



Newsletter

MEDICAL AFFAIRS

CEO UPDATE

The Reardon Group of Companies:

Reardon Consulting, Inc.
Healthcare, Financial & Management Consulting

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Healthcare Accounting and Tax Services

Valuation Advisors, Inc.
Valuations for Practice Mergers & Acquisitions,
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In a conference presented by *Modern Healthcare* in February 2008, its Trendwatch08 program laid out five things that will occupy the editorial staff of *Modern Healthcare* in 2008.

Number 1 is the prospect of mandated use of information technology. The Medicare Improvements for Patients and Providers Act of 2008 (MIPPA) established a five-year program of incentive payments to professionals who report applicable electronic prescribing measures established under the Physician Quality Reporting Initiative (PQRI) or who electronically submit prescriptions under Medicare Part D at CMS determined levels. The incentive payment program begins on Jan. 1, 2009. An educational conference about incentive payments to encourage the use of electronic prescribing is scheduled for Oct. 6–7, 2008, in Boston. CMS is trying to move the program from incentive to mandate.

Number 2 on the list is the effects of CMS's announcement that beginning October 1, 2008, Medicare will stop paying hospitals for eight types of medical errors. The initiative is obviously another part of the effort to focus on quality. As Medicare goes, so go private health insurers.

Number 3 on its list are changes in Medicare reimbursement, especially for hospitals. Trendwatch08 will be watching three initiatives:

a. Implementation of the mandate to adopt the new DRG system that took effect on October 1, 2007. The new system increases the number of DRGs from 538 to 745 in an effort to measure the severity of patients' condition more accurately and therewith to more accurately determine Medicare payment.

Trends to Watch

There is a two-year phase-in period for this program.

Based on its recollection of what happened in 1983 when the first DRG system was implemented, CMS assumes that hospitals will somehow artificially inflate the severity of a patient's illness to maximize reimbursement. So, CMS has incorporated into the new system a "behavioral offset." That means that hospitals will need systems capable of

Hospitals had to start reporting those results to the government in July through the HCAHPs program if they wanted to get their full Medicare payment update in fiscal 2008. This initiative will focus increased attention on patient satisfaction and on the mechanisms for reporting information to the government.

Number 4 on the Trendwatch08 list is the renewed interest in hospital joint operating agreements (JOA). In many markets across the country, hospital consolidation has reached a point where one more deal risks launching an antitrust investigation. However, the need to reduce costs, the need to increase leverage in payer negotiations, and an interest in sharing clinical information among themselves is still present. So, hospitals seek ways to get together short of merging. In joint operating agreements, hospitals remain separate legal entities but may have a common parent established to coordinate their activities. Hospitals that don't want a formal JOA can form loose alliances to purchase supplies and coordinate technology investment. Such alliances are going to require more sophisticated systems for management and for information sharing as well as careful review of the legal and regulatory issues that arise.

Number 5 on the Trendwatch08 list is hospital layoffs. Hospitals across the country will be facing increased financial pressures. Pressure for cuts in hospital reimbursement will continue. Poor market conditions are raising the cost of borrowing money and reducing investment income. The Government's report projects that national healthcare expenditures will hit \$4.3 trillion in 2017, or double what they are now. And those figures will put enormous pressure on the government, employers and other payers to better control healthcare costs.

The Reardon Group

**Strategies for Resolution of
physician-driven issues**

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recording patient severity in order to get full reimbursement.

b. Further implementation of Medicare's pay-for-performance program. This initiative would incorporate clinical performance and outcome reporting into the formula Medicare uses to calculate payments to hospitals. CMS submitted that proposal to Congress, and Trendwatch08 expected Congress to give serious consideration to it in 2008. This will put pressure on hospitals to improve systems that track, measure and record clinical outcomes.

c. Medicare started posting hospital patient-satisfaction results on its *Hospital Compare* website in March.

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The Impact

STRATEGIC PLANNING

If Trendwatch08's set of five captures the trends to keep an eye on, those trends should be part of a hospital's strategic planning parameters. Whether all of them become forces to reckon with in 2008 – 2009, they are in the air. Moreover, Federal initiatives are in the law and appear to regulators and other observers of the health care scene to be reasonable

and potentially effective. This suggests that they are not going to go away.

If these trends become reality, economic pressure on hospitals will obviously increase. The squeeze that increasing costs in health care combined with government initiatives to control those costs and hospital initiatives to deal with

this squeeze, warrant careful monitoring and strategic reflection. These forces combined with the human and the financial capital needed to implement this set of initiatives can be overwhelming.

For freestanding and especially for smaller community hospitals, the pressure will be particularly acute.

The Reardon Group specializes in helping medical practices and hospitals define issues of mutual interest and develop integrated solutions.

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