



American College of
Healthcare Executives
for leaders who care®

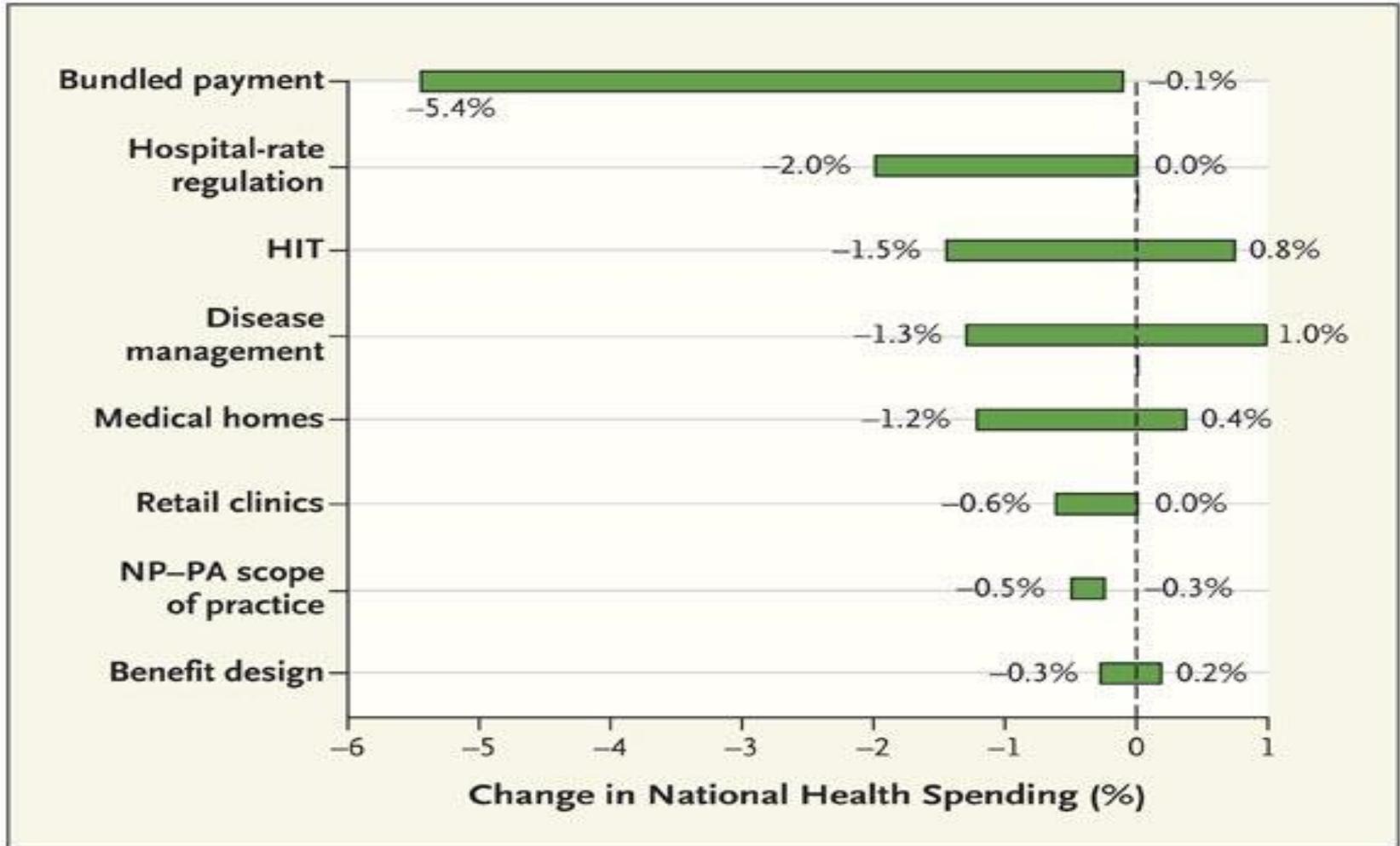
Rowland-Hite Health Planning Seminar

Rulon F. Stacey, PhD, FACHE

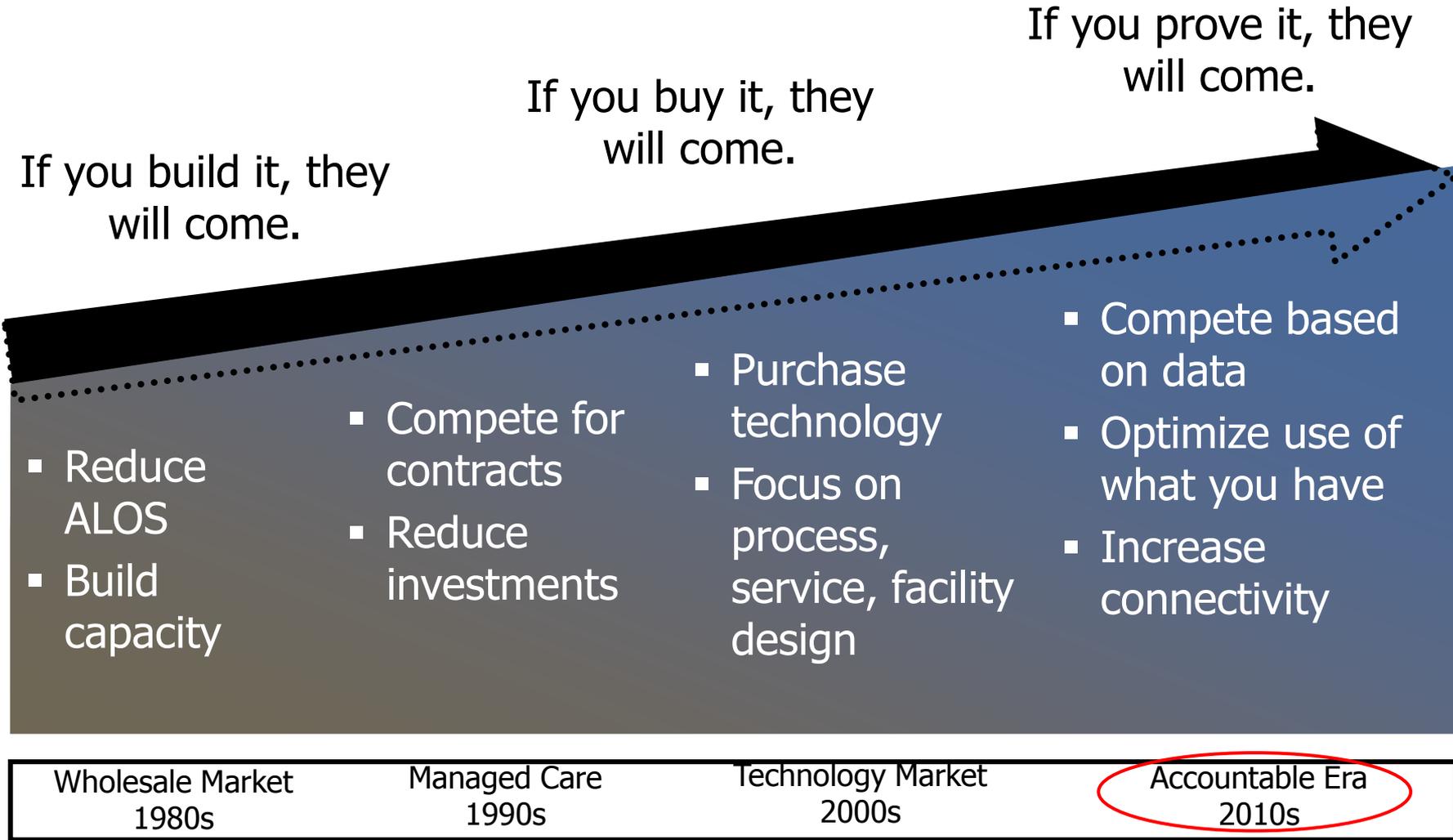
Chairman-Elect

American College of Healthcare Executives

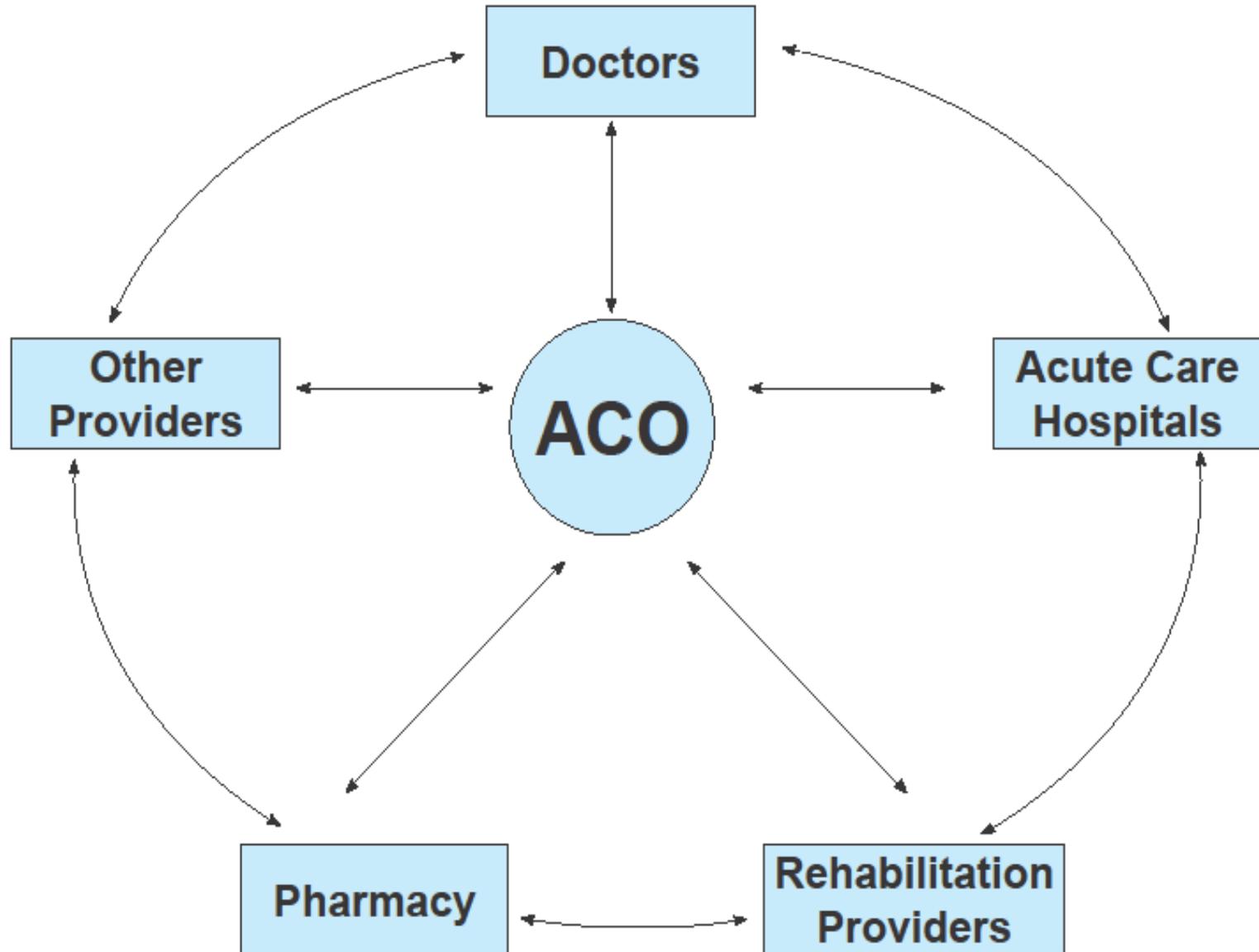
Change in National Healthcare Spending



PPACA: The *Accountable* Era is Here



True Clinical Integration



What is an ACO?

Act,
ACOs are envisioned to couple payment and delivery system

The United States Senate (HR 3590) Definition

- Groups of providers of services and suppliers meeting criteria, as specified by the Secretary, who may ***work together to manage and coordinate care*** for Medicare fee-for-service beneficiaries through an accountable care organization...the ACOs that meet quality performance standards established by the Secretary are eligible to receive payments for shared savings.

The MedPAC Definition

- A group consisting of a hospital, primary care physicians and possibly specialists that would have ***joint responsibility for the quality and cost of health care*** delivered to a population of Medicare beneficiaries. Providers in the ACO would share in efficiency gains from improved care coordination and could be subjected to penalties for poor performance, depending upon the structure of the ACO.

Consistency in Definitions

Providers, working as a team, taking responsibility for outcomes and costs for a defined population.

What values will guide the successful ACO?

- **Patients, not doctors, are the customer**
- **Value is a value: We're responsible for delivering quality outcomes and high levels of service at a reasonable cost.**
- **Learn, grow, and change**

PPACA: Newsflash - Don Berwick's Goals for ACOs and the Role of Federal Oversight

Don Berwick's Five Expectations for Accountable Care Organizations (ACOs)

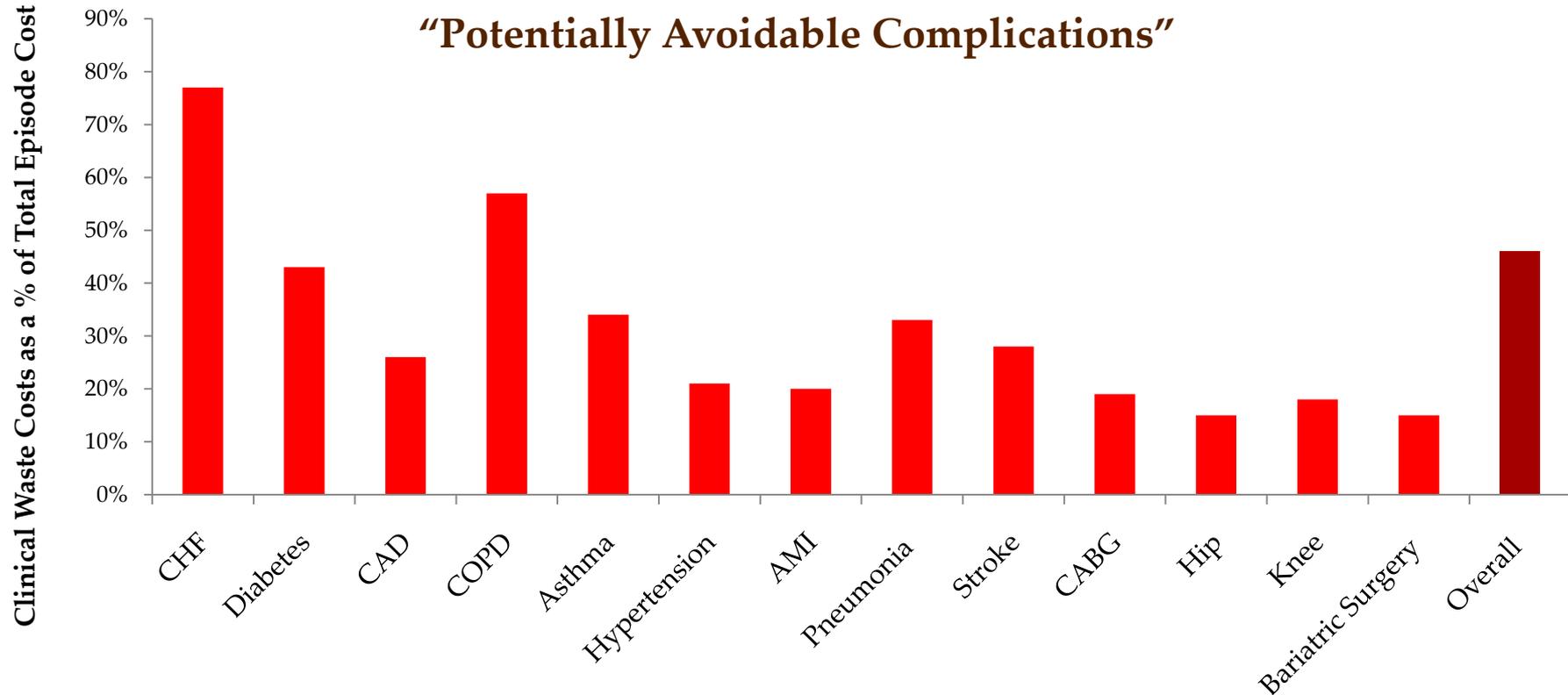
1. Reducing dependence on hospitals. Instead, "patients will be home where they want to be" he said.
2. Using a proactive approach. ACOs will advance ways to help people stay healthy, he said.
3. Using a rich trove of healthcare data. ACOs will use data-driven approaches such as patients registries.
4. Taking an innovative approach. ACOs will draw upon the best advances in models of care. "We want to help integrated care to thrive in America," he said.
5. Maintaining and executing plans. "I don't view the ACO as primarily a financing mechanism," Dr. Berwick said. "It's a care delivery system."

Example: Optimizing Your ICU

- **Intermountain Healthcare**
 - **60% reduction in ventilator time**
 - **Resulted in a 30% reduction in thoracic ICU length of stay**
 - **15% reduction in the total costs of performing open-heart surgery**
 - Approximately, \$3,000 per patient; or net of \$5.5 million per year, system-wide

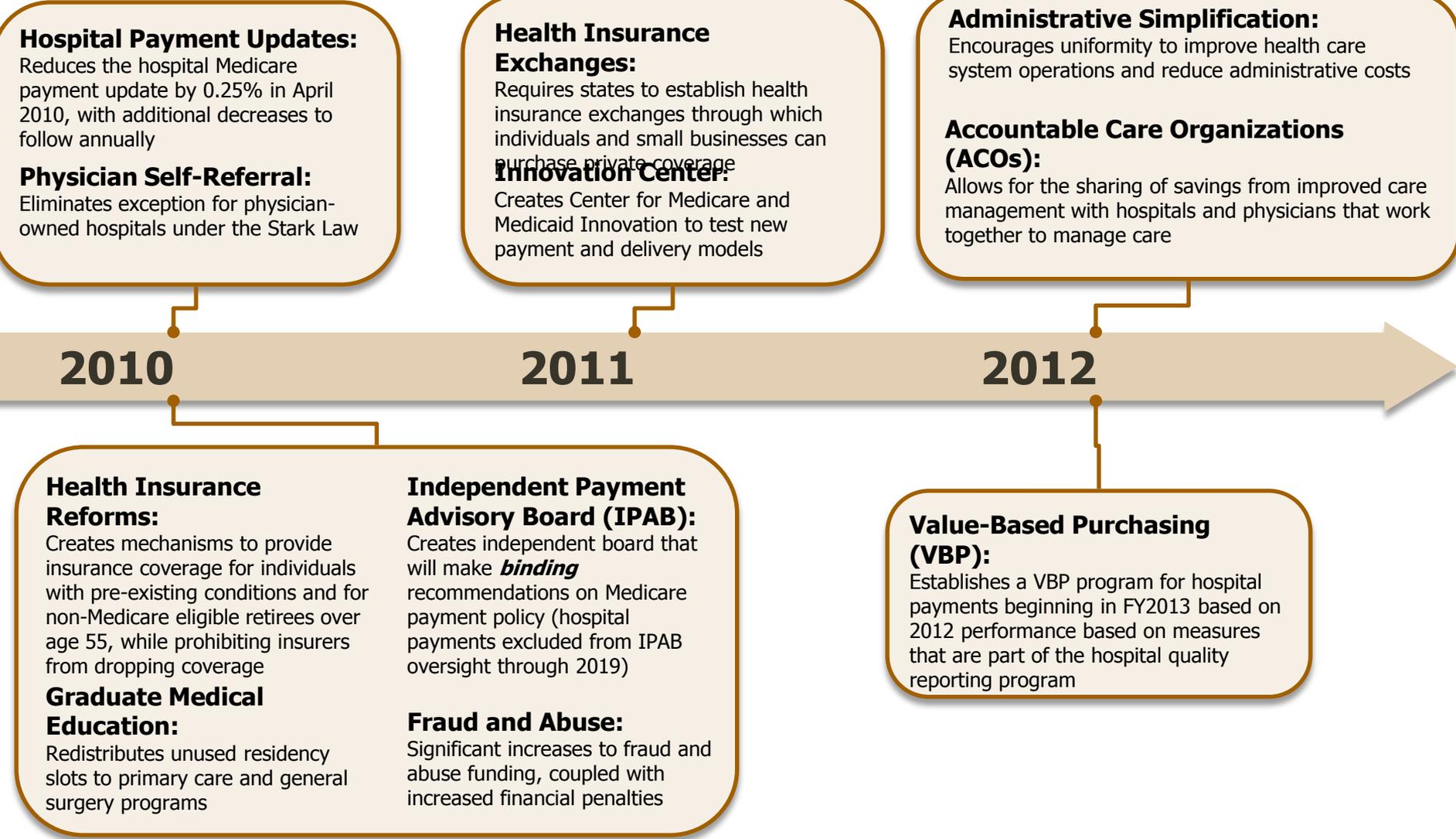
Opportunities Exist to Reduce “Waste” in Healthcare

Private groups like Prometheus have devised models to “encourage physicians, hospitals and other providers to work as a team, centered around each patient’s needs, irrespective of their administrative integration.” The Prometheus model aims to improve margins and reduce clinical waste by creating a patient-specific severity adjusted price for an episode of care.



Result of bundling = alignment = reduced waste = economic opportunity for all providers (e.g., physician-hospital P4P bonus payments)

PPACA: Major Provisions of the Bill



Hospital Payment Updates:
Reduces the hospital Medicare payment update by 0.25% in April 2010, with additional decreases to follow annually

Physician Self-Referral:
Eliminates exception for physician-owned hospitals under the Stark Law

Health Insurance Exchanges:
Requires states to establish health insurance exchanges through which individuals and small businesses can purchase private coverage

Innovation Center:
Creates Center for Medicare and Medicaid Innovation to test new payment and delivery models

Administrative Simplification:
Encourages uniformity to improve health care system operations and reduce administrative costs

Accountable Care Organizations (ACOs):
Allows for the sharing of savings from improved care management with hospitals and physicians that work together to manage care

2010

2011

2012

Health Insurance Reforms:
Creates mechanisms to provide insurance coverage for individuals with pre-existing conditions and for non-Medicare eligible retirees over age 55, while prohibiting insurers from dropping coverage

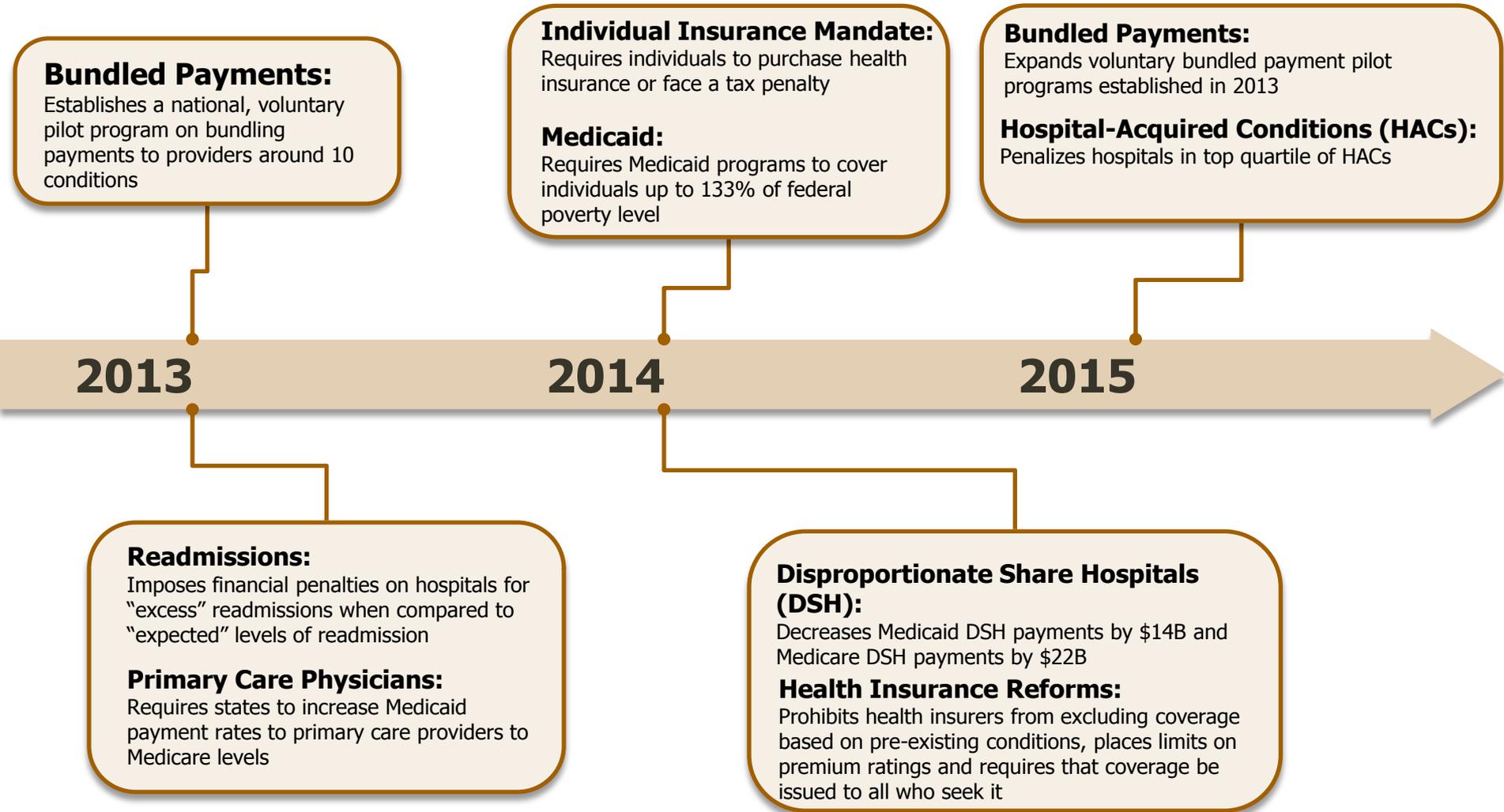
Graduate Medical Education:
Redistributes unused residency slots to primary care and general surgery programs

Independent Payment Advisory Board (IPAB):
Creates independent board that will make *binding* recommendations on Medicare payment policy (hospital payments excluded from IPAB oversight through 2019)

Fraud and Abuse:
Significant increases to fraud and abuse funding, coupled with increased financial penalties

Value-Based Purchasing (VBP):
Establishes a VBP program for hospital payments beginning in FY2013 based on 2012 performance based on measures that are part of the hospital quality reporting program

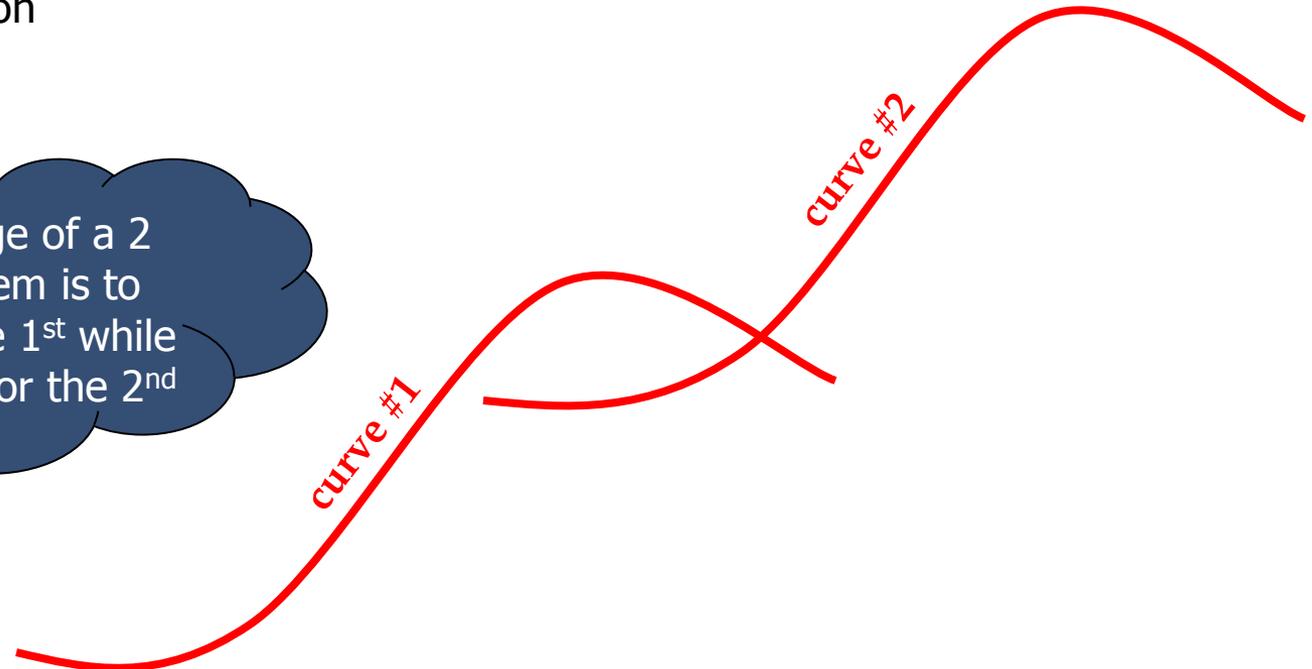
PPACA: Major Provisions of the Bill *(continued)*



Changing Dynamics in Healthcare Industry

- Industry faces a classic “two curve” planning scenario
 - **Strategy #1 addresses Curve #1 (“heads in beds”)**: “milk” the current environment for all that you can, maintaining the strategic direction and tactics that have been successful in the past to drive reimbursement and volume, while banking resources for the future
 - **Strategy #2 “jumps” to Curve #2 (“integrated care continuum”)**: proactively explore growth alternatives today with associated upfront costs (both \$\$\$ and management bandwidth) that may negatively impact organization’s status on Curve #1, but position it for the emerging challenges requiring hospital-hospital and hospital-physician integration

The challenge of a 2 curve problem is to prosper in the 1st while you prepare for the 2nd



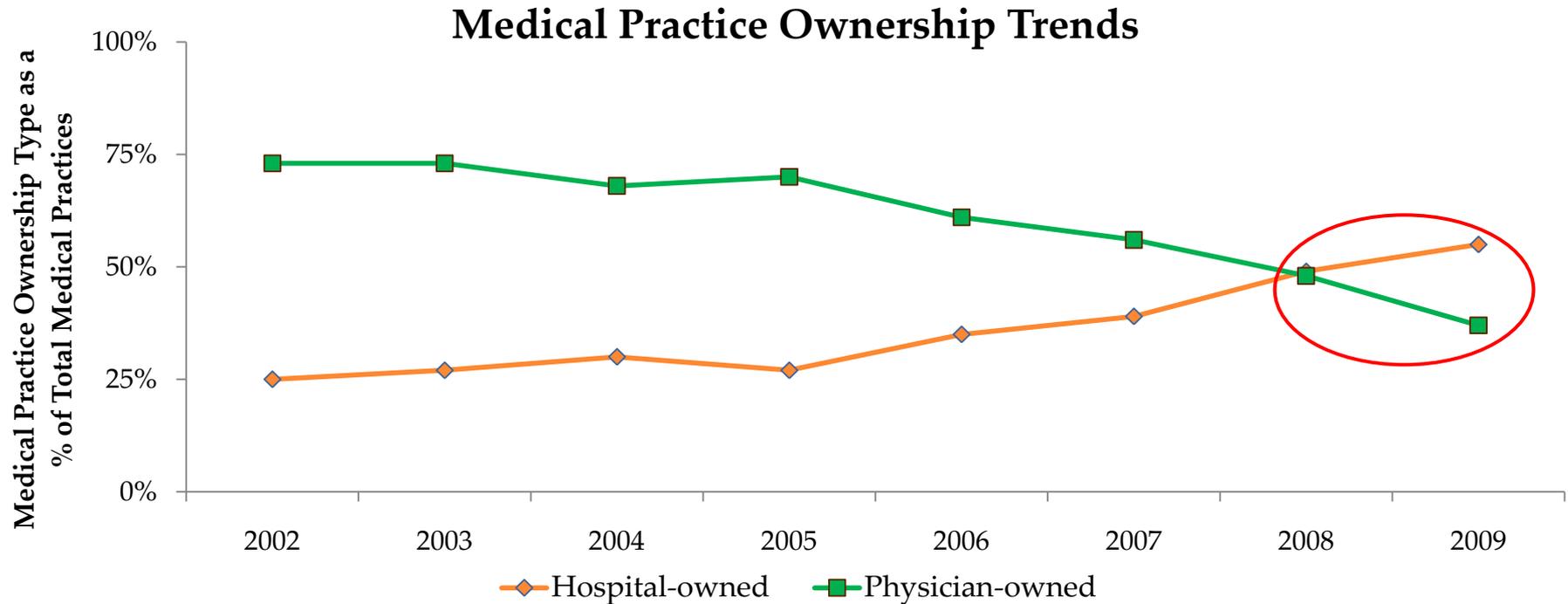
Hospitals are Consolidating to Achieve Scale & Drive Value-Based Health

Taxables are Fueling Uptick in Hospital M&A in 2010

Acquirer	 RegionalCare HOSPITAL PARTNERS <i>Brentwood, TN</i>	 VANGUARD HEALTH SYSTEMS <i>Nashville, TN</i>	 CERBERUS CAPITAL MANAGEMENT, L.P. <i>New York, NY</i>	 LIFEPOINT HOSPITALS® <i>Brentwood, TN</i>	 UnitedHealth Services <i>Franklin, TN</i>	 CHS Community Health Systems <i>Nashville, TN</i>	 Health Management Associates <i>Naples, FL</i>
Target	 CHG Coffee Health Group <i>Russellville, AL</i>	 DMC DETROIT MEDICAL CENTER <i>Detroit, MI</i>	 Caritas CHRIST HEALTH CARE <i>Boston, MA</i>	 SUMNER Regional Medical Center SUMNER REGIONAL HEALTH SYSTEMS, INC. <i>Gallatin, TN</i>	 PSI PSYCHIATRIC SOLUTIONS, INC. <i>King of Prussia, PA</i>	 MARION COUNTY MEDICAL CENTER <i>Marion, SC</i>	 Wuesthoff HEALTH SYSTEM <i>Rockledge, FL</i>
Deal Type	Taxable Acquired Tax-exempt	Taxable Acquired Tax-exempt	Taxable Acquired Tax-exempt	Taxable Acquired Tax-exempt	Taxable Acquired Taxable	Taxable Acquired Tax-exempt	Taxable Acquired Tax-exempt
Deal Value	\$140 M	\$417 M	\$830 M	\$145 M	\$3.1 B	Undisclosed	\$152 M
Key Details	RegionalCare outbid HMA; includes 3 hospitals and a pledge to build a new hospital within 3.5 yrs	Includes 6 hospital system with \$2 B in revenue; assumption of \$850 M in debt	Private equity deal includes 6 hospitals, assumption of pensions, debt & \$400 M in hospital upgrades	Publicly traded LifePoint beat out 10 bidders to take over the 3 hospital health system currently in Chapter 11	Purchase price is combination of cash (\$2 B) & debt (\$1.1 B); includes 94 facilities in 32 states	Community Health Systems owns, operates or leases 123 hospitals in 29 states	HMA owns 54 hospitals in 15 states; Acquires two-hospital system on Florida's space coast

Source: Modern Healthcare; Boston Globe; Cerberus website; Becker's Hospital Review; Health Leader's Media; Businessweek

Competition Preempts Reform: Hospitals are Competing to Employ Physicians



- In 2009, MGMA found that the share of hospital-owned practices reached 55% vs. 30% in 2004
- Hospitals have been increasingly employing physicians, in part to position themselves to become a accountable care organizations
- Physicians are increasingly seeking employment in order to “lock-in incomes” in a declining reimbursement environment, shifting this risk from their practices to the hospital

Source: MGMA Physician Compensation and Production Survey Report; Wall Street Journal, “Shingle Fades as More Doctors Go To Work for Hospitals,” November 8, 2010

U.S. Healthcare – 3 Future Trends

- **Integration**
- **Value (Cost & Quality)**
- **Transparency**

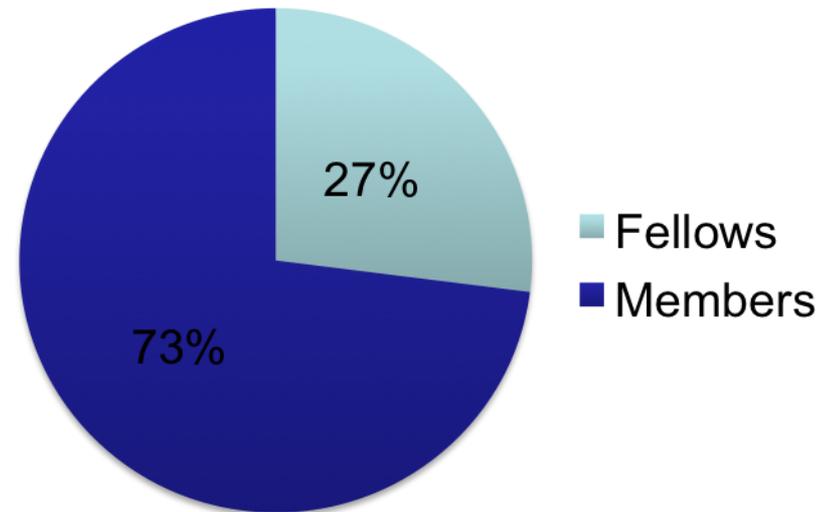


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ACHE 2011 Update

Membership

- 38,682 affiliates, including 3,935 Student Associates*
- 31,797 Members and Fellows*



*As of 1/01/10

Membership

Chapter Activity

- 83 chapters
- In 2009
 - Offered 666 education and networking events (+25%)
 - Total attendance of more than 35,000 (+28%)
 - Provided 118,397 education and networking attendee hours (+8%)



Credentialing

- FACHE Credential
 - In 2009, 1,208 new Fellows and Fellow designates
 - Exam Online
Community extended to Chapters
 - Award winning campaign on the “distinction of board certification”



Knowledge

- New ACHE Educational Programming
 - 7 new face-to-face seminars launched in 2009
 - Three new seminars under development
 - Leading Patient Safety and Error Reduction
 - Critical Issues in Hospital Staffing
 - Managing Risk and Throughput in the Emergency Department
 - Two new On-Line Seminars launched in 2009
 - 18 new webinar topics

Knowledge

- Congress on Healthcare Leadership
 - Over 140 educational sessions and seminars
 - Congress Express option – Full Congress experience, reduced tuition and sessions on just Wed./Thurs.
 - New Hot Topics and *Fellow only* sessions
 - Ten session slots will be reserved for Emerging Topics
 - Save the date: March 21–24, 2011 at the Hilton Chicago and Palmer House Hilton