Implications of the Affordable Care Act for University Medical Centers

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Prior Formula for AMC Success

- Complex health problems (CMI adjusted care*)
- Innovative research (NIH*, clinical trials)
- Higher reimbursement rates (private insurers)
- GME subsidization (indirect medical education costs*)

* Taxpayer funded
Recent Threats to AMC Business

* Flat NIH funding (discovery without health benefits)
* 2014 IOM Report on GME (no public benefit)
* “Affordable” health care
  * Greater cost-effectiveness scrutiny (the $49 hamburger)
  * Cuts to Medicaid payment subsidies (DSH)
  * Reorganization of care models (DSRIP in NY)
“Academic medical centers (AMC’s) are good at crying crocodile tears about graduate medical education (GME*) and how it costs so much money. But society, taxpayers... has no evidence for what we get for this money.”

Amitabh Chandra
Kennedy School of Government
Harvard University

*~$10B per year from Medicare to AMC’s
U.S. Healthcare’s Ascent to the “Triple Aim” Summit

Baseline 2008

Reinvestment/Recovery Act of 2009 – The “Stimulus”

Affordable Care Act of 2010 – “Obamacare”

Budget Control Act of 2011 – The “Sequester”

Taxpayer Relief Act of 2013 – The “Fiscal Cliff”

Medicare (CMS) Pay for Performance

Medicare (CMS) Alternative Payment Models

Medicare Access & CHIP Reauthorization Act (MACRA) of 2015 – The “SGR Fix”

Bipartisan Budget Act of 2015

Improving Health
Improving Quality of Care/Service
Reducing Per Capita Cost

Site Neutral Payment Reductions at Off-Campus Provider-Based Hospital Outpatient Departments

- Merit-Based Incentive Payment System (MIPS)
- Part B Alternative Payment Model (APM) Path

- Medicare Advantage (Full/Partial Risk)
- Accountable Care Organizations (Shared Savings)
- Bundled Payment for Care Improvement (BPCI)
- Oncology Care Model (OCM)

- Value-Based Purchasing
- Hospital Readmission Reduction
- Hospital-Acquired Conditions

- 0.8% Medicare Payment ↓
- 2% Medicare Payment ↓

Coverage Expansions

IT Meaningful Use
America’s Journey to the Triple Aim: Where Are We Now?

Episodic (Facility-Based) Care System + Continuing (People-Based) Care System = Total Cost of Care (Accountability) System
Declines in Inpatient Utilization

National Hospital Use Rate Trends, 1975-2013

Recent inpatient use rate decline includes all age cohorts

Weighted Average Change in Use Rates per 1,000, 2006-2011

<table>
<thead>
<tr>
<th>Age Group</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-17</td>
<td>(7.1%)</td>
</tr>
<tr>
<td>18-44</td>
<td>(8.0%)</td>
</tr>
<tr>
<td>45-64</td>
<td>(5.4%)</td>
</tr>
<tr>
<td>65-84</td>
<td>(12.1%)</td>
</tr>
<tr>
<td>85+</td>
<td>(8.9%)</td>
</tr>
</tbody>
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Weighting based on state population as percentage of total sample size population; discharges exclude normal newborns. Source: American Hospital Association 2014 Stats, Analysis by Kaufman, Hall & Associates, Inc.
Health Care Financing System

Population Changes

- The American Population Over Age 65 Will Double In Size By 2030
- Medicaid Expansion Is Variable State-to-State
- Premiums And Out-of-Pocket Cost Sharing Grow Faster Than Wages
- The Affordable Care Act Is Reducing The Number of Uninsured

Medicare

Medicaid

Self-Insured Employers

Commercial Insurance
Hospital Consolidation

Hospitals
Since January 2011:
• 16 hospitals have closed
• 7 hospitals have been acquired by other NYS hospital systems
• 45 have entered into active parent governance relationships with other hospitals systems

Health Plans
• The number of health plans in New York’s has been shrinking for decades.
• Proposed mergers involving four of the nation’s five largest health insurers—Anthem and Cigna, and Aetna and Humana— are pending.
Not All States are ACA Equal

Current Status of State Medicaid Expansion Decisions

NOTES: Current status for each state is based on KCMU tracking and analysis of state executive activity. *AR, IA, IN, MI, MT, NH and PA have approved Section 1115 waivers. Coverage under the PA waiver went into effect 1/1/15, but it has transitioned coverage to a state plan amendment. Coverage under the MT waiver went into effect 1/1/2016. LA’s Governor Edwards signed an Executive Order to adopt the Medicaid expansion on 1/12/2016, but coverage under the expansion is not yet in effect. WI covers adults up to 100% FPL in Medicaid, but did not adopt the ACA expansion. See source for more information on the states listed as “adoption under discussion.”

The Affordable Care Act of 2010

Percent of Population Without Health Insurance Coverage (<65 yrs)

Source: US Department of Health and Human Services, McKinsey and Co.
Commercial Payor Math

Annual Growth: Premiums, Deductibles, Wages (2009 – 16*)

*Projected growth 2015-2016.

Shared Savings Models (ACOs)

Number of Lives Attributable to ACOs (~23.2 M)

- Medicaid ~ 4.0 million
- Medicare ~ 7.7 million
- Private Payers ~ 11.5 million

782 ACO’s Nationally (434 CMS-Approved)

Source: Leavitt Partners Center for Accountable Care Intelligence
Who Has $2B To Assume Population Health Financial Risk?

- **Commercial Insurance Companies** (United, Anthem, Aetna).

- **Large** (Meaning Critical Mass For Risk Dispersion And Diversification) **Aa-Credit Rated Health Care Delivery Systems** (Kaiser, Ascension, Intermountain, Sentara, Providence).

- **Large** (> $10 Billion in Revenue) **Private, Independent Academic Health Systems** (Partners, Mayo Clinic, Cleveland Clinic, UPMC).

- **Most State Governments** (California, Michigan)

- **Mid-Size** (~$5 Billion in Revenue) **Private Independent Academic Health Systems** (BJC, Yale/New Haven, University Hospitals of Cleveland),

- **Private University-Owned Academic Health Systems** (Penn, Vanderbilt, Duke, Emory).

If You Don’t Have $2B, Find ‘a Friend’ Who Does — **AND** Who Values Your Mission
Who Sells Data Analytics and Care Management Tools?

- **Conifer Health Solutions** (founded by Tenet)
- **CareMore** (Anthem)
- **Crimson** (Icreon and The Advisory Board)
- **Evolent Health** (founded by UPMC and The Advisory Board)
- **Health Catalyst** (owned by Partners, Kaiser, IU, Allina and Others)
- **Lumeris** (founded by Essence Healthcare)
- **Optum** (owned by United Health)
- **PRISM Connected Health Services** (IBM, ATT, Verizon)
- **TREO Solutions** (owned by 3M)
- **Valence Health** (Multiple Owners)
- **EPIC & Cerner** (data analytics come with their IT products)
Partnerships to be “Payor-Like”

This pursuit is driving many different partnerships for population, health, contracting, and IT/Data.

Population Health
- Trinity Health Partners
- Advanced Health Collaborative
- Coastal Community Health Services
- University of Iowa Health Alliance

Contracting
- Midwest Health Collaborative
- UNC Health Alliance
- TogetherHealth Network

IT/Data
- Northwell Health™
- ValueCare Alliance
- IBM Watson

*With Newport Health Solutions
Key Questions (& Challenges) for Academic Medicine (Us)

- Many Of Us Are **Either Not Large Enough or Not Rich Enough To Go It Alone**

- Many Of Us **Have The Majority Of Our Net Worth Invested In Fixed Assets** (Property, Plant & Equipment). Check your **Ratio Of PPE/Unrestricted Net Assets**:
  - <50% = Strategic **Agility**
  - 50% - 75% = Strategic **Mobility**
  - 75% - 100% = Strategic **Immobility**
  - >100% = Strategic **Obesity**

- Many Of Us **Attract “Adverse Selection”** (patients with more advanced /complicated illness or injury)

- Some Of Us **Will Be Constrained By University Ownership & Governance**

- All Of Us Have **Competing Demands for Investment Capital** (Other Than Population Health), **Most Notably Our Academic Missions**
Funding of University-based Discovery & Innovation

NIH is a section of the U.S. Department of Health & Human Services (DHHS)

Annual NIH budget >$32.3B*

- 80% to 300,000 scientific personnel at >3,000 universities and research institutions
- >50% to U.S. medical schools and teaching hospitals**

**Per Association of American Medical Colleges (AAMC), June, 2016
NIH Budget Allocations

National Institutes of Health Budget, 1998-2017
budget authority in billions of constant FY 2016 dollars

“Like addiction to football teams, some universities have an addiction to medical centers.”

“It’s as if the (university) law school also ran a world-best law firm.”

Robert M. Wachter
Interim Chair of Medicine
UC San Francisco
University Responses to AMC Adversity

* **Separations**
  * Vanderbilt University Medical Center

* **Integrations**
  * University of California (5 AMC’s)

* **Strategic partnerships**
  * Duke Medical Center & LifePoint (FP health system)
  * University of Arizona & Banner (NFP health system)

* **Mergers with Community Hospitals**
  * Harvard/Partners HealthCare (rejected by MA)

* **Escalation in M&A activity**
  * University of Pittsburgh Medical Center
  * Thomas Jefferson University (“hub” model)
New Strategic Orientation Towards Pluralistic Partnership

This fundamental shift is requiring health systems to have a portfolio of partnerships.

Future Health System is a “Portfolio” of Partnerships

Be “Payor-Like”
- Population health management
- Network formation
- Care management
- Patient segmentation, risk assessment, and pricing
- Product development

Increase Geographic Reach
Support larger populations to achieve scale and be a “must have” network in insurance products.

Expand Clinical Continuum
Provide full-range of clinical services to maximize integration, scale, and thus value and own higher percent of PMPM
“There is no other industry that is organized this inefficiently.”

Amitabh Chandra
Kennedy School of Government

“Very few industries look the same as they did in the 1950’s. And the two biggest holdouts are healthcare and education.”

David M. Cutler
Kennedy School of Government