Experience-How was the Nurse, How was the Doctor, Was the Hospital Clean etc…
## Financial Impact

<table>
<thead>
<tr>
<th></th>
<th>Readmits</th>
<th>Value Based Purchasing</th>
<th>Hospital Acquired Conditions</th>
<th>Annual Payment Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY12</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>FY13</td>
<td>1%</td>
<td>1%</td>
<td>---</td>
<td>2%</td>
</tr>
<tr>
<td>FY14</td>
<td>2%</td>
<td>1.25%</td>
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<td>3.25%</td>
</tr>
<tr>
<td>FY15</td>
<td>3%</td>
<td>1.5%</td>
<td>1%</td>
<td>5.5%</td>
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<tr>
<td>FY16</td>
<td>3%</td>
<td>1.75%</td>
<td>1%</td>
<td>5.75%</td>
</tr>
<tr>
<td>FY17</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Percent refers to DRG payment reduction on all Medicare discharges
## Proj. Financial Impact on 1 Health System (2013-2020)

<table>
<thead>
<tr>
<th>Year</th>
<th>Medicare</th>
<th>Medicaid Trend Factor</th>
<th>Employee Benefit Costs</th>
<th>VBP/Readmissions</th>
<th>Fiscal Cliff/Sequestration</th>
<th>DSH Reductions</th>
<th>Market Basket/Productivity Adjustments</th>
<th>Expanded Medicaid Coverage</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
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<td>2014</td>
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<td>2015</td>
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<td>2016</td>
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<td>2017</td>
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<td>2018</td>
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<td>2019</td>
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<td>2020</td>
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</table>

**Total:** $2.6B
New York City Hospital Industry

- Financially Challenged
- More than 15 Hospital Closures Since 2000
- Fragmented Market

NYU Langone Medical Center
Mount Sinai
North Shore LIJ
New York-Presbyterian
The University Hospital of Columbia and Cornell
“I predict that 1 in 5 hospitals will close by 2020”

Ezekiel Emmanuel, White House Health Policy Advisor
New Entrants in the Hospital Industry

- Physician-owned centers
- Urgent Care Centers
- Narrow/tiered networks
- ACOs
- Integrated systems
- Private Equity
Common Themes in Healthcare Today

1. Everyone is under duress ... and, as never before, open to new ideas, help, and change.

2. Terrific work and innovations are ongoing almost everywhere.

3. Strategy: Two themes resonate with leadership and clinicians – value and suffering.

4. Tactics: Providers understand the importance of market share and thus patient loyalty.

5. Culture: Physician and employee engagement as new and evolving focuses.

6. Providers need help getting from here to there, and defining what is there.
“Old Formula” for success, increasing Price and Volume, will not continue to work in this new era of healthcare reform.

Why?

• The public is increasingly becoming price sensitive and there is an emphasis on value.
• Pressure from all stakeholders is increasing
• All lines in healthcare industry are starting to blur
• Delivery models are changing
Delivery Model Risk Continuum

Degree of Risk

Low

Fee-for-Service

Pay-for-Performance

Penalties

Bundled Payments

ACO

Capitation

Key Driver

Volume

Value
The Big Idea
The Strategy That Will Fix Health Care
Providers must lead the way in making value the overarching goal by Michael E. Porter and Thomas H. Lee
Creating Value in Healthcare

• We will probably live with mixed payment models forever.
  • *We need strategies that transcend payment model*

• Improvement of value (outcomes/experience vs costs) is robust strategy for all four of the major provider levers for success
  1. What we get paid
  2. What it costs us
  3. Market share of patients
  4. Market share of personnel
Creating Value in Healthcare

**Porter’s Strategic Agenda**

1. Organize Care in Integrated Practice Units around patient medical conditions
2. Measure Outcomes and Cost for Every Patient
3. Reimburse through Bundled Prices for Care Cycles
4. Integrate Care Delivery Across Separate Facilities
5. Expand Areas of Excellence Across Geography
6. Build an Enabling Information Technology Platform
## Evolving Healthcare Environment

<table>
<thead>
<tr>
<th>Present</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physician-centered</td>
<td>Patient-centered</td>
</tr>
<tr>
<td>Fee-for-service</td>
<td>Shared Risk / Population Health</td>
</tr>
<tr>
<td>Private-practice MD</td>
<td>Employed physicians</td>
</tr>
<tr>
<td>Loose geographic reach</td>
<td>Tighter geographic reach</td>
</tr>
<tr>
<td>Diagnosis &amp; treatment</td>
<td>Health and Wellbeing</td>
</tr>
<tr>
<td>Acute episodic care</td>
<td>Chronic care across the continuum</td>
</tr>
<tr>
<td>Volume</td>
<td>Value (Quality / Cost)</td>
</tr>
<tr>
<td>Inpatient</td>
<td>Ambulatory</td>
</tr>
<tr>
<td>Paper</td>
<td>Digital</td>
</tr>
<tr>
<td>Face-to-face</td>
<td>Virtual</td>
</tr>
<tr>
<td>Retrospective data</td>
<td>Real-time/predictive</td>
</tr>
</tbody>
</table>
Cardiovascular Market Trends
# Cardiac and Vascular Services

## Contribution Profit

<table>
<thead>
<tr>
<th></th>
<th>Cardiac</th>
<th>Inpatient</th>
<th>Outpatient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient population</td>
<td>5.2 M</td>
<td>23 M</td>
<td></td>
</tr>
<tr>
<td>Medical per case contribution profit</td>
<td>$2K</td>
<td>$250</td>
<td></td>
</tr>
<tr>
<td>Procedure per case contribution profit</td>
<td>$9K</td>
<td>$1K</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Vascular</th>
<th>Inpatient</th>
<th>Outpatient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient population</td>
<td>824 K</td>
<td>4.9 M</td>
<td></td>
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<tr>
<td>Vasc. svcs per case contribution profit</td>
<td>$5K</td>
<td>$313</td>
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</table>
Cardiovascular Initiatives

• Quality
• Safety
• Service
Cardiovascular Opportunities

• Expand service offerings with new procedures
• Develop or strengthen condition specific clinics
• Participate in risk based contracting
• Reduce operating costs
CV Growth Opportunities

• Adult congenital heart disease
• Electrophysiology Therapies
  • A-fib Ablation, CRT-D’s
• Peripheral Arterial Disease
  • Aortic surgical repair and endografts
  • Carotids, Renals, Lower Extremities
• Valvular heart disease
  • Percutaneous valve replacement / repair
U.S. Health-Care System Wastes

$750 Billion Annually

- Unnecessary Services: 27.5%
- Inefficient Care: 17.0%
- Excess Administrative Costs: 13.7%
- Inflated Prices: 7.2%
- Prevention Failures: 9.8%

IOM 2012 Report
Operational Opportunities

- **Revenue Cycle**
- **Supply Utilization**
- **Length of Stay**
- **Indirect Cost Structure**
- **Ambulatory Care System**
- **Clinical Resource Utilization**
Clinical Resource Utilization

• **Goal:** Monitor practice patterns to ensure standardization whenever possible
• **Choice Awareness**
  • Price Transparency
  • Standardize Practices
  • Physician Metrics
• **Reprocessing**
• **Bulk Opportunities**
• **Standard Packs/Kits**
• **Eliminate Waste/Overuse**
<table>
<thead>
<tr>
<th>Type</th>
<th>Boston Scientific</th>
<th>MEDTRONIC</th>
<th>ST. JUDE</th>
<th>Biotronik</th>
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<tbody>
<tr>
<td>DUAL CHAMBER</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Teligen RF HE DR</td>
<td>E110</td>
<td>Secura DR</td>
<td>D224 DRG</td>
<td>Fortify ICD - VR</td>
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<tr>
<td></td>
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<td>Lumax 540 DR-T</td>
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<td>Confient DR HE</td>
<td>E030 AWG</td>
<td>D154 AWG</td>
<td>Current Plus DR SJ4</td>
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<td></td>
<td>Lumax 540 DR-T w/Mobile GSM</td>
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</tbody>
</table>
## Clinical Resource Utilization

### Change in Contrast Utilization and Subsequent Cost Impact

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Contrast</th>
<th>% Case Volume (cc)</th>
<th>Case Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-Jun 2012</td>
<td>Omnipaque</td>
<td>16% (84,068)</td>
<td>13% (546)</td>
</tr>
<tr>
<td></td>
<td>Visipaque</td>
<td>84% (438,680)</td>
<td>87%</td>
</tr>
<tr>
<td>Jan-Jun 2013</td>
<td>Omnipaque</td>
<td>95.5%</td>
<td>94%</td>
</tr>
<tr>
<td>Jan-Jun 2015</td>
<td>Visipaque</td>
<td>4.5% (22,880)</td>
<td>6% (240)</td>
</tr>
</tbody>
</table>

**Cost Savings:** $160K/yr
Future Success

- Trust
- Patient Experience
- Care Team Alignment, Engagement and Transparency
- Focus on Quality, Safety, & Service
- Operational Efficiency
Final Thoughts

• Healthcare reform has fostered permanent change in US healthcare delivery models
• Advances in prevention, diagnosis, and technology will shift the setting of care and pave the way for population health initiatives
• Focus on quality, performance and defragmenting communication are imperative for continued growth and success
• Transparency, engagement, and coordination are key elements in reducing the cost of care
Thank You
It’s No Longer Just About Treating the Patient: Administrative Aspects of Medicine and What We Need to Know

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