



Newsletter

MEDICAL AFFAIRS

CEO UPDATE

The Reardon Group of Companies:

Reardon Consulting, Inc.
Healthcare, Financial & Management Consulting

Weiss + Reardon & Company, P.C.
Healthcare Accounting and Tax Services

Valuation Advisors, Inc.
*Valuations for Practice Mergers & Acquisitions,
Estate & Gift Taxes and Litigation Services*

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Strategic Planning, NOW

If Medicare, the cost of health care insurance for federal employees, and the amount the tax dollars from workers' taxable incomes that are exempted for employer health care contributions are considered, health care cost the federal budget more than \$1 trillion this year. If trends continue, that number will almost double in 10 years.

President-elect Obama has proposed:

- Establishing for people under age-65 who don't have access to an employer plan or don't qualify for existing government programs like Medicaid or SCHIP a new public program possibly like the standard benefit program provided for federal employees. This program would also be open to small employers who do not offer a private plan.
- Creating a "National Health Insurance Exchange" – a government-run organization that would sell insurance plans directly to those who do not have an employer plan or public coverage.
- Implementing an employer "pay or play" provision that would require an employer to either provide health insurance or contribute toward the cost of a public plan.
- Mandating that families cover all children through either a private or public health insurance plan.
- Expanding eligibility for government programs, like Medicaid and SCHIP.

Such initiatives would obviously add costs to the system.

Obama proposes to save at least \$80 billion per year by prevention and by better management of chronic conditions like high blood pressure, heart disease, diabetes and asthma. He proposes to save another \$80 billion per year through implementation of electronic medical records. According to

consultants with McKinsey and Company, if used for everyone, health insurance exchanges could save \$70 billion or more.

Based on what we have heard to date, it would appear that the Obama plan calls for access first and cost containment second. The present state of the economy would seem to add urgency to this order of priorities. Adding access helps the present Obama efforts to revive the economy because it could help maintain the flow of dollars if not bring additional dollars to communities, especially the smaller ones where hospitals plus physician practices constitute a significant, often the largest, employment base.

While these initiatives, if they are implemented, may bring additional revenue to

Among the indicators of the direction that change may take are the following:

- Electronic medical records make information available to physicians.
- Initiatives to focus on prevention could, over time, reduce the frequency of some procedures and hospitalizations.
- Such initiatives could emphasize the use *per patient* of primary care and potentially reduce the use of specialists' services *per patient*.
- CMS's initiatives in pay-for-performance focuses attention on outcomes or results rather than effort in the form of procedures or patient days. To date, pay-for-performance has focused on "best practices" as the way to achieve desired outcomes.
- CMS's efforts to make hospital and eventually physician performance information available on the internet draws patients increasingly into health care decision making.
- Medical practices around the Country tend to be small and specialty-specific. The initiatives noted above would seem to require and also facilitate greater teamwork among physicians and hospitals.
- The current shortage/cost of capital for health care providers and decreases in utilization are sources of great concern among providers.

Hospital orientation toward inpatient services and medical practices oriented toward small, specialty specific groups may be in for radical change.

providers, they are accompanied by universal realization that their costs cannot be sustained. At some point, ways to bring cost to sustainable levels will be implemented.

The nature of such efforts is already evident, and these initiatives suggest that reorganization of the health care delivery system is coming.

The Reardon Group

Strategies for Resolution of physician-driven issues

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The Impact

STRATEGIC PLANNING

It is doubtful that all of these factors will become forces to reckon with in the next two years. However, they are in the air. Moreover, many federal initiatives are in the law and appear to regulators and other observers of the health care scene to be reasonable and potentially effective.

If Obama's initiatives and the factors listed above become reality, the health care delivery system will inevitably change. Medical practices will need to find organizational models that support teamwork and communication among

specialties. Hospitals and health systems will need to place capital resources in the service of what supports more productive outcomes. That will likely require fewer beds in health care market areas, more emphasis on models that support interdisciplinary collaboration, and more physician-hospital collaboration.

The changes that will eventually happen will likely be hard on smaller practices and hospitals, especially those in smaller communities.

All of this strongly suggests that providers begin now thinking about their situations, their relationships to the markets and communities they serve, and their relationships with the other providers in their areas. Some precious time is available now to think about the sustainability of present strategy and the changes and directions that will be needed for the future. Timing of change is directly related to the Nation's realization that stimulus time of over; now we need to focus on costs.

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

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