

The Business of Healthcare

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CONFLICT OF INTEREST SLIDE

The speaker does not have any conflicts of interest.



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Agenda for Tonight's Presentation

- Review performance in global healthcare
- Identify issues of concern globally and in the U.S. in an evolving healthcare environment for CFOs. (Rhymes with everywhere...)
- Conclusions and Questions

Session Objectives

- Define the impact of payment reform on hospitals and health systems
- Evaluate different payment methodologies for healthcare reimbursement
- Identify challenges with alternative payment models
- Define the multiple factors driving cost increases in healthcare

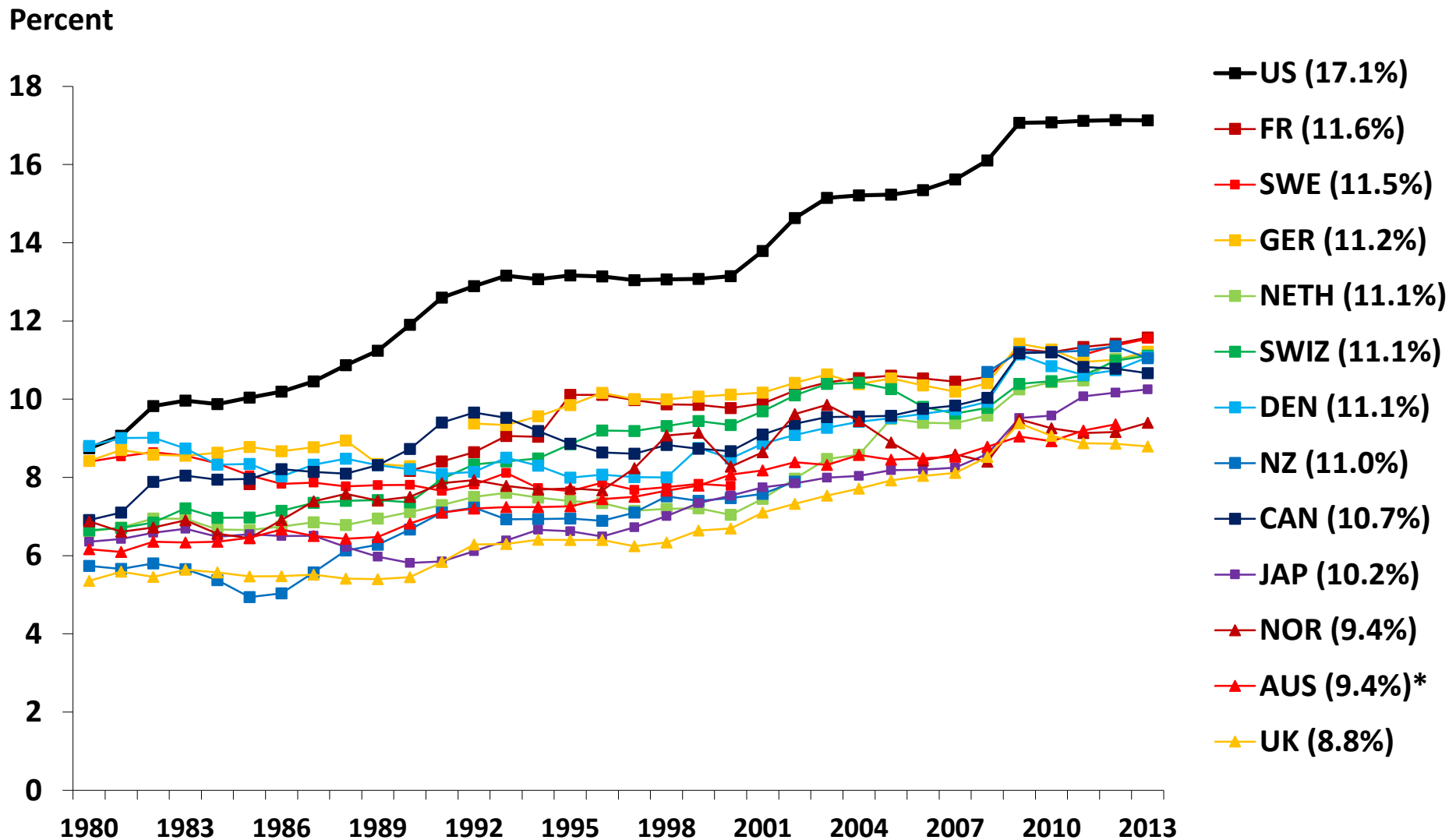
WE'RE NUMBER 1!



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Health Care Spending as a Percentage of GDP, 1980–2013

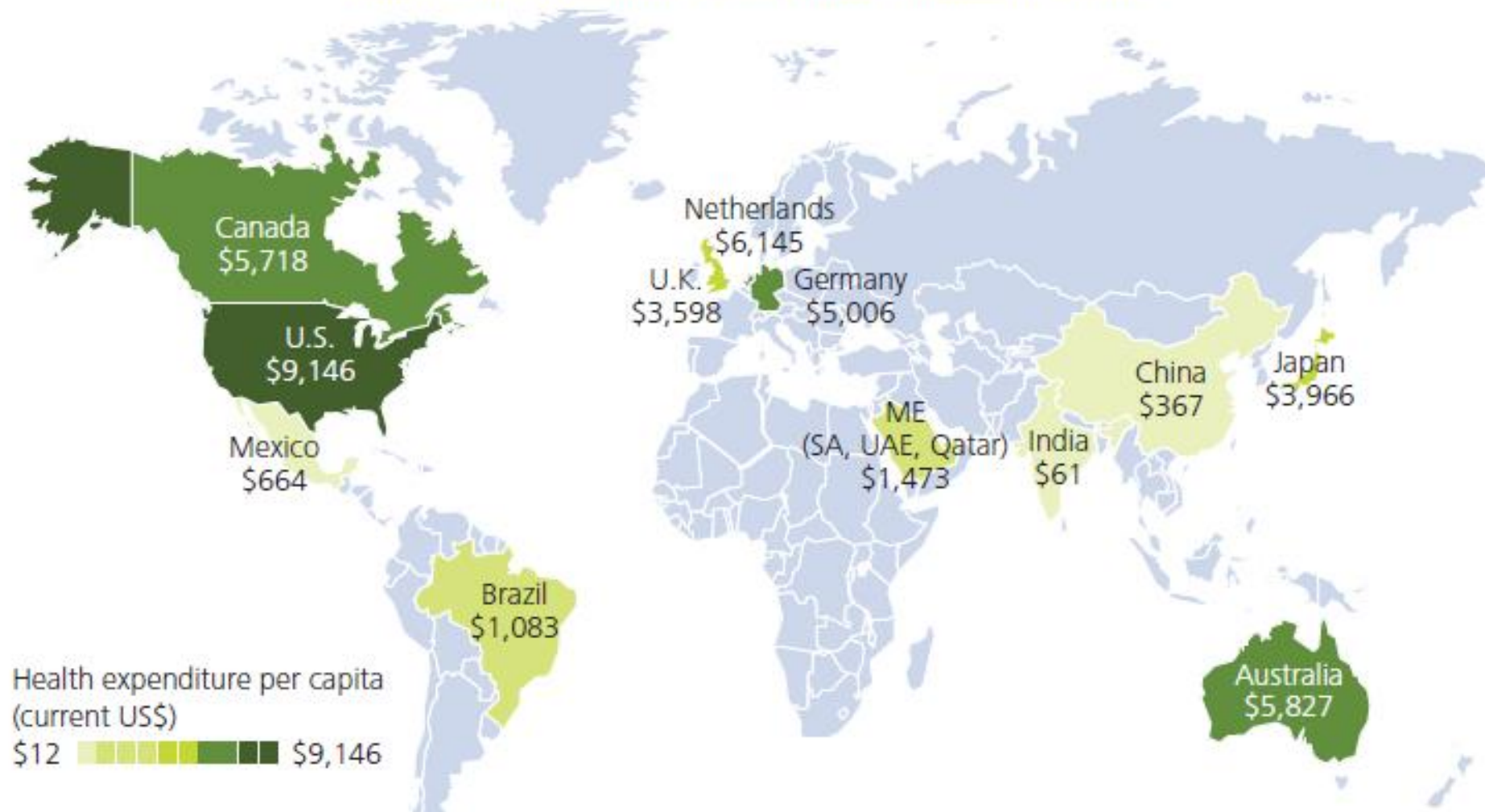


* 2012.

Notes: GDP refers to gross domestic product. Dutch and Swiss data are for current spending only, and exclude spending on capital formation of health care providers.

Source: OECD Health Data 2015.

Health care expenditure varies greatly around the world



Health expenditure per capita
(current US\$)
\$12 \$9,146

Polling Question # 1

Which country has the highest per capita healthcare spending?

- A.) Australia
- B.) UK
- C.) US
- D.) Canada

Upon Closer Examination...



Being Number One in Spending Does Not Translate to Better Outcomes!

COUNTRY RANKINGS

Top 2*
Middle
Bottom 2*



	AUS	CAN	FRA	GER	NETH	NZ	NOR	SWE	SWIZ	UK	US
OVERALL RANKING (2013)	4	10	9	5	5	7	7	3	2	1	11
Quality Care	2	9	8	7	5	4	11	10	3	1	5
Effective Care	4	7	9	6	5	2	11	10	8	1	3
Safe Care	3	10	2	6	7	9	11	5	4	1	7
Coordinated Care	4	8	9	10	5	2	7	11	3	1	6
Patient-Centered Care	5	8	10	7	3	6	11	9	2	1	4
Access	8	9	11	2	4	7	6	4	2	1	9
Cost-Related Problem	9	5	10	4	8	6	3	1	7	1	11
Timeliness of Care	6	11	10	4	2	7	8	9	1	3	5
Efficiency	4	10	8	9	7	3	4	2	6	1	11
Equity	5	9	7	4	8	10	6	1	2	2	11
Healthy Lives	4	8	1	7	5	9	6	2	3	10	11
Health Expenditures/Capita, 2011**	\$3,800	\$4,522	\$4,118	\$4,495	\$5,099	\$3,182	\$5,669	\$3,925	\$5,643	\$3,405	\$8,508

Notes: * Includes ties. ** Expenditures shown in \$US PPP (purchasing power parity); Australian \$ data are from 2010.

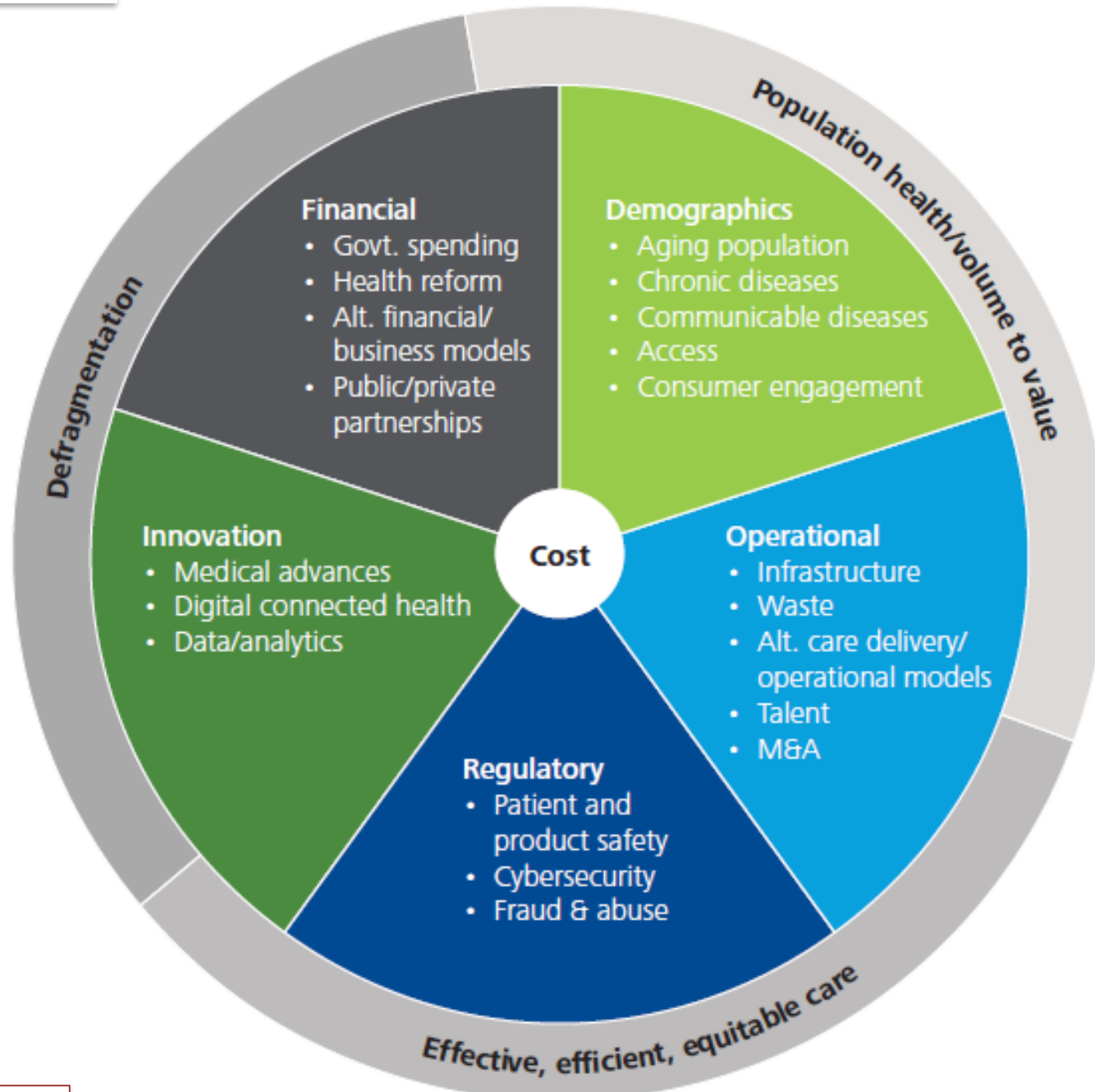
Source: Calculated by The Commonwealth Fund based on 2011 International Health Policy Survey of Sicker Adults; 2012 International Health Policy Survey of Primary Care Physicians; 2013 International Health Policy Survey; Commonwealth Fund *National Scorecard 2011*; World Health Organization; and Organization for Economic Cooperation and Development, *OECD Health Data, 2013* (Paris: OECD, Nov 2013).

High Cost Does NOT Equal High Quality



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Polling Question # 2

The US is leading the world in:

- A.) Lowest Cost at Highest Quality
- B.) Healthcare spending as % of GDP
- C.) Overall measures of quality based on WHO data.
- D.) Efficiency of Care according to WHO.

The world faces many healthcare challenges

In the emerging markets, lack of healthcare access continues to be a growing problem.

Challenges in developing markets



Lack of healthcare access



Increasing incidence of chronic diseases



Lack of infrastructure

In the developed world, rising healthcare costs is an ongoing challenge.

Challenges in developed markets



Rising healthcare costs



Ageing populations



Increasing incidence of chronic diseases

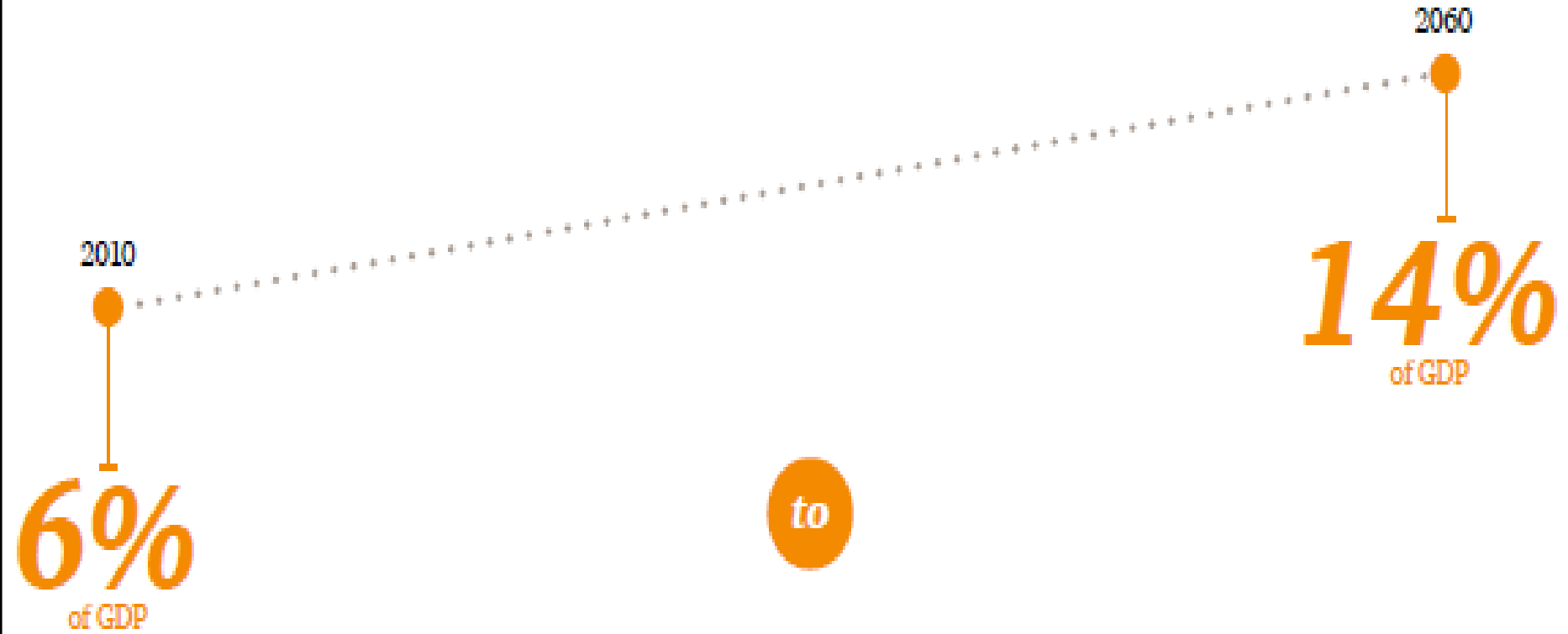
Polling Question # 3

According to PWC, one of the common problems associated with healthcare in both emerging markets and the developed world is:

- A.) Lack of healthcare access
- B.) Increasing incidence of chronic disease
- C.) Lack of infrastructure
- D.) Ageing populations

Rising Healthcare costs continue to be a global concern

Projected public health and long-term care cost expenditures for OECD and BRICS countries



Source: Organisation for Economic Cooperation and Development. BRICS include Brazil, Russia, India, Indonesia, China and South Africa. Projections are based in a cost pressure scenario, which assumes no stepped-up policy action spending.

What keeps the U.S. CFO Up at Night?

- Value: Defining and Delivering
- Capital Access and Allocation
- Community Trust
- Growing Influence of Informatics
- Health Reform and Changing Payment Models
- Collaboration & Consolidation
- Cost Reduction & Cash Improvement

Good Morning CFO, How Are You?



Value: Defining and Delivering

$$\text{VALUE} = \frac{\text{Quality}^{\{1\}}}{\text{Payment}^{\{2\}}}$$

{1} Composite of patient outcomes, safety, and experiences

{2} Cost to all purchasers of purchasing care

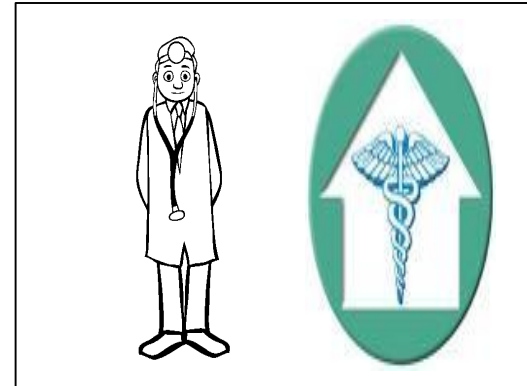
Capital Access and Allocation

New Emphasis on Outcomes and Cost Efficiency Will Drive Hospital Investments

Electronic Medical Records



Physician and Post-Acute Care Integration



Patient Engagement Technologies



Analytics

Status	Indicator	Current Value	Target	SPC Alert	Updated
Finance					
▼ ▼	HF Cost	\$9,368	\$8,000		Q2 08
▲	HF Charges	\$24,793	n/a		Q2 08
Patient Satisfaction					
▼ ▼	HF Likelihood to Recommend	3.0	4.5		Q2 08
▼ ▲	HF Overall Satisfaction	3.0	4.5		Q2 08
Quality					
▼ ▼	HF 1 - Discharge Instructions	82.6%	90.0%		Q2 08
▼ ▲	HF - All or None Bundle	66.7%	80.0%		Q2 08

Community Trust: Compliance will always be top of mind. Inspector General, IRS and others....



Growing Influence of Informatics: The “keyboard” is mightier than the sword....



Health Reform and Changing Payment Models

	LOW PROVIDER INCENTIVE TO LOWER THE NUMBER OF EPISODES OF CARE		HIGH PROVIDER INCENTIVE TO LOWER THE NUMBER OF EPISODES OF CARE			
	Fee for Service	Per Diem	Episode of Care (Individual Provider)	Episode of Care (Multiple Providers)	Capitation: Condition-Specific	Capitation: Full
Providers	<i>Lowest financial risk</i>		<i>Highest financial risk</i>			
Payers	<i>Highest financial risk</i>		<i>Lowest financial risk</i>			
Consumers	<i>Risk of overtreatment</i>		<i>Risk of undertreatment</i>			
Employers	<i>Risk of high costs from inefficiency</i>		<i>Risk of high costs from undertreatment</i>			

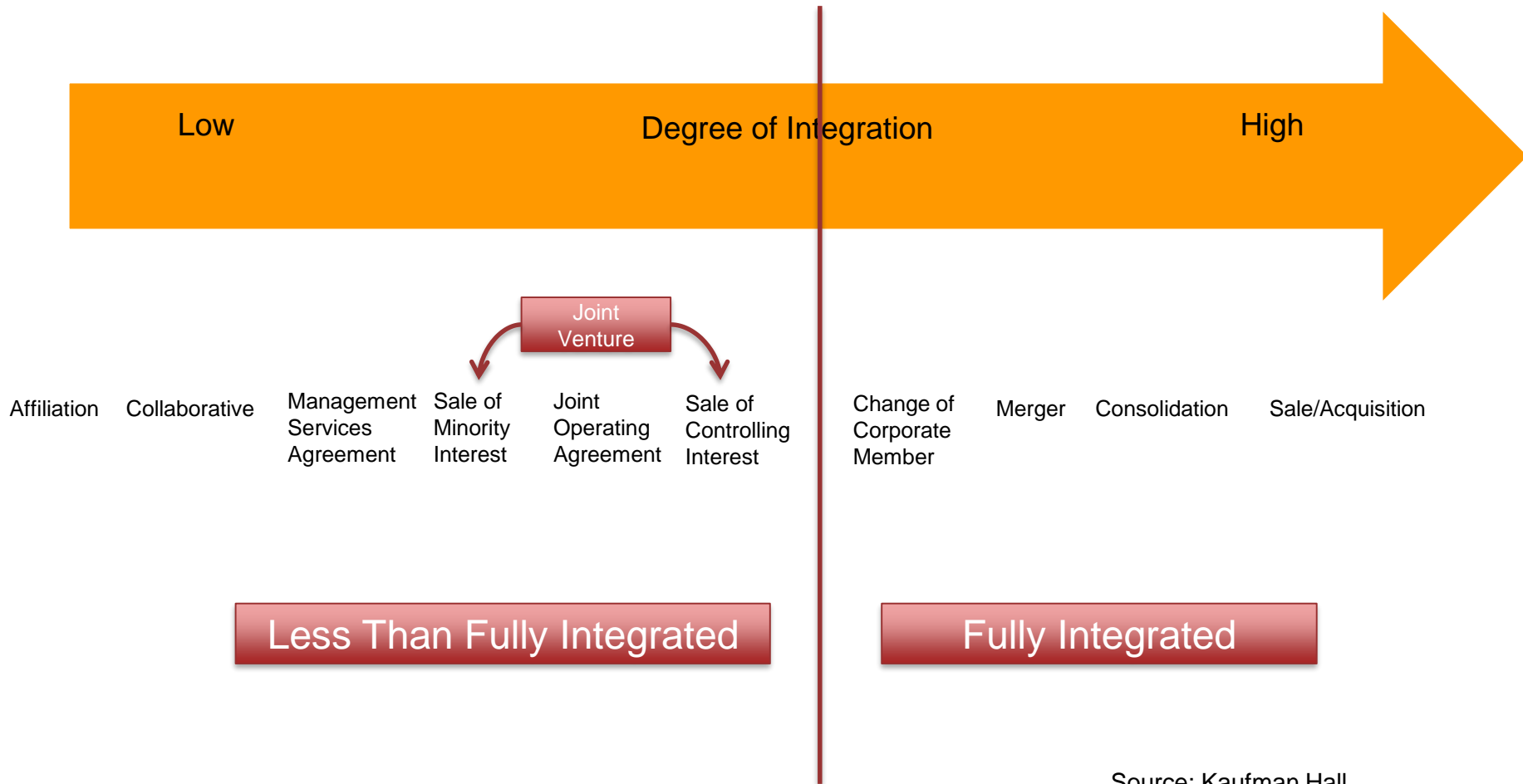
Source: HFMA, *Healthcare Payment Reform: From Principles to Action* (2008), www.hfma.org/paymentreform

Polling Question # 4

Which of the following are items of concern for the CFO in regard to changing payment models?:

- A.) Uncertainty of revenue predictability
- B.) Uncertainty of expense predictability
- C.) Accounting for quality and outcome metrics
- D.) Unpredictable cash flow from new models
- E.) All of the above

Collaboration & Consolidation



Source: Kaufman Hall

Cost Reduction & Cash Improvement

Deloitte.

Radical Cost Reduction

The four levers to prepare hospitals and health systems for achieving effective results in a health-reformed environment.

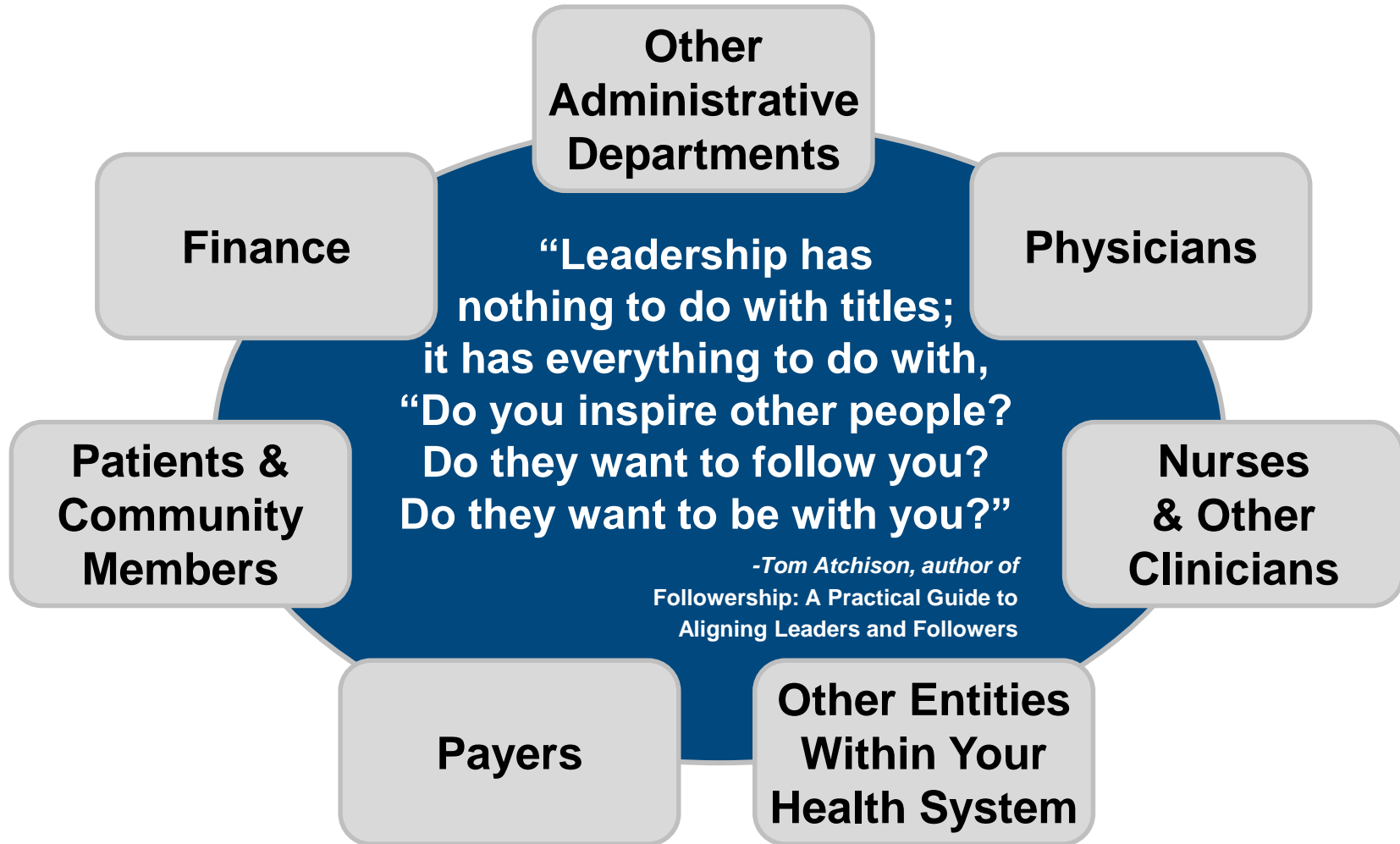


Polling Question # 5

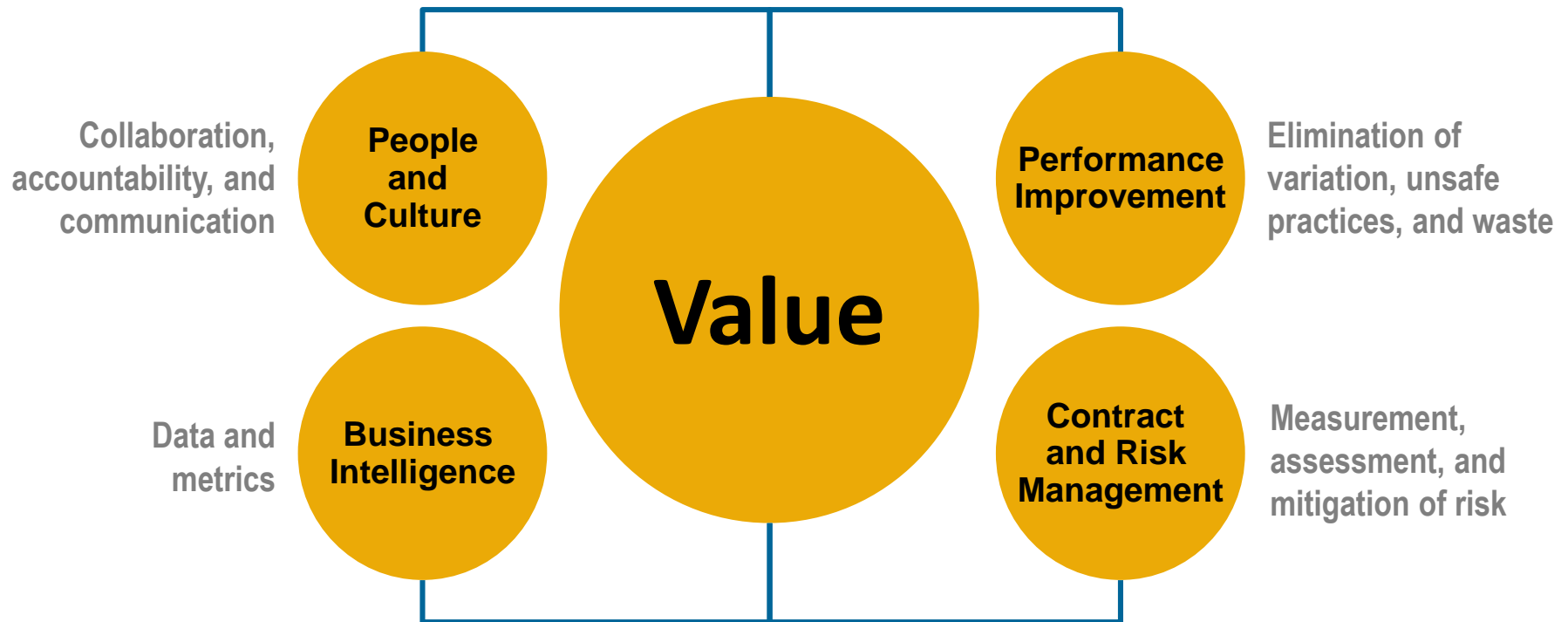
Which of the following are items of concern for the CFO?:

- A.) Capital Access and Allocation
- B.) Growing influence of informatics
- C.) Health reform and changing payment models
- D.) Community trust and compliance
- E.) All of the above

Form a Powerful Coalition



Build Four Key Organizational Capabilities



Clearly Define Your Vision

“Hope is not an effective strategy for change.”

-Tom Atchison

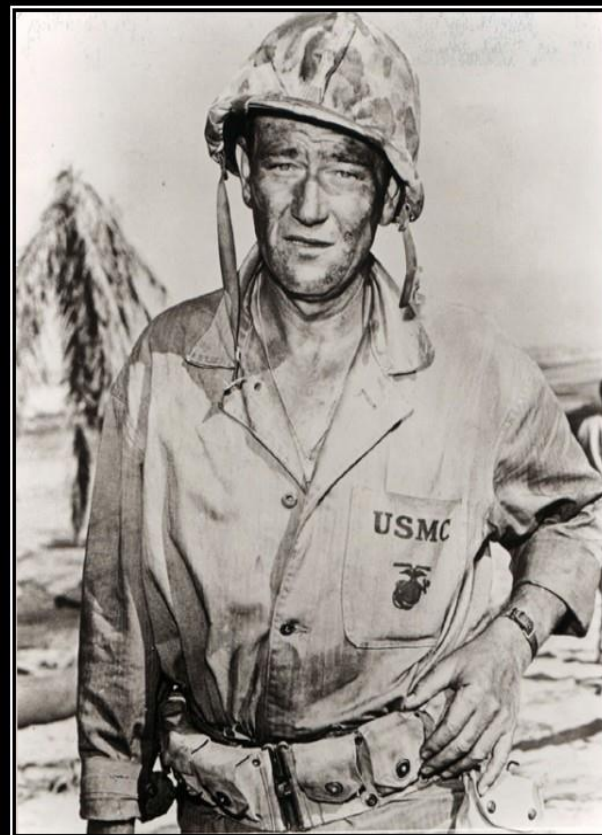
Differentiate on Value



- Be clear about your value equation
- Focus your efforts on achieving it
- Improve value delivered to care purchasers—and communicate value improvements

Communicate the Vision

“Life’s tough.
It’s even tougher if
you’re stupid...”



LISTEN UP

"Life's tough.

It's even tougher if your stupid."

John Wayne (Sgt. Stryker) - "Sands of Iwo Jima"

Politifake.org



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Remove Obstacles

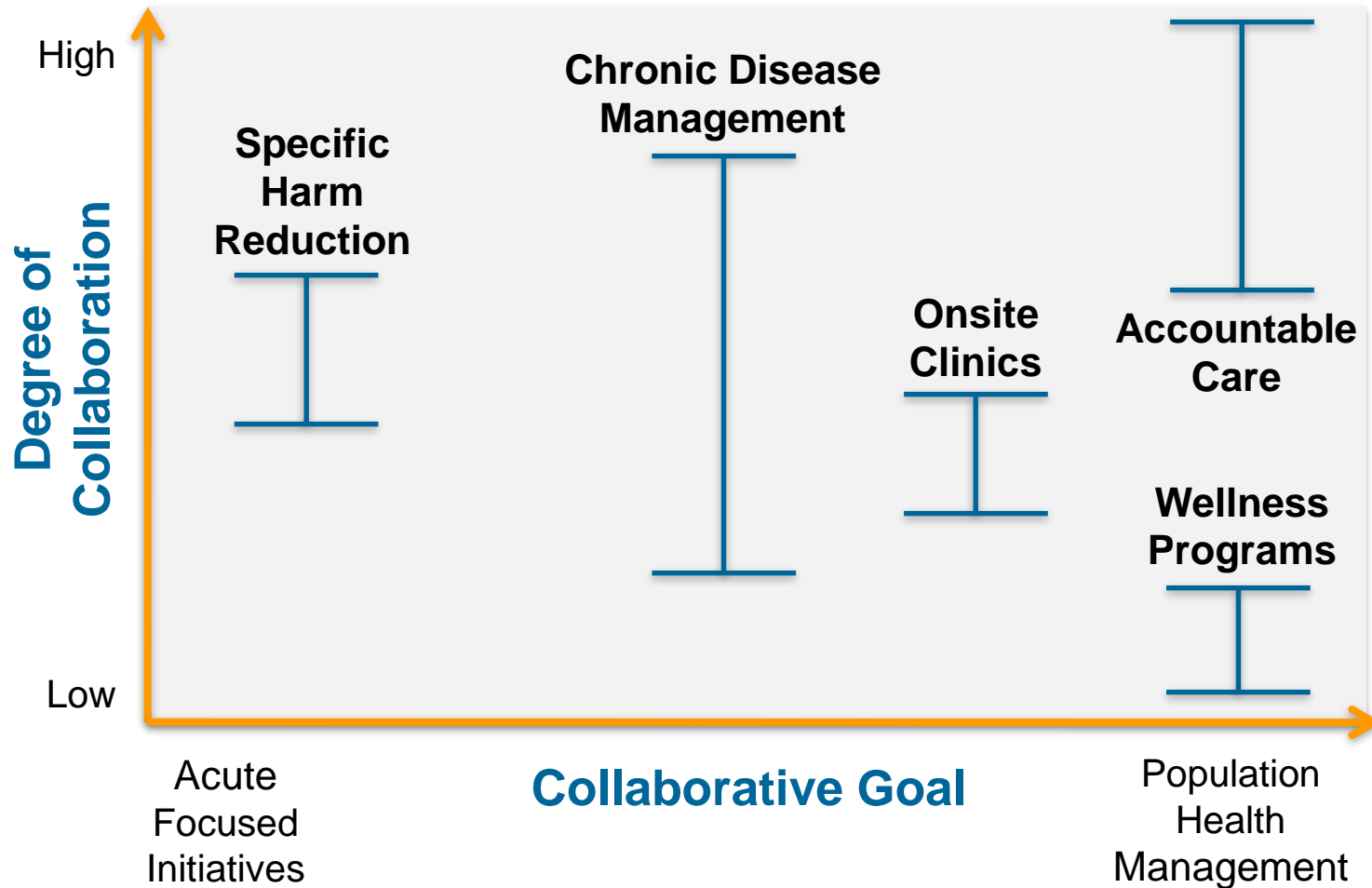


Align Value Metrics



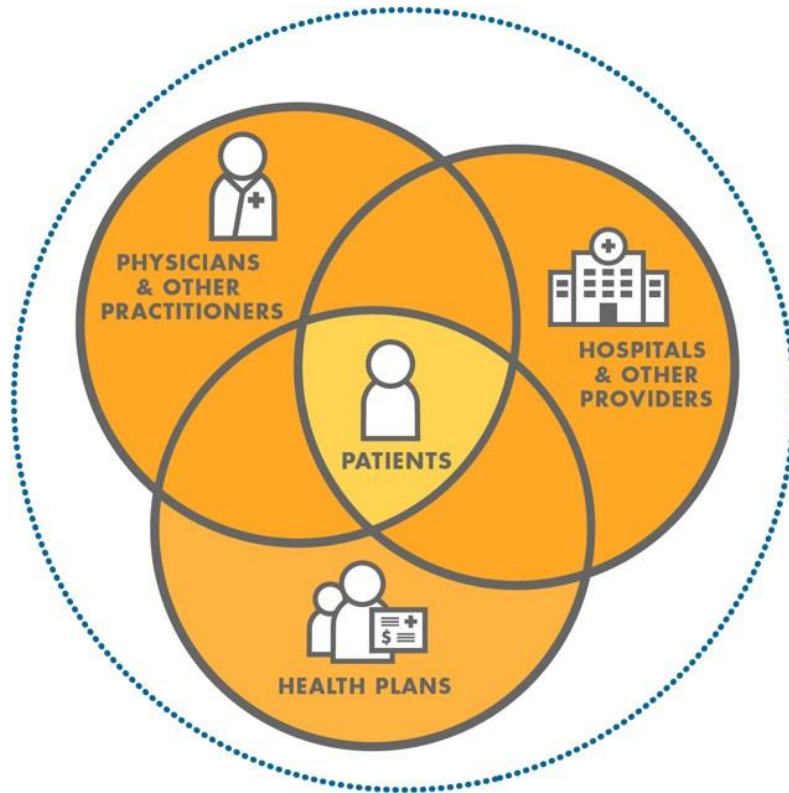
- Replace process measures with outcome measures
- Align measures with Triple Aim
- Focus on a limited set of metrics
- Use incentives to drive outcomes
- Make performance reporting actionable

Explore Strategic Partnerships



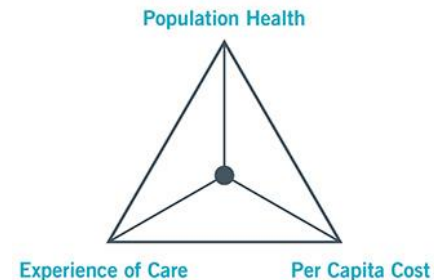
Realignment Is Erasing Traditional Healthcare Boundaries

Driven by demands for care transformation, the healthcare industry is realigning at an unprecedented pace.



SHARED GOAL

The IHI Triple Aim



The Triple Aim framework was developed by the Institute for Healthcare Improvement in Cambridge, Mass. (www.ihl.org).

The Age of Experimentation Has Begun

- Results will dictate which financing method will be most prevalent in 3 to 5 years
- Will you accept the challenge to change?



What's Next?

- Don't keep your head in the sand.
- Try something different! Do Something!



Questions?

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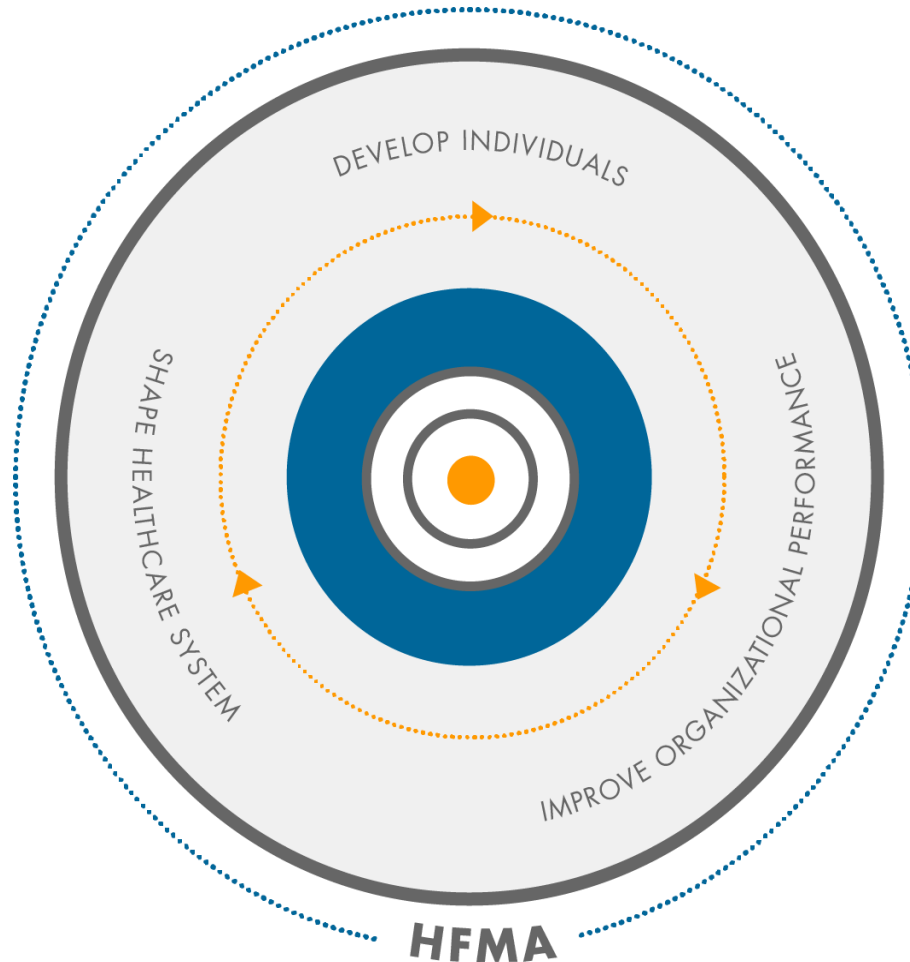
APPENDIX

On the following pages are additional sources of information and statistics related to international factors and comparisons.

HFMA Changes Health Care

OUR MISSION

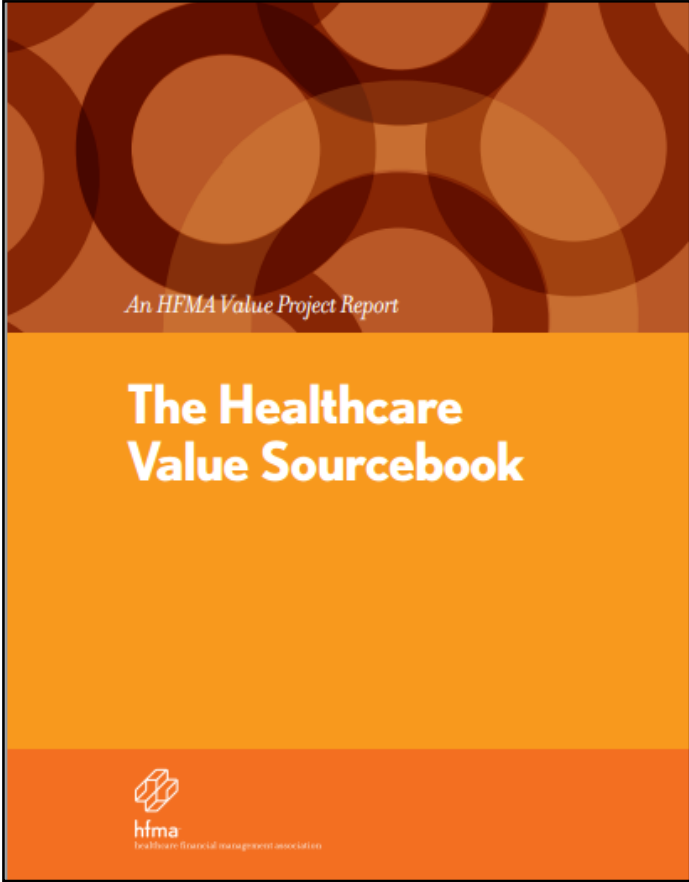
Leading the financial management of health care



OUR VISION

HFMA will bring value to the industry as the leading organization for healthcare finance

HFMA Guides the Value Transition



hfma.org/valueproject

Health Care Spending, 2013

	Total health care spending per capita ^e	Real average annual growth rate per capita		Current health care spending per capita, by source of financing ^{e,f}		
		2003–2009	2009–2013	Public	Private Out-of-pocket	Other
Australia	\$4,115 ^a	2.70%	2.42% ^c	\$2,614 ^a	\$771 ^a	\$480 ^a
Canada	\$4,569	3.15%	0.22%	\$3,074	\$623	\$654
Denmark	\$4,847	3.32%	-0.17%	\$3,841	\$625	\$88
France	\$4,361	1.72%	1.35%	\$3,247	\$277	\$600
Germany	\$4,920	2.01%	1.95%	\$3,677	\$649	\$492
Japan	\$3,713	3.08%	3.83%	\$2,965 ^a	\$503 ^a	\$124 ^a
Netherlands	\$5,131 ^d	4.75% ^d	1.73% ^d	\$4,495	\$270	\$366
New Zealand	\$3,855	6.11% ^b	0.82%	\$2,656	\$420	\$251
Norway	\$6,170	1.59%	1.40%	\$4,981	\$855	\$26
Sweden	\$5,153	1.82% ^d	6.95% ^d	\$4,126	\$726	\$53
Switzerland	\$6,325 ^d	1.42% ^d	2.54% ^d	\$4,178	\$1,630	\$454
United Kingdom	\$3,364	4.00%	-0.88%	\$2,802	\$321	\$240
United States^e	\$9,086	2.47%	1.50%	\$4,197	\$1,074	\$3,442
OECD median	\$3,661	3.10%	1.24%	\$2,598	\$625	\$181

^a 2012. ^b 2002–2009. ^c 2009–2012.

^d Current spending only; excludes spending on capital formation of health care providers.

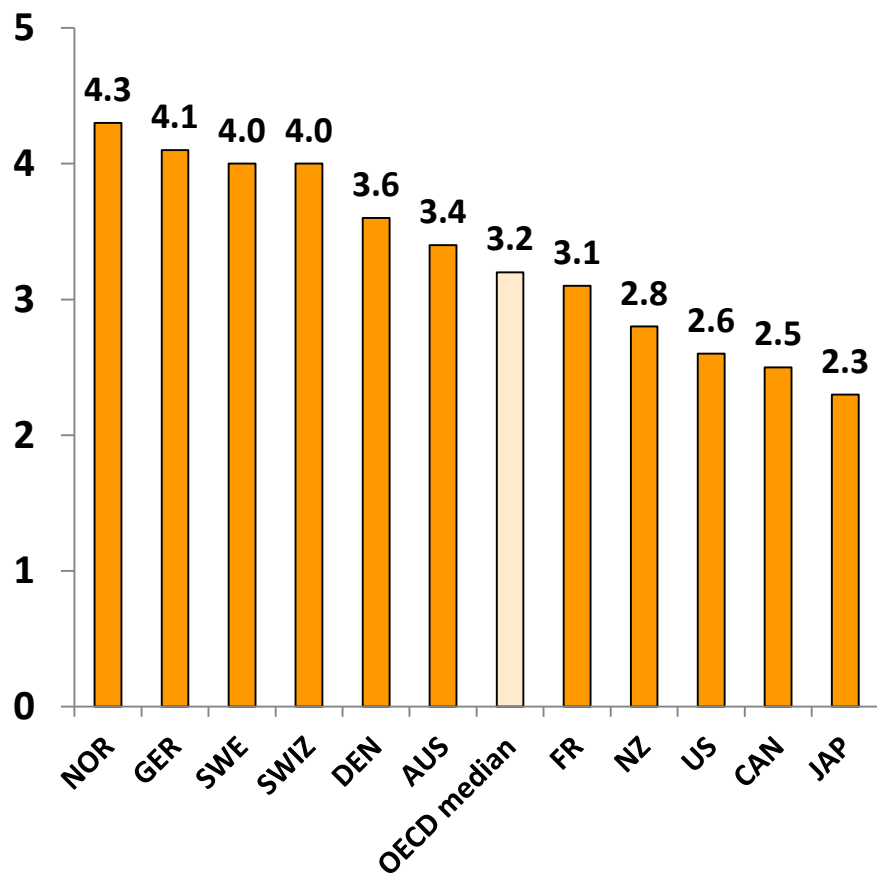
^e Adjusted for differences in the cost of living.

^f Numbers may not sum to total health care spending per capita due to excluding capital formation of health care providers, and some uncategorized spending.

Source: OECD Health Data 2015.

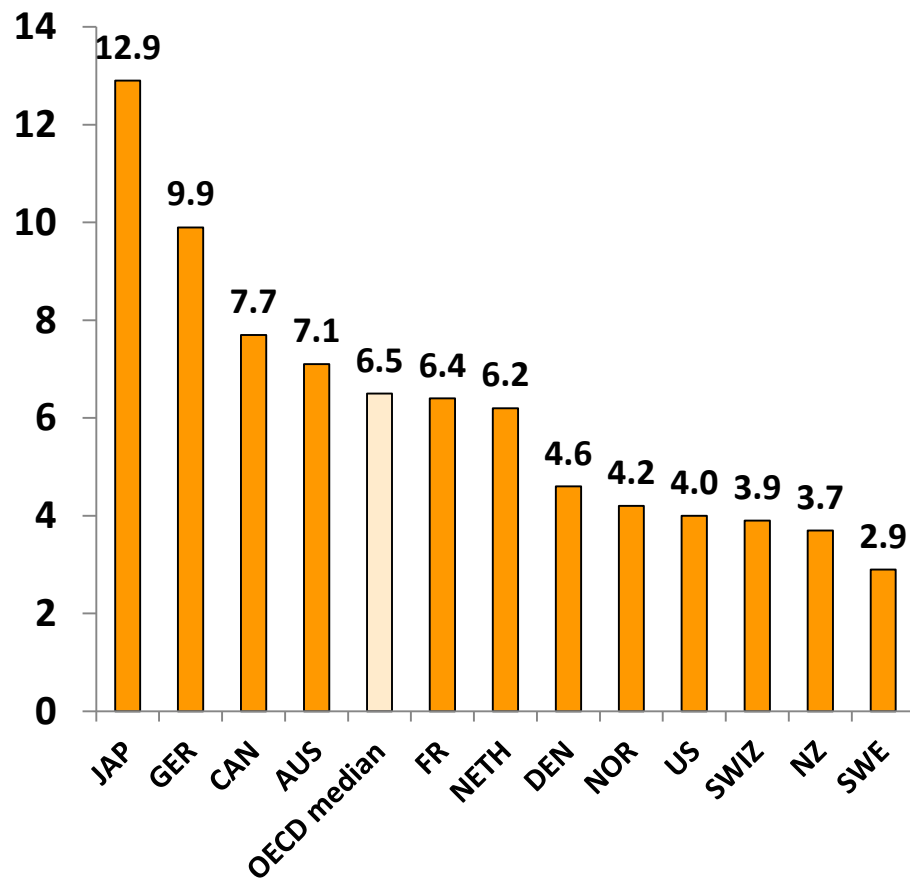
Physician Supply and Use, 2013 or Nearest Year

Practicing physicians
per 1,000 population



Note: Data from 2012 in Canada, Denmark, Japan, and Sweden.

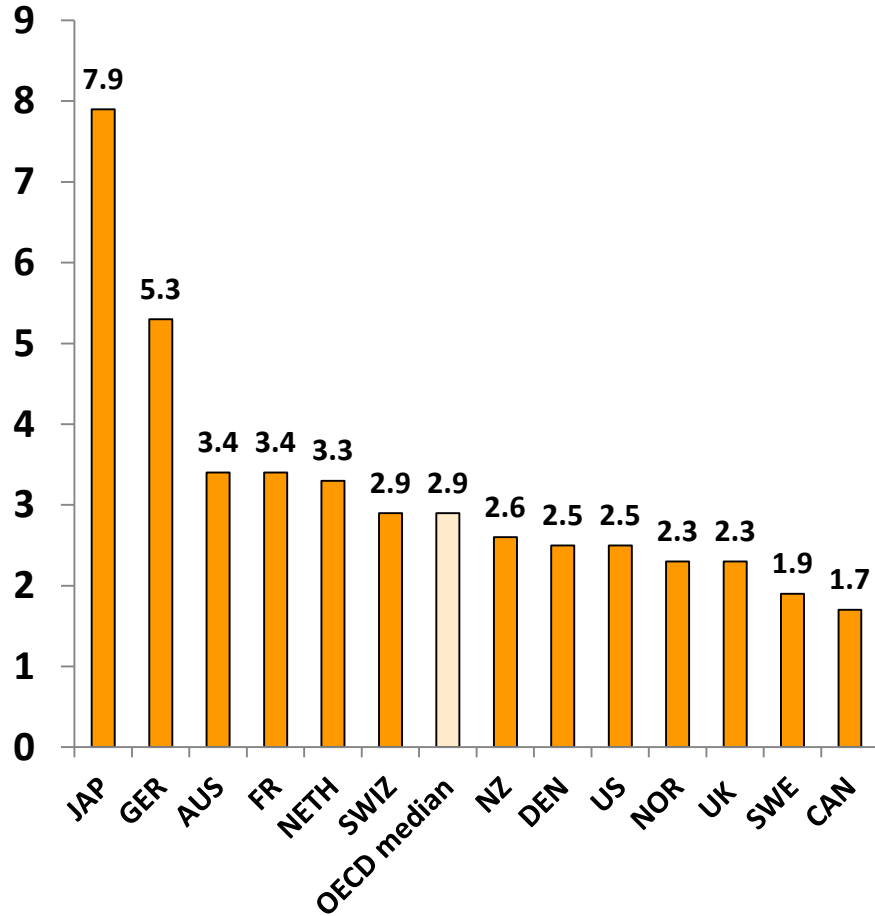
Annual physician visits
per capita



Note: Data from 2012 in Canada, Japan, Sweden, and Switzerland; and 2010 in the U.S.

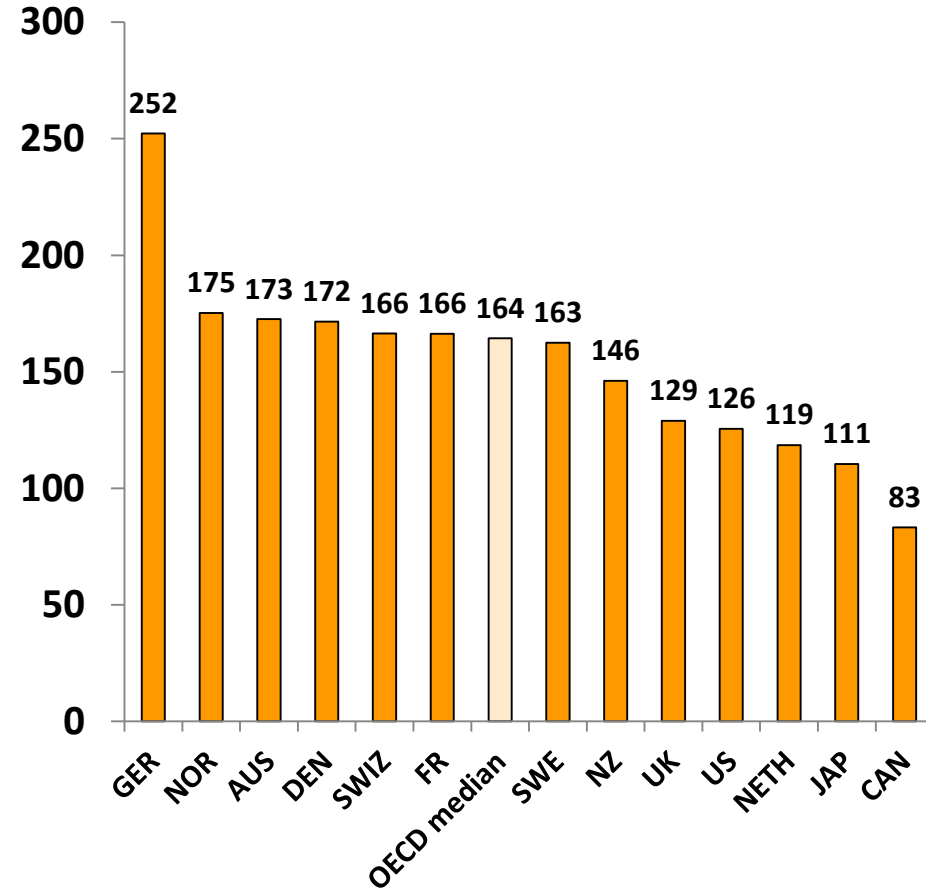
Hospital Supply and Use, 2013 or Nearest Year

Acute care hospital beds per 1,000 population



Note: Data from 2012 in Australia, Canada, the Netherlands, and the U.S.

Hospital discharges per 1,000 population



Note: Data from 2012 in Australia, Canada, the Netherlands, and Switzerland; 2011 in Japan; and 2010 in Denmark, Norway, Sweden, and the U.S.

Diagnostic Imaging Supply and Use, 2013

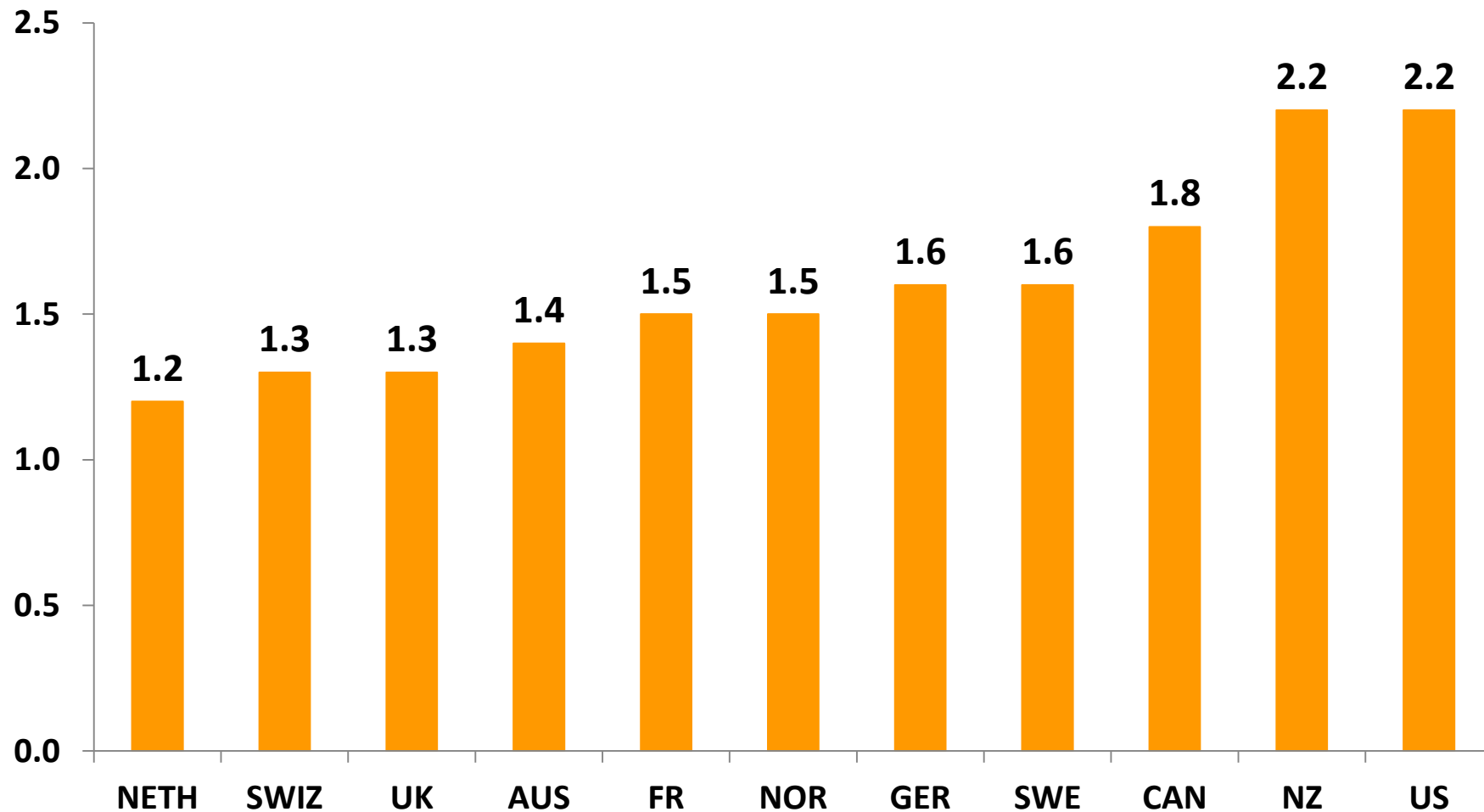
	Magnetic resonance imaging		Computed tomography		Positron emission tomography	
	MRI machines per million pop.	MRI exams per 1,000 pop.	CT scanners per million pop.	CT exams per 1,000 pop.	PET scanners per million pop.	PET exams per 1,000 pop.
Australia	13.4	27.6	53.7	110	2.0	2.0
Canada	8.8	52.8	14.7	132	1.2 ^a	2.0
Denmark	—	60.3	37.8	142	6.1	6.3
France	9.4	90.9	14.5	193	1.4	—
Japan	46.9 ^b	—	101.3 ^b	—	3.7 ^b	—
Netherlands	11.5	50.0 ^b	11.5	71 ^b	3.2	2.5 ^a
New Zealand	11.2	—	16.6	—	1.1	—
Switzerland	—	—	36.6	—	3.5	—
United Kingdom	6.1	—	7.9	—	—	—
United States	35.5	106.9	43.5	240	5.0 ^a	5.0
OECD median	11.4	50.6	17.6	136	1.5	—

^a 2012. ^b 2011. ^c 2010.

Source: OECD Health Data 2015.

Average Number of Prescription Drugs Taken Regularly, Age 18 or Older, 2013

Number



Prices for Hospital and Physician Services, Pharmaceuticals, and Diagnostic Imaging

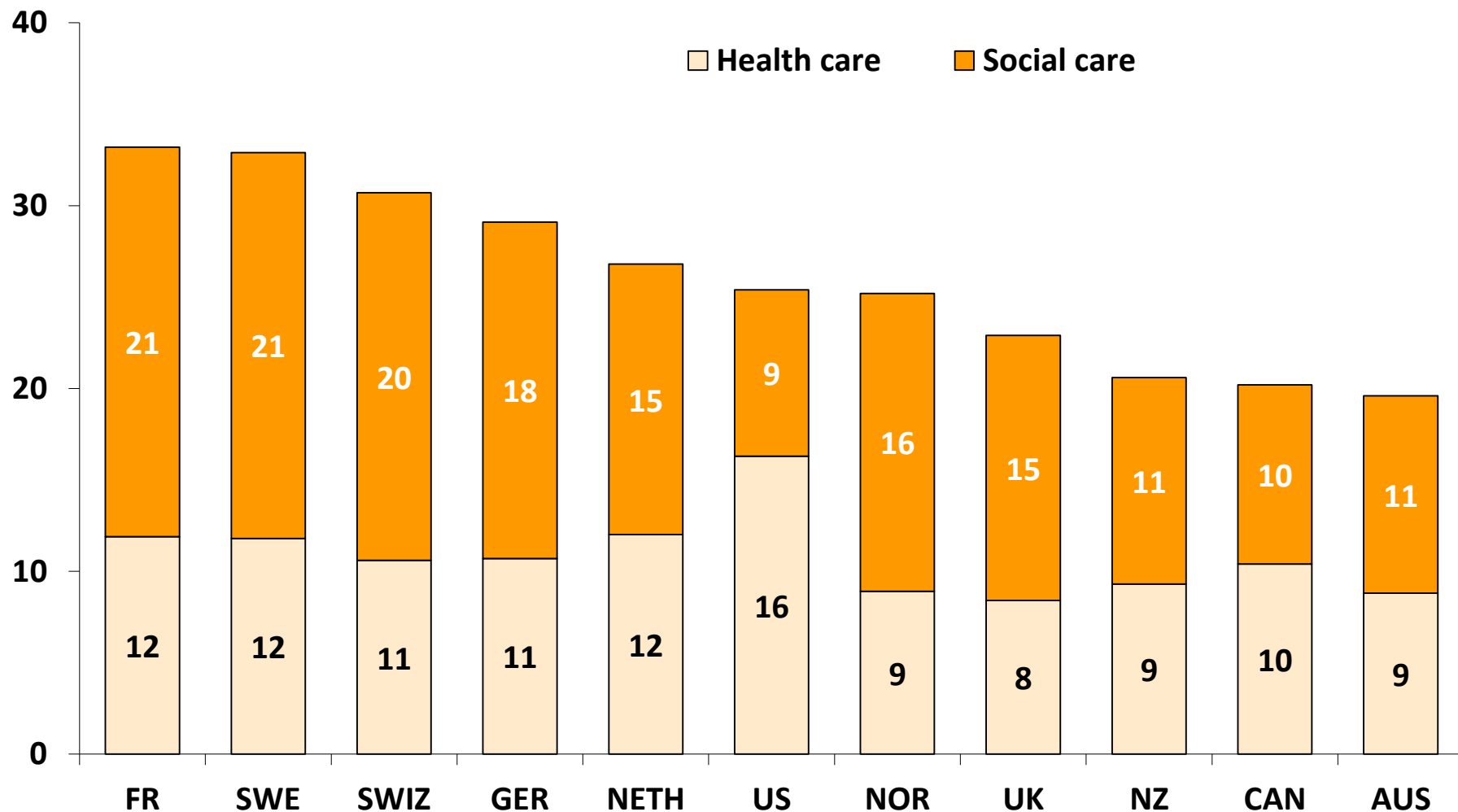
	Total hospital and physician costs, 2013 ^a		Diagnostic imaging prices, 2013 ^a		Price comparison for in-patient pharmaceuticals, 2010 (U.S. set to 100) ^b
	Bypass surgery	Appendectomy	MRI	CT scan (abdomen)	
Australia	\$42,130	\$5,177	\$350	\$500	49
Canada	—	—	—	\$97	50
France	—	—	—	—	61
Germany	—	—	—	—	95
Netherlands	\$15,742	\$4,995	\$461	\$279	—
New Zealand	\$40,368	\$6,645	\$1,005	\$731	—
Switzerland	\$36,509	\$9,845	\$138	\$432	88
United Kingdom	—	—	—	—	46
United States	\$75,345	\$13,910	\$1,145	\$896	100

^a Source: International Federation of Health Plans, 2013 Comparative Price Report.

^b Numbers show price indices for a basket of in-patient pharmaceuticals in each country; lower numbers indicate lower prices. Source: P. Kanavos, A. Ferrario, S. Vantoros et al., "Higher U.S. Branded Drug Prices and Spending Compared to Other Countries May Stem Partly from Quick Uptake of New Drugs," *Health Affairs*, April 2013 32(4):753–61.

Health and Social Care Spending as a Percentage of GDP

Percent



Notes: GDP refers to gross domestic product.

Source: E. H. Bradley and L. A. Taylor, *The American Health Care Paradox: Why Spending More Is Getting Us Less*, Public Affairs, 2013.

Select Population Health Outcomes and Risk Factors

	Life exp. at birth, 2013 ^a	Infant mortality, per 1,000 live births, 2013 ^a	Percent of pop. age 65+ with two or more chronic conditions, 2014 ^b	Obesity rate (BMI>30), 2013 ^{a,c}	Percent of pop. (age 15+) who are daily smokers, 2013 ^a	Percent of pop. age 65+
Australia	82.2	3.6	54	28.3 ^e	12.8	14.4
Canada	81.5 ^e	4.8 ^e	56	25.8	14.9	15.2
Denmark	80.4	3.5	—	14.2	17.0	17.8
France	82.3	3.6	43	14.5 ^d	24.1 ^d	17.7
Germany	80.9	3.3	49	23.6	20.9	21.1
Japan	83.4	2.1	—	3.7	19.3	25.1
Netherlands	81.4	3.8	46	11.8	18.5	16.8
New Zealand	81.4	5.2 ^e	37	30.6	15.5	14.2
Norway	81.8	2.4	43	10.0 ^d	15.0	15.6
Sweden	82.0	2.7	42	11.7	10.7	19.0
Switzerland	82.9	3.9	44	10.3 ^d	20.4 ^d	17.3
United Kingdom	81.1	3.8	33	24.9	20.0 ^d	17.1
United States	78.8	6.1 ^e	68	35.3 ^d	13.7	14.1
OECD median	81.2	3.5	—	28.3	18.9	17.0

^a Source: OECD Health Data 2015.

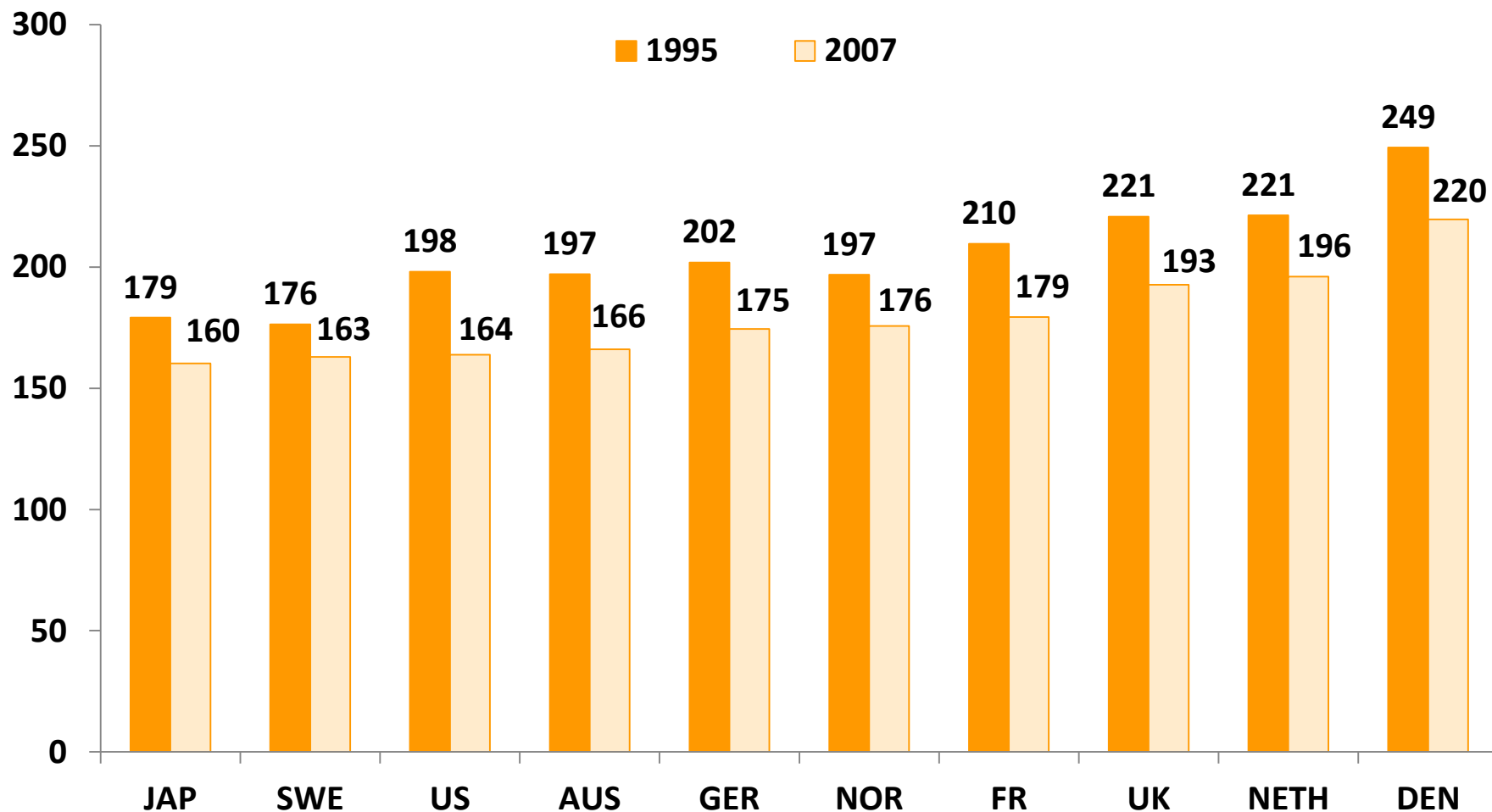
^b Includes: hypertension or high blood pressure, heart disease, diabetes, lung problems, mental health problems, cancer, and joint pain/arthritis. Source: Commonwealth Fund International Health Policy Survey of Older Adults, 2014.

^c DEN, FR, NETH, NOR, SWE, and SWIZ based on self-reported data; all other countries based on measured data.

^d 2012. ^e 2011.

Mortality as a Result of Cancer, 1995 to 2007

Deaths per 100,000 population (adjusted)*

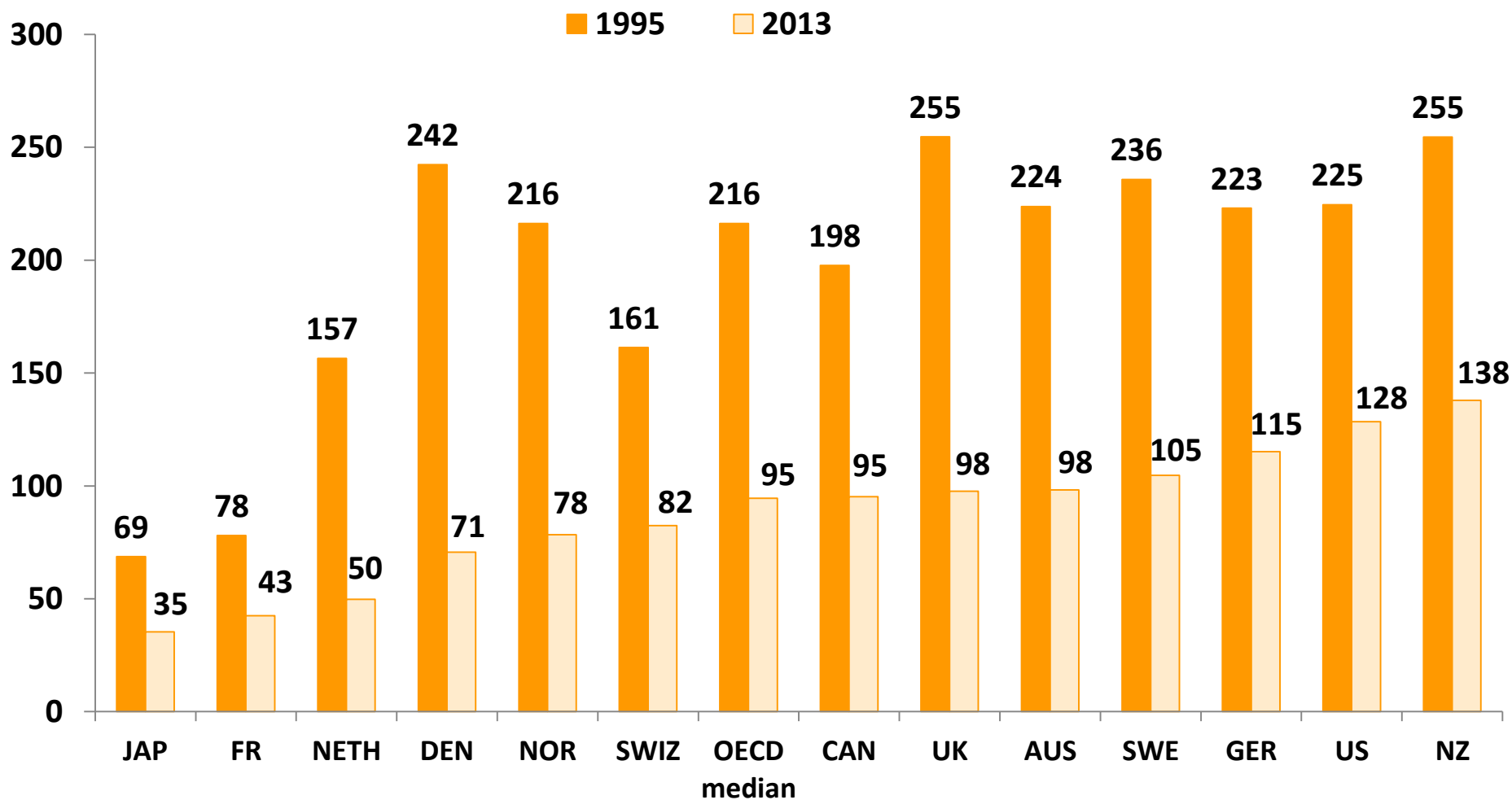


* Mortality rates are adjusted for likelihood of death from other causes.

Source: W. Stevens et al., "Cancer Mortality Reductions Were Greatest Among Countries Where Cancer Care Spending Rose the Most, 1995–2007," *Health Affairs*, April 2015 34(4):562–70.

Mortality as a Result of Ischemic Heart Disease, 1995 to 2013

Deaths per 100,000 population

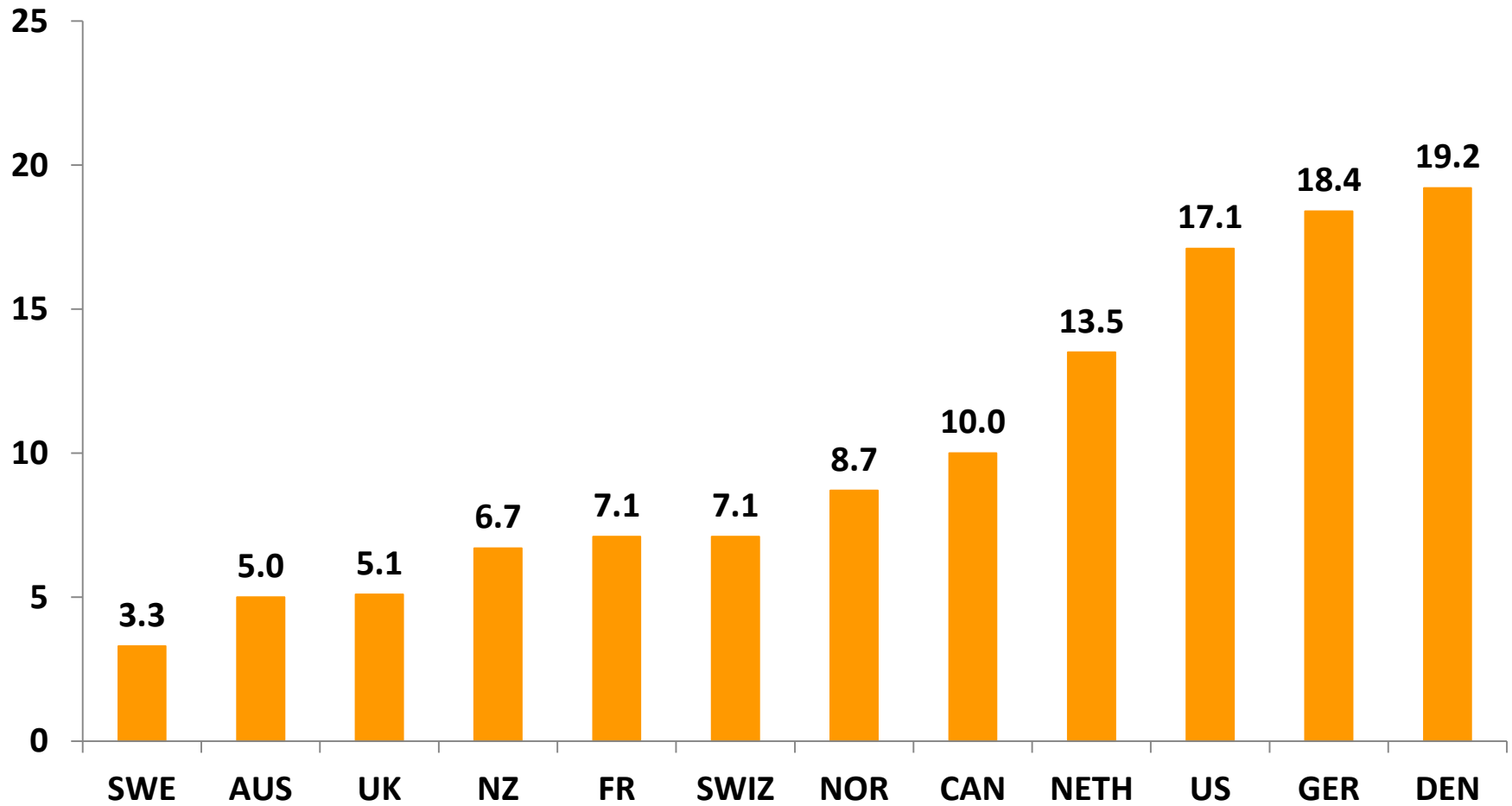


* Data from 2012 for Denmark and Switzerland; 2011 for France, Canada, Australia, and New Zealand; and 2010 for the U.S.

Source: OECD Health Data 2015.

Lower Extremity Amputations as a Result of Diabetes, 2011

Amputations per 100,000 population



* Data from 2010 for the Netherlands, Switzerland, and the U.S.; and 2009 for Denmark.

Source: OECD Health Data 2015.

Questions?

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