

## Health Care Trends and Issues for 2010

By Davis Fansler, Director

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As the New Year nears, it's time for the Wipfli Health Care Practice to provide its view of major trends and issues for the coming year. As you may recall, our theme last year was the economic meltdown in the fall of 2008 and the resulting need for clear strategic financial planning, effective leadership, measuring and demonstrating quality and solid hospital-physician alignment strategies. Many believe, as we do, those same issues will need to be addressed in 2010, along with the added elephant in the room—health care reform—although any reform that may get through Congress will likely not take effect until at least 2013. And the way it appears at present, any passage of a reform bill will be a watered-down version and exclude any public option or Medicare buy-in. It will not cover everyone, it will not control costs, and it will likely increase budget deficits and raise taxes. In sum, it will fall far short of the expectations when the reform initiative began over a year ago. In our view, meaningful reform can only occur when: (1) providers are, indeed, paid according to their performance (i.e., appropriate outcome with the most efficient use of resources); and (2) previously “taboo” issues such as means testing for Medicare, pricing health risk into employees’ insurance premiums, and substantive tort reform, to name a few, are put on the table.

We believe the economy will continue to exert significant influence and keep many a hospital executive awake at night. But we also believe there are other dynamics that have slowly been percolating in the background which may emerge with more strength, largely as a result of the recent health reform debate.

### The Economy

The economy will remain a looming issue. Most believe the recovery will be the longer “U” at best. It will take time. Balance sheets and nonoperating income have eroded over the last 15 months, which has adversely affected capital budgets. Moreover, the near collapse of the financial industry has made borrowing very difficult for even those who have the financial strength to do so. Many a solid business has been forced to close because of doors to debt being shut. Finally, state budget deficits have sharply increased, further stressing providers dependent on Medicaid reimbursement. In sum, health care has proven it is no longer recession-proof.

### The Response

We believe there will be a continuing emphasis on the basics, the blocking and tackling, making sure operations are lean and mean. Accordingly, there will be stronger scrutiny on service line performance and profitability. Cost controls and better matching expenses to volumes will be emphasized. Reimbursement and revenue cycle management will be fiercely monitored for improvements. Significant efforts will be also undertaken to improve provider productivity and the efficiencies of operational and clinical processes. Finally, many believe that there will, indeed, be a resurgence of capital spending, particularly on capital equipment for new technologies. We don't share that view. We believe hospitals and health systems will be much more cautious with their capital until

the economic recovery is on firmer ground and the prospective effects of health reform legislation are understood, which at best, will not occur until after the 2010 mid-term elections.

### The Increasing Loss of Financial “Oxygen”

Among the effects of the recent health care reform debate has been the increased visibility of key issues affecting the long-term sustainability of our present health delivery system. With an aging population that is consuming an ever-increasing percentage of health care resources, ballooning budget deficits that are further ratcheting down Medicare and Medicaid reimbursement, physician and nursing shortages that are driving up recruitment costs and limiting access, and payer and tort systems that continue to reward perverse behaviors that push utilization, most agree that there is little financial “oxygen” left to breathe. And while pay-for-performance reimbursement systems are beginning to take hold, the fact remains that value (i.e., keeping a population healthy with the least amount of resources consumed) is still not being adequately acknowledged. The only way to create more “oxygen” is to encourage value and, frankly, punish those that don't deliver it. So the question is, “Will value become adequately rewarded and sought before the ‘oxygen’ runs out?”

Moreover, as patients pay more and more for their care, they will become more informed consumers and more demanding customers. Therefore, health care providers will have to pay more attention to assuring their needs are met. The patient wants a return to their normal health status the first time and every time; the consumer is looking for value in terms of cost versus perceived benefit (outcome); and the customer wants a seamless delivery system that is easily accessed.

### The Response

One interesting response we are seeing, and what we believe will continue to emerge, is the notion of an explicit compact between physicians and their local hospitals/systems, much along the lines of what Virginia Mason Medical Center and its CEO, Gary Kaplan, M.D. did with its physicians earlier this decade. Such a compact forces a new culture to emerge, one that requires physicians and their hospital to work together to achieve new goals that focus on the patient and embrace change—from autonomy to interdependence among providers in deployment of evidenced-based protocols.

The fact is that to be successful and sustainable, providers must create indispensability in the minds of the patient, consumer, and customer. This, we believe, is leading to the emergence and evolution of an additional compact, one that's increasingly implicit between the patient/consumer/customer and their health care providers. The compact requires providers to implement the necessary operational and clinical practices to deliver the promise of improved health status, value, and seamless access each and every time. As a result, we believe the accelerated pace of hospital and

hospital/health system affiliations, along with hospital-physician alignment, will continue to flourish because, in our view, it is the only way to effectively deliver that promise—each and every time.

We hope you have found this discourse helpful as you face the many challenges and opportunities that will undoubtedly arise on 2010. On behalf of all of us at Wipfli LLP, we wish you a happy, healthy, and prosperous New Year. We look forward to assisting you to assure that is, indeed, the case!

#### About the Author

Davis Fansler has over 25 years of health care industry experience. His involvement in health care management helps him understand its financing, operations, and investment sides. Davis brings an unusual blend of experiences, including commercial banking, medical group administration, HMO development, and venture capital, which are distinctively helpful to his clients. His critical listening skills enable him to get to his clients' core issues quickly; his strategic and tactical planning abilities help him to provide proactive and practical solutions to those issues. To learn more, please contact Davis at [dfansler@wipfli.com](mailto:dfansler@wipfli.com).

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