



Washington-Alaska Chapter HFMA Conference

The Hunting Of The Snark *(Focus on Value!)*

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$$\frac{\text{Quality}}{\text{Cost}} = \text{Value}$$

“the impossible voyage of an improbable crew to find an inconceivable creature.”

Source: Sidney Williams and Falconer Madan: *Handbook of the Literature of the Rev. C.L. Dodgson*, as quoted in Martin Gardner: *The Annotated Snark*, Penguin Books, 1974

Quality / Cost = Value

**“These are the times
that try men’s souls”**

Source: Thomas Paine’s *The Crisis* (1776-83)

Quality / Cost = Value

“Attempts are being made right now to saddle all of us with expensive, political Compulsory Health Insurance. This would wreck present high medical standards, bring mass produced, assembly line healthcare, take another bite from your paycheck and leave less take-home pay.”

American Medical Association

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American Medical Association, 1949

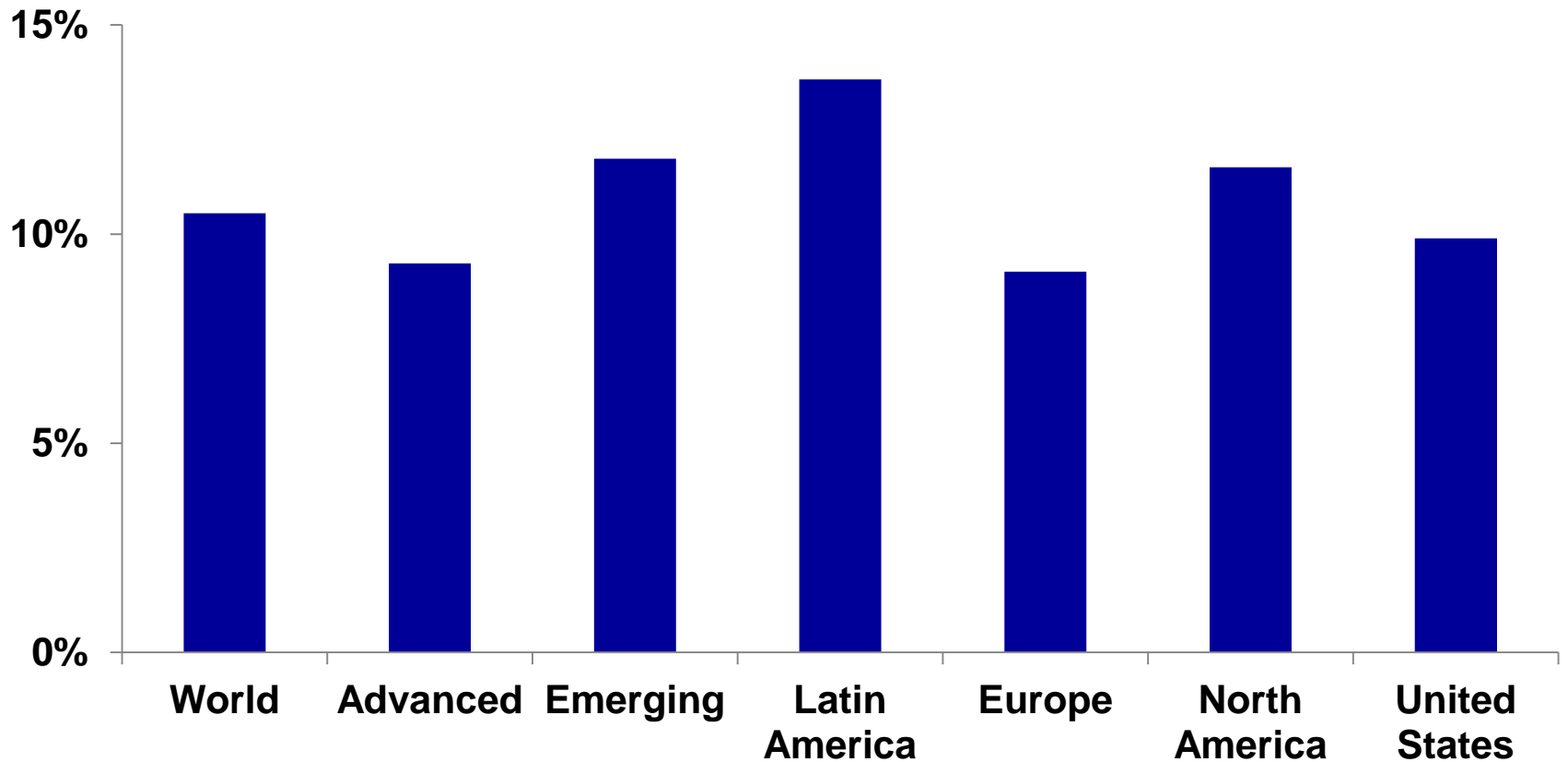
Quality / Cost = Value



The Journey To Find The Snark

- 1949: President Truman attempts to establish a national health bill
- 1965: Establishment of the Medicare Program
- 1970s: Passage of Federal HMO Act/ Employer Mandate
- 1983: Implementation of the Inpatient Prospective Payment System
 - Diagnosis Related Groups (DRGs)
- 1990s: Failure of the Clinton Health Security Act
- 2000: Outpatient Prospective Payment System
 - Ambulatory Patient Classification Groups (APCs)
- 2008: Implosion of financial markets and the beginning of the slow recognition that *financing current consumption with long term debt is unsustainable, even for sovereign governments*
- 2010: Implementation of the Affordable Care Act
- 2010 to present: Political gridlock in Washington on how to solve the nation's financial woes
- August 2011: Standard & Poor's downgrades U.S. debt to AA+ with a negative outlook

Global Medical Inflation Projections - 2011



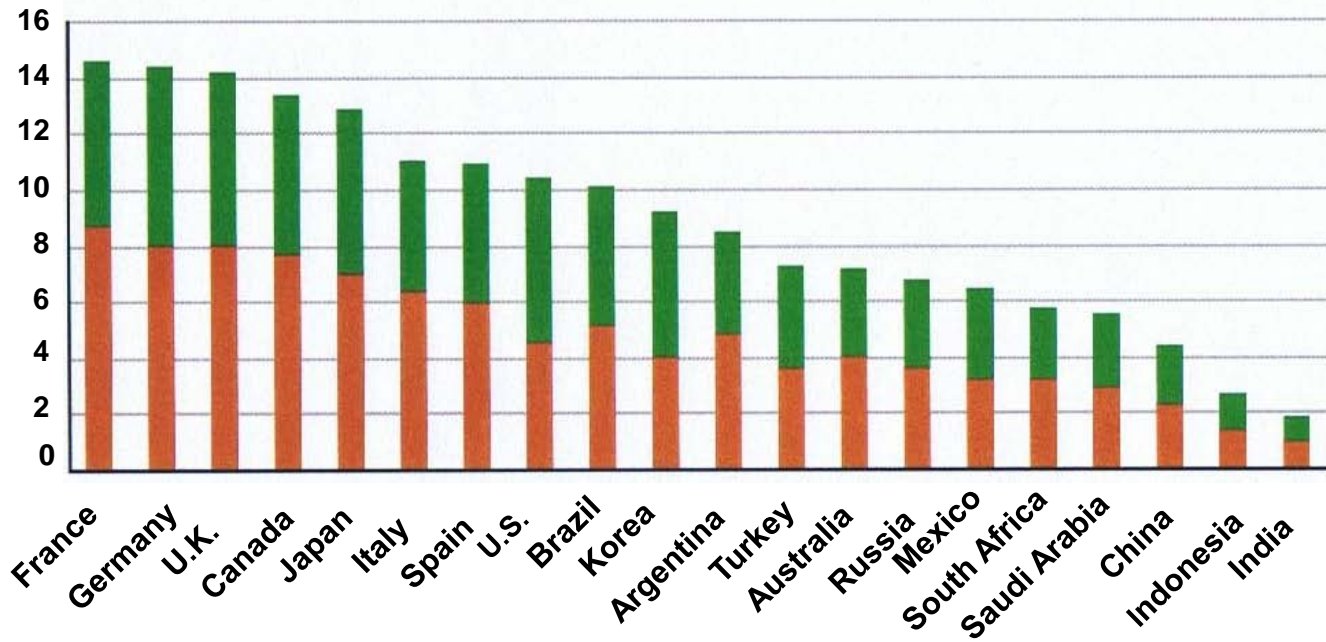
Source: Towers-Watson

Quality / Cost = Value

Projected Increase In G-20 Sovereign Health Care Spending In 2010-2050

■ 2010
 ■ 2050

(As a % of GDP)



Source: Standard & Poor's 2012

Quality / Cost = Value

Projected annual rate of increase in total U.S. healthcare spending:

Before - 6.1%

After - 6.3%

Where Federal, State and Local Tax Dollars Go

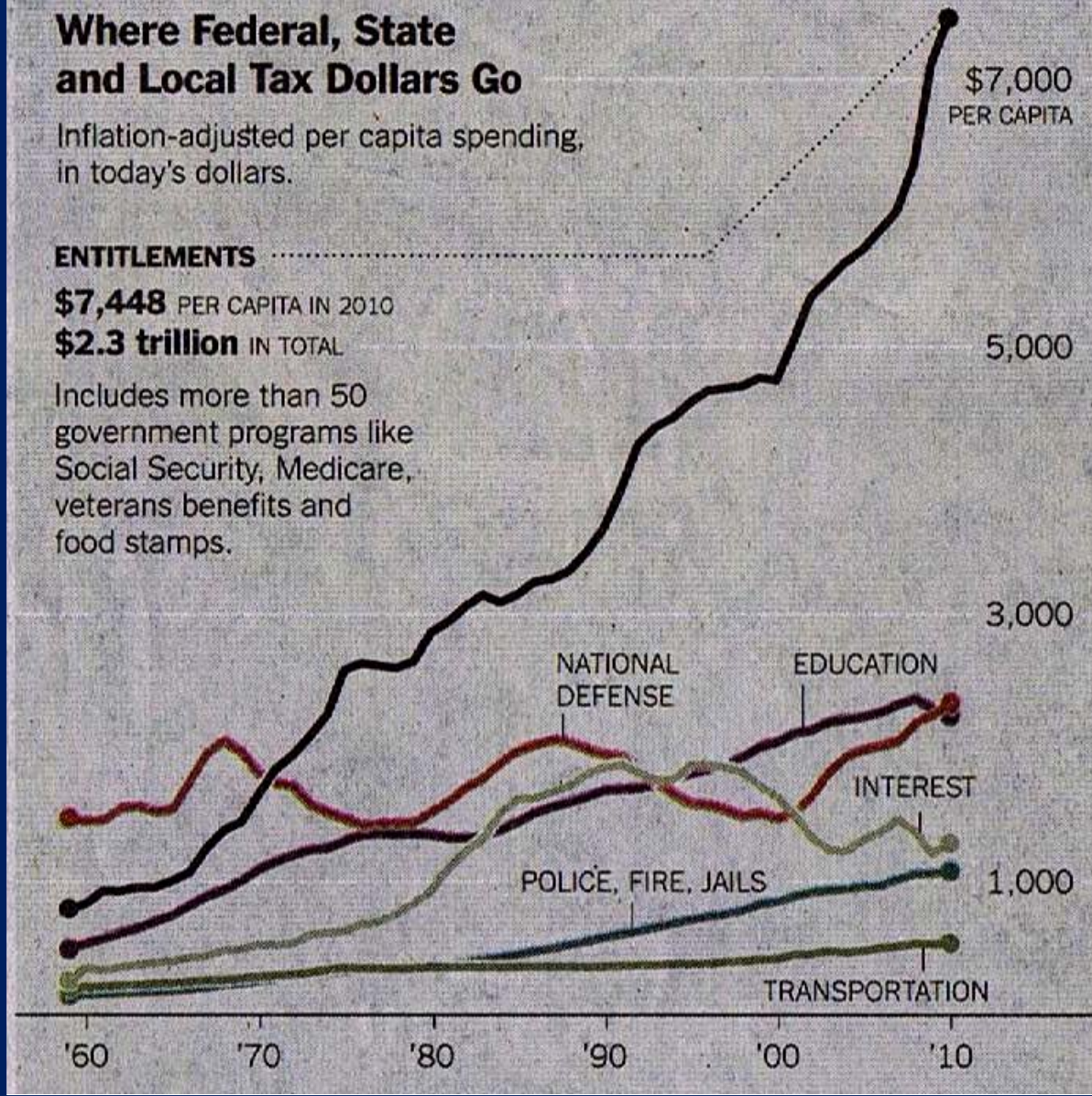
Inflation-adjusted per capita spending, in today's dollars.

ENTITLEMENTS

\$7,448 PER CAPITA IN 2010

\$2.3 trillion IN TOTAL

Includes more than 50 government programs like Social Security, Medicare, veterans benefits and food stamps.



Source: Bureau of Economic Analysis, The New York Times

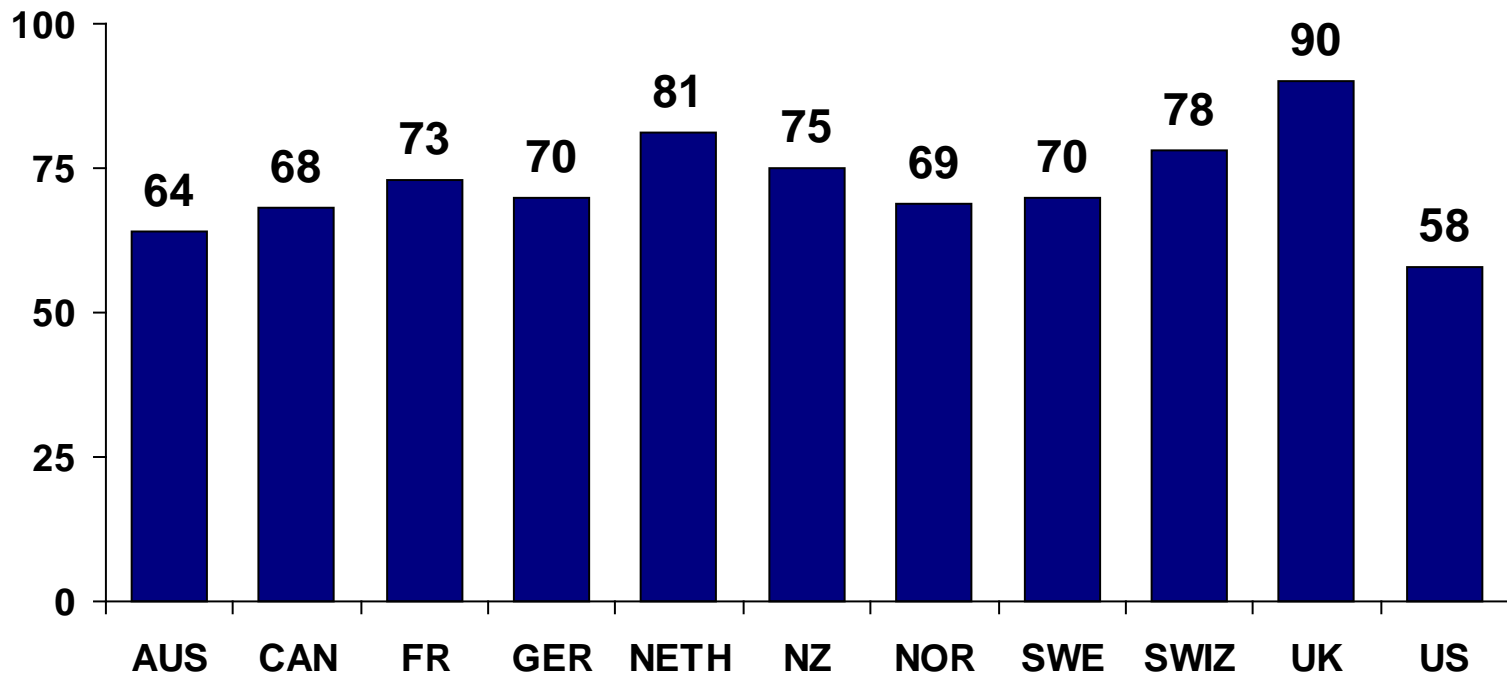
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“...we will eventually be spending more on Medicare than every other government program combined. Put simply, our healthcare program is our deficit problem. Nothing else even comes close.”



Americans Are Not Confident They Can Afford Needed Healthcare

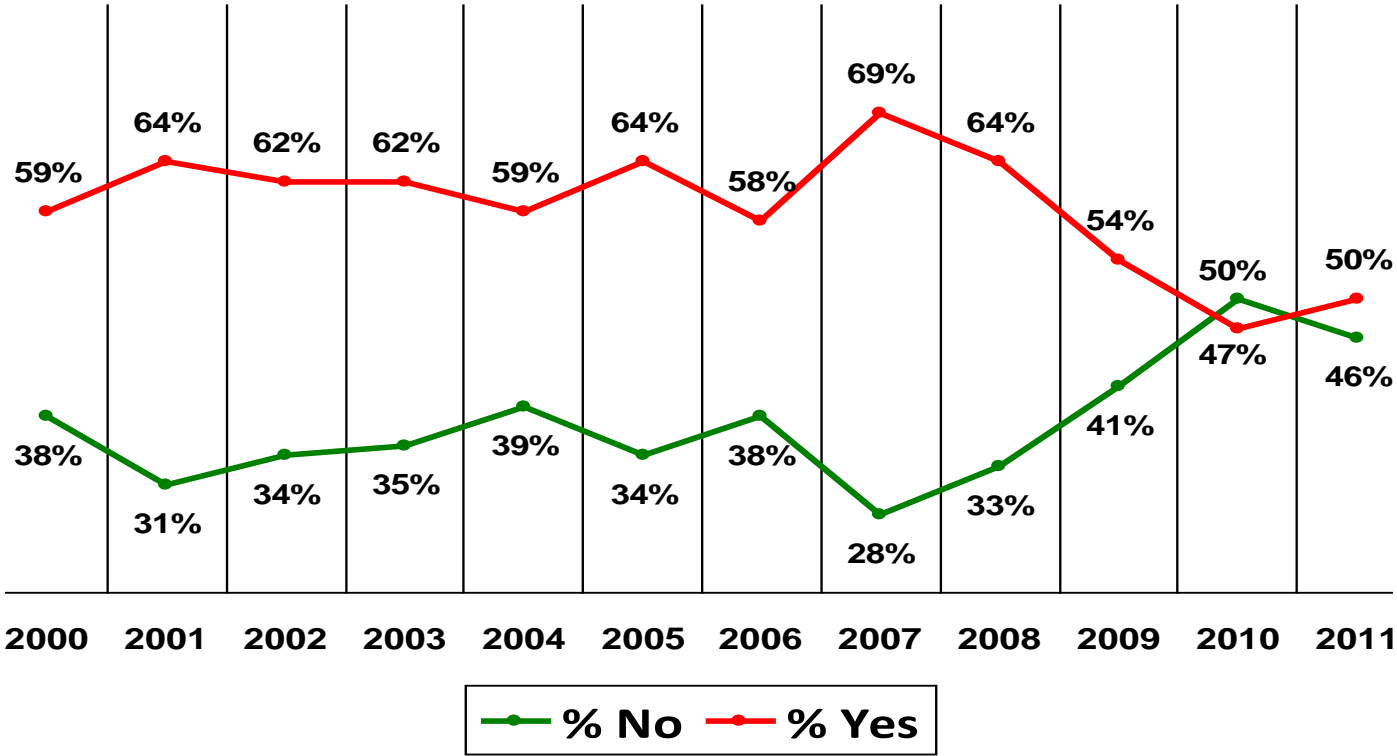
Percent responded, if they became seriously ill, confident/very confident they would be able to afford the care they needed



Source: 2010 Commonwealth Fund International Health Policy Survey in Eleven Countries

Quality / Cost = Value

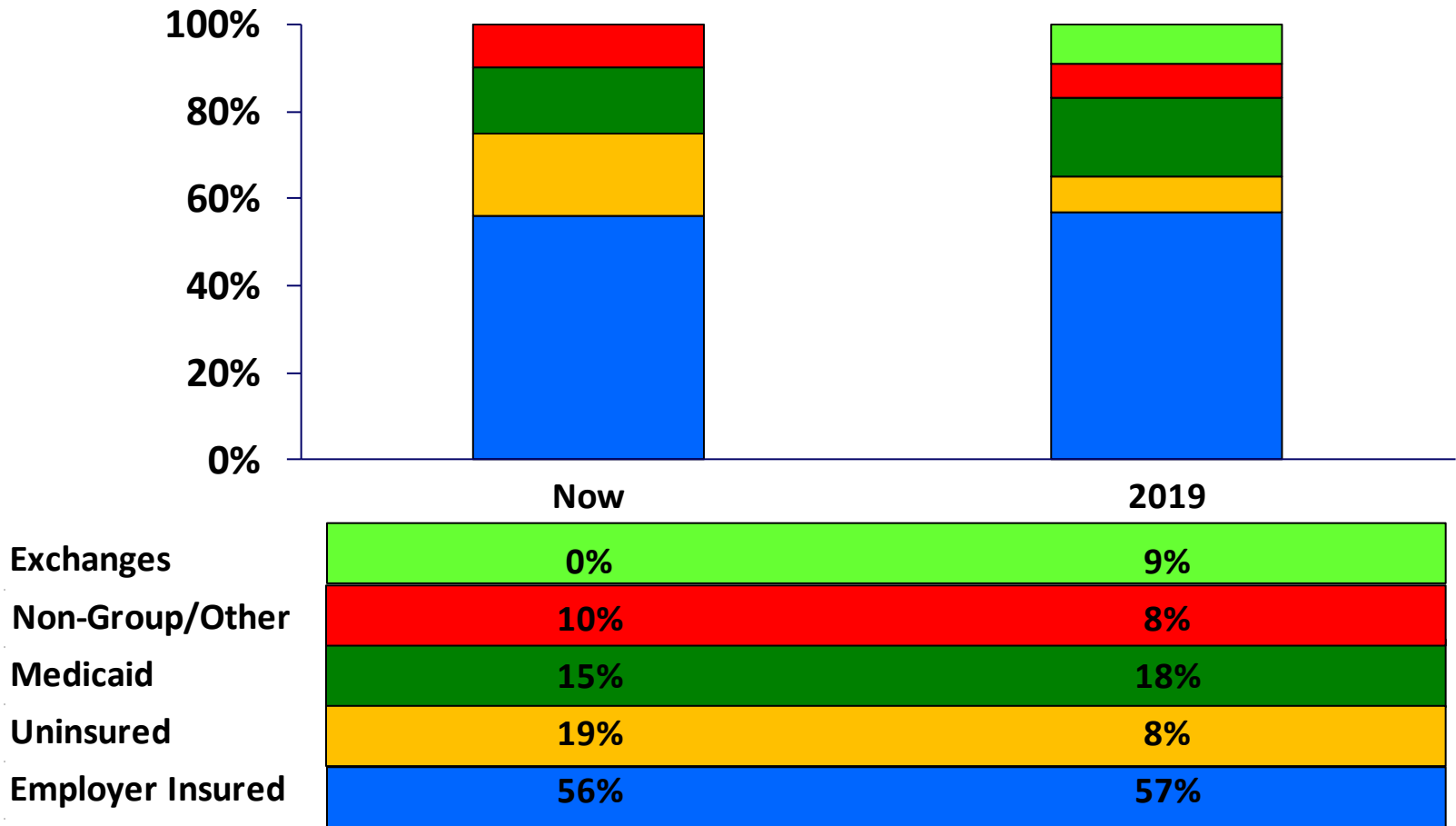
Do You Think It Is The Responsibility Of The Federal Government To Make Sure All American's Have Healthcare Coverage?



Source: Gallup, November 6, 2011



The Big Picture Non-Elderly Insurance Coverage

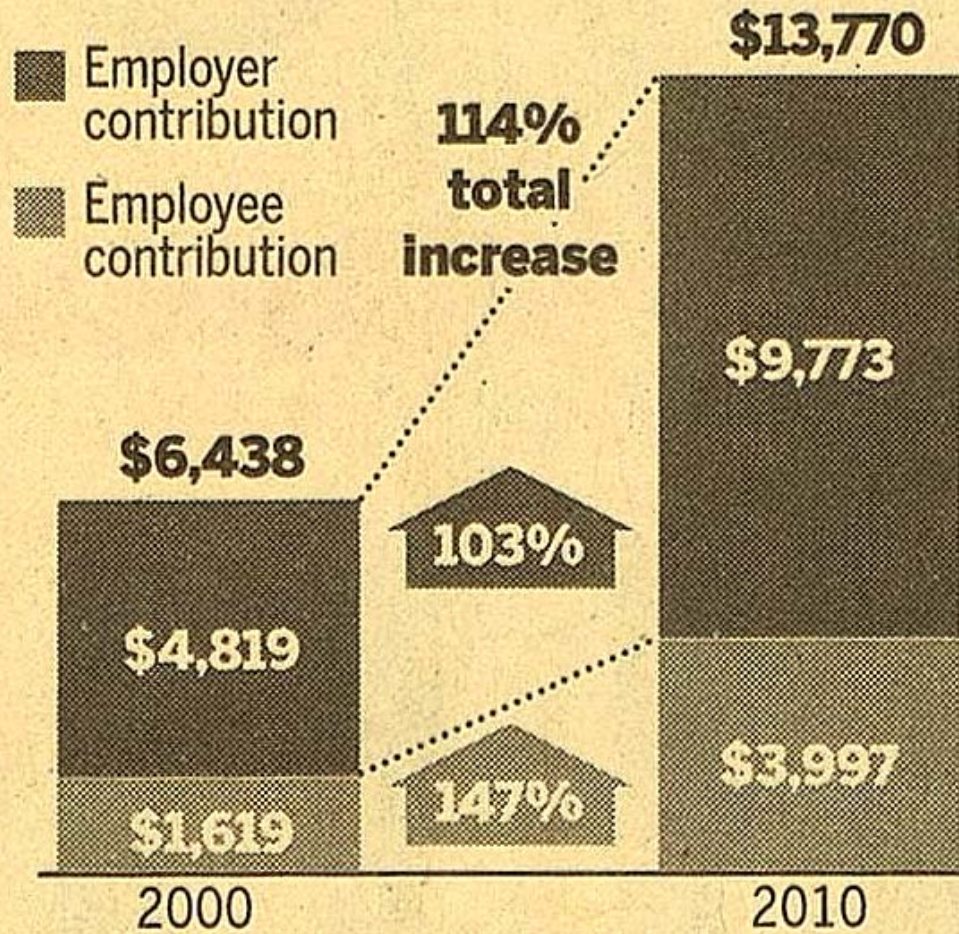


Source: Ralph Lawson; Time Magazine, April 5, 2010; and Congressional Budget Office

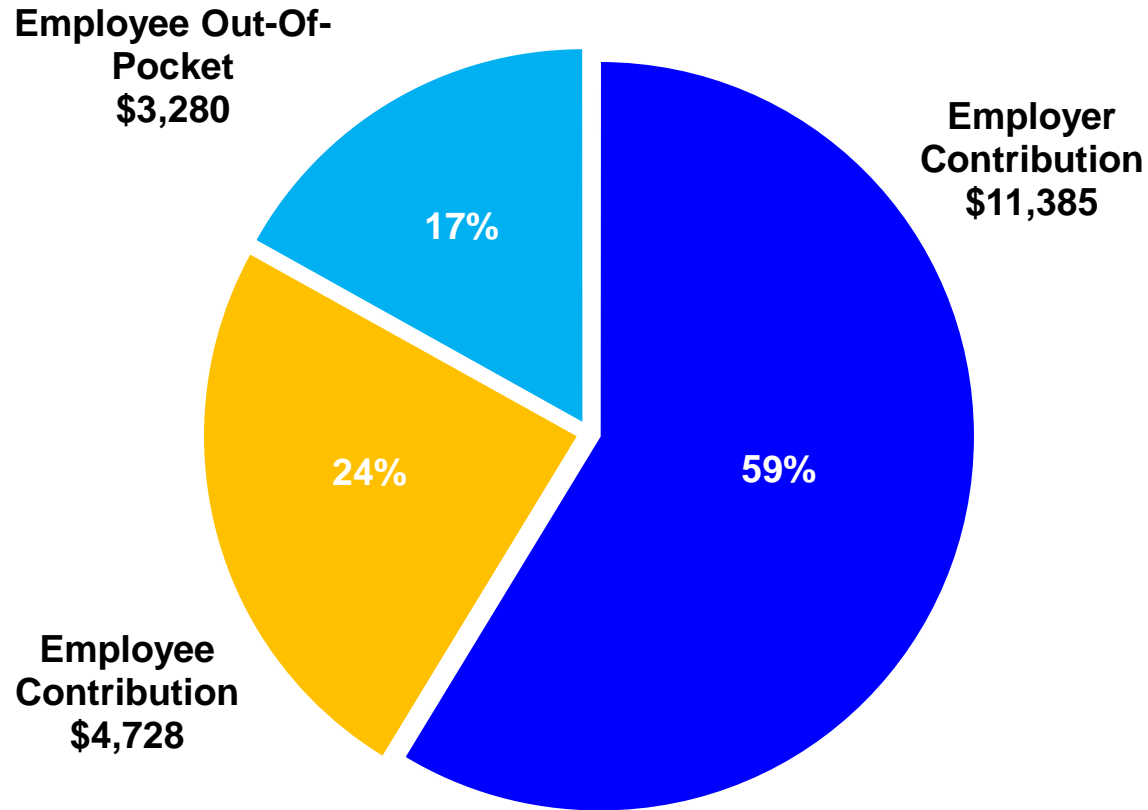
Quality / Cost = Value

US health insurance premiums

Average annual cost for family coverage



Relative Proportions Of Medical Costs

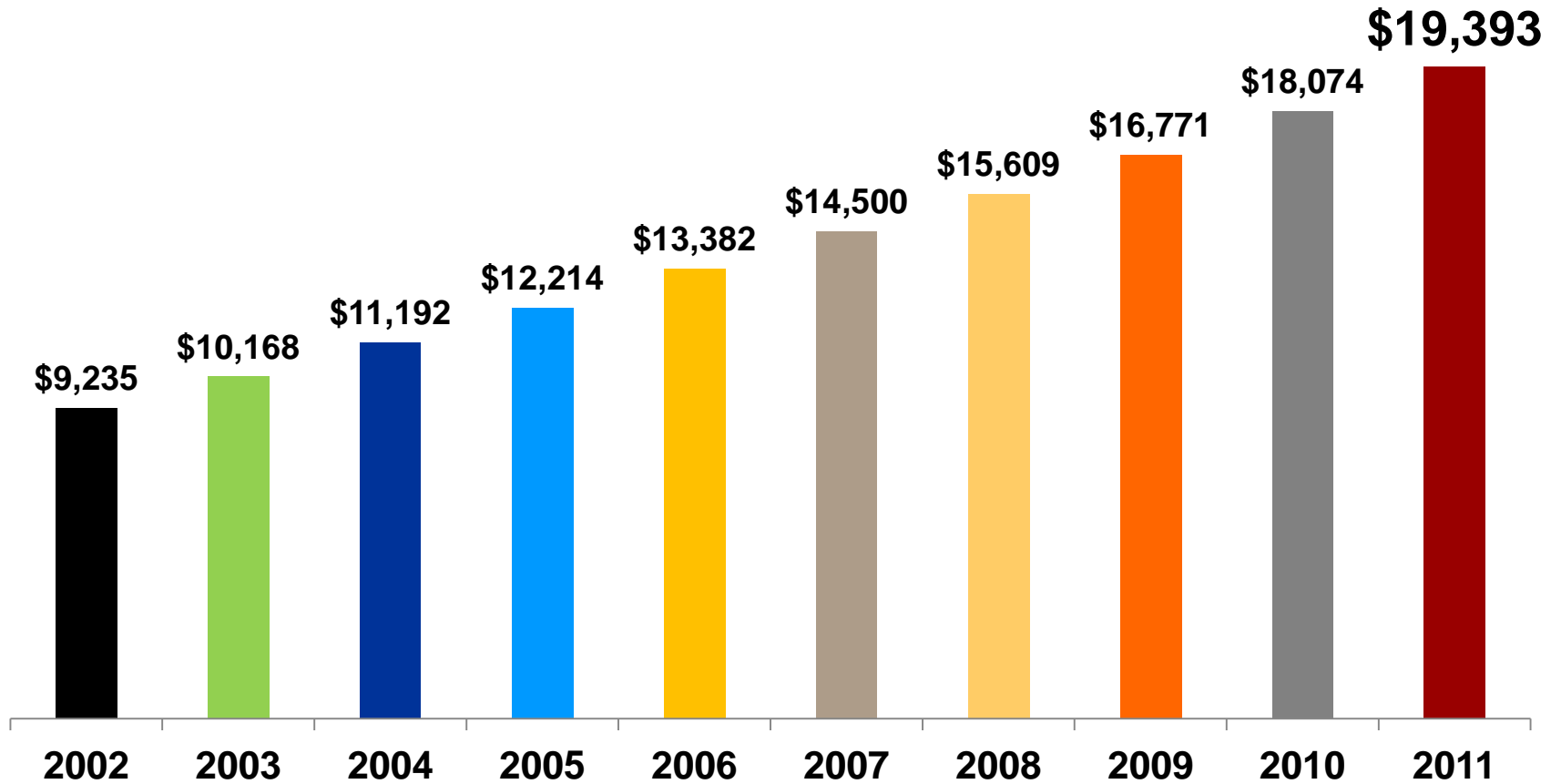


Source: Milliman, Research Report May 2011

Quality / Cost = Value

2011 Milliman Medical Index

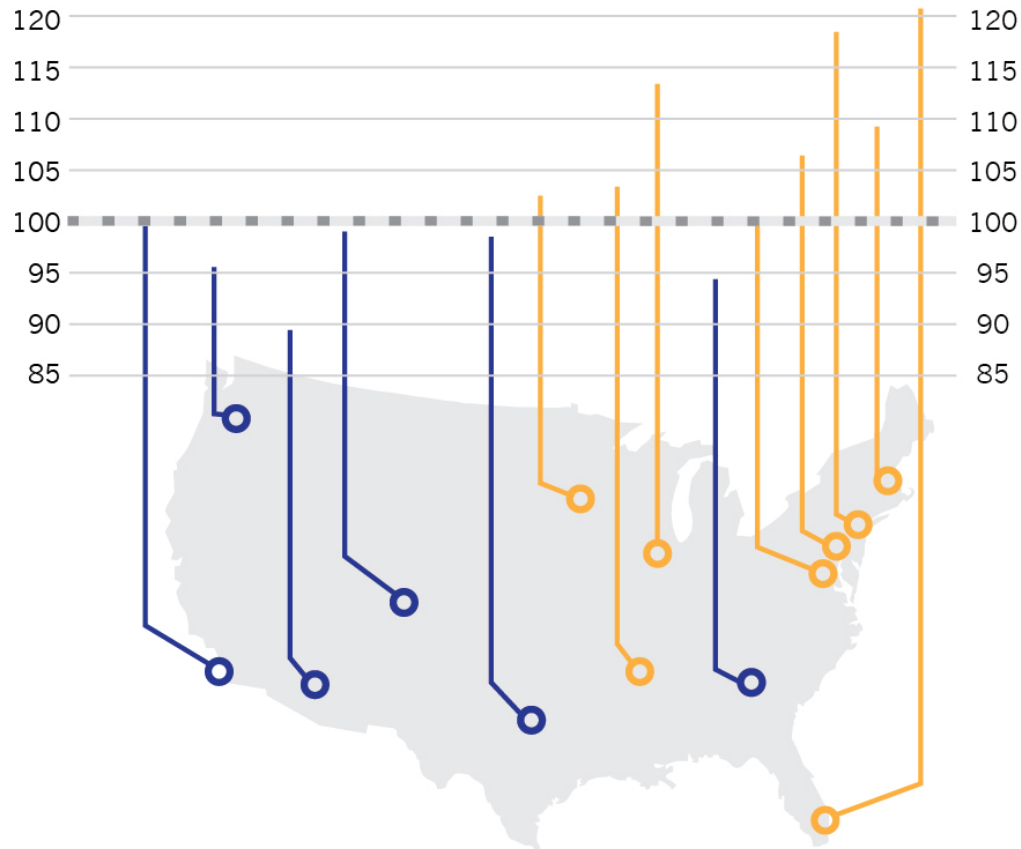
Healthcare costs for American families double in less than nine years



Source: Milliman, Research Report May 2011

Quality / Cost = Value

Percentage of National Average



City	MMI	National Percentage
Miami	\$23,362	120.5%
New York City	\$22,785	117.5%
Chicago	\$21,996	113.4%
Boston	\$21,199	109.3%
Philadelphia	\$20,715	106.8%
Memphis	\$20,235	104.3%
Minneapolis	\$19,944	102.8%
Washington DC	\$19,513	100.6%
Nationwide	\$19,393	100.0%
Los Angeles	\$19,391	100.0%
Denver	\$19,189	99.0%
Dallas	\$19,080	98.4%
Seattle	\$18,536	95.6%
Atlanta	\$18,282	94.3%
Phoenix	\$17,336	89.4%

Source: Milliman, Research Report May 2011

$$\frac{\text{Quality}}{\text{Cost}} = \text{Value}$$



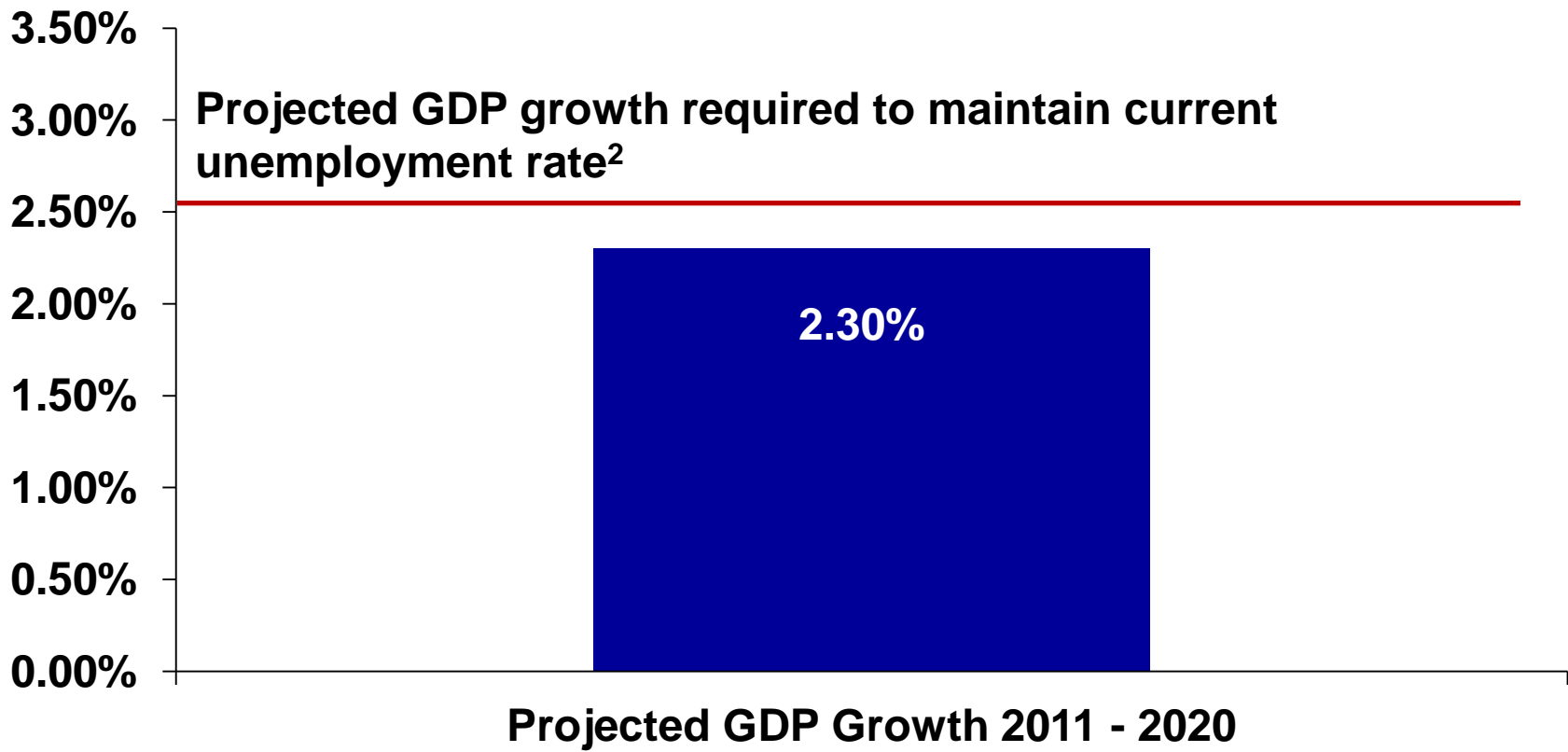
Traditional Value Equation Falls Short In Healthcare

$$\frac{\text{Quality}}{\text{Cost}} = \text{Value}$$

“Medicare health plans are doing everything they can to keep coverage as affordable as possible for the more than eleven million seniors in Medicare Advantage....

Nevertheless, as deep cuts go into effect in the coming years, government experts have forecasted that millions of seniors will experience higher costs, reduced benefits and fewer choices.”

Projected GDP Level Required To Create Job Growth Compared To Projected GDP Growth³



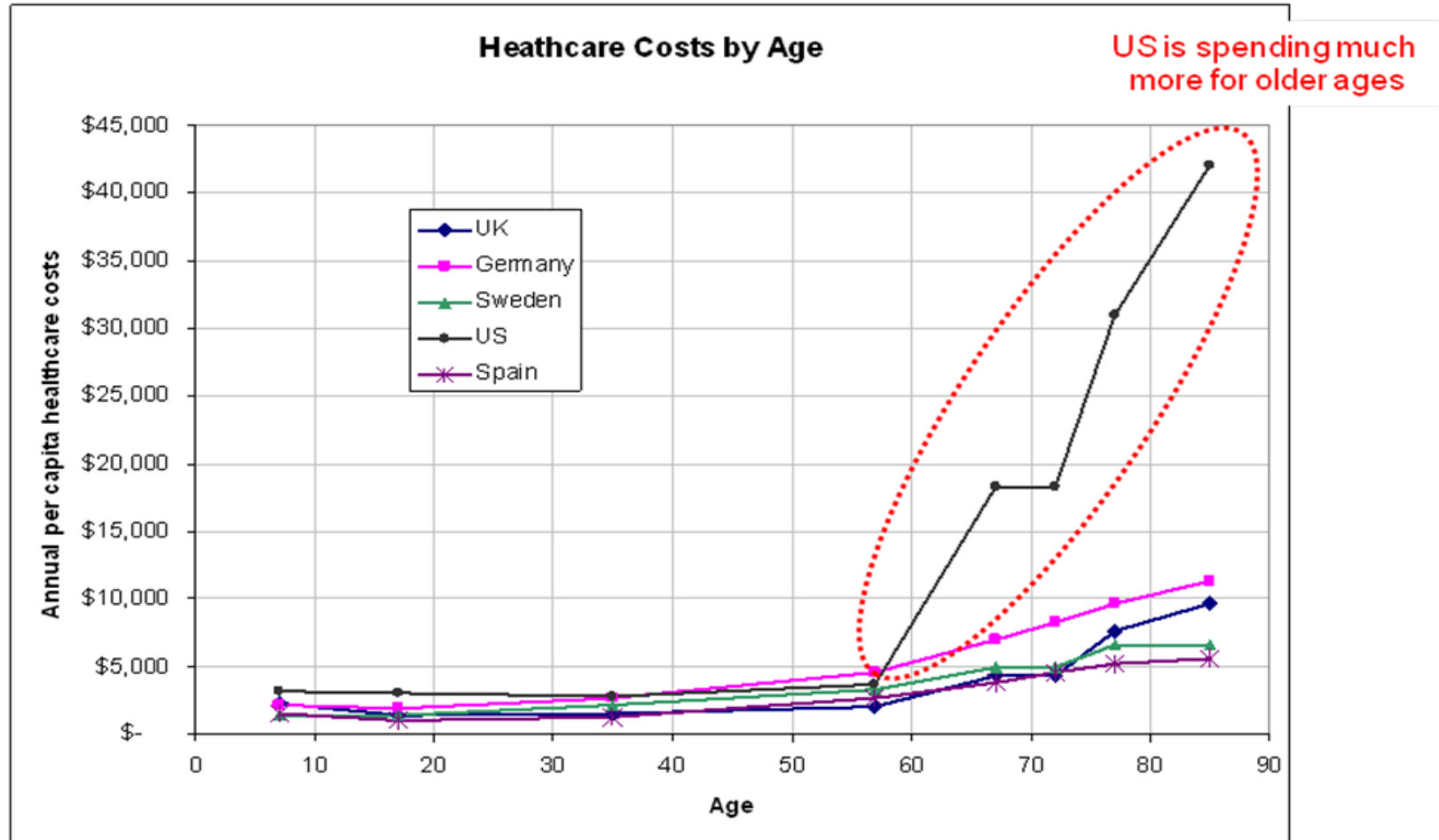
Source:

- 1) http://www.mckinsey.com/mgi/publications/us_jobs/pdfs/MGI_us_jobs_full_report.pdf
- 2) <http://www.nytimes.com/2010/07/31/business/economy/31econ.html?adxnnl=1&adxnnlx=1311003201-ufKoGGDfVizKnGDx3CWIQ>
- 3) <http://www.conference-board.org/data/globaloutlook.cfm>
- 4) HFMA, August, 2011

Quality = Value
Cost



U.S. Spends More On Healthcare For Seniors



Source: Fischbeck, Paul. "US-Europe Comparisons of Health Risk for Specific Gender-Age Groups." Carnegie Mellon University; September, 2009; and HFMA

Quality / Cost = Value



Baptist Hospital Society Of Thoracic Surgeons Star Rating

	2008	2009	2010	2011 (June)
Overall	★	★★	★★	★★★
Avoidance of Mortality	★★	★★	★★	★★
Avoidance of Morbidity	★	★★	★★	★★
Use of IMA	★★★	★★★	★★★	★★★
Medications	★	★★★	★★★	★★★

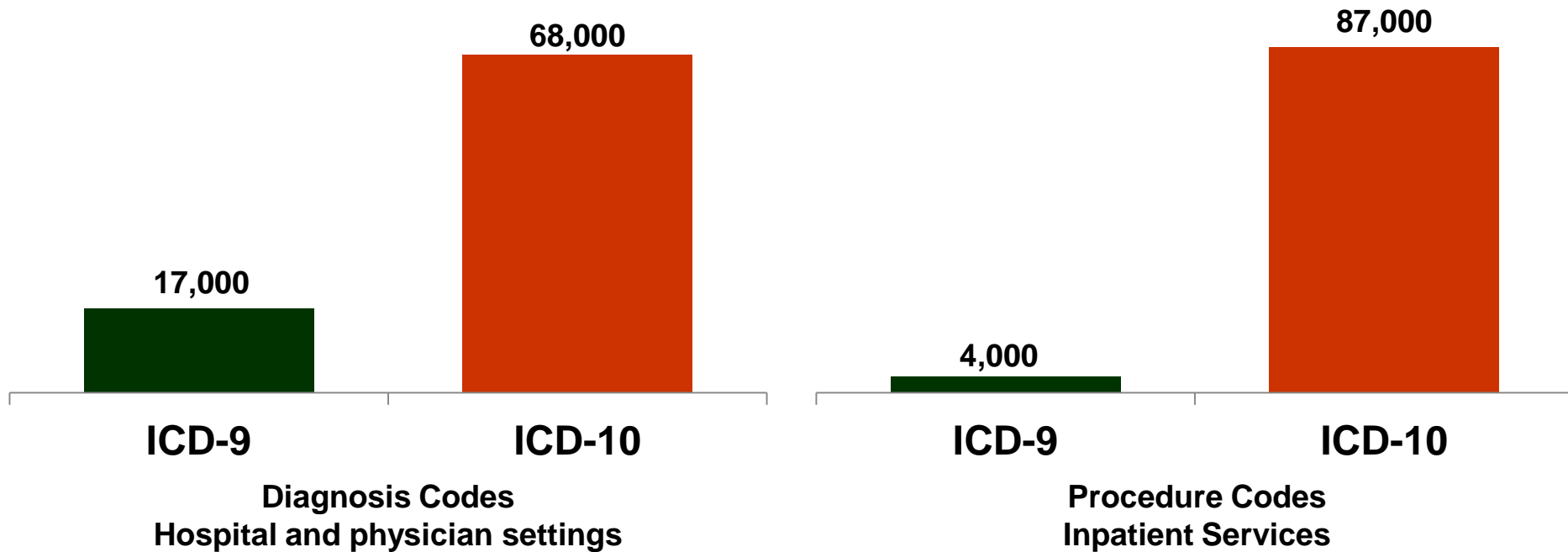
Quality / Cost = Value

**Where should we look
to reduce costs significantly?**

***“...private insurance bureaucracy
and paperwork consume one
third (31 percent) of every
healthcare dollar.”***

Overview Of ICD-10

Significantly More Complex Than ICD-9



Source: OPTUM ICD-10 Readiness Assessment, August 23, 2011

Quality / Cost = Value

“Researchers at Dartmouth have gone as far as to assert that their work on (medical cost) variation suggests that nearly 30 percent of (United States) healthcare spending could be unnecessary or wasteful”

The change in thinking that must occur...

...there are no revenue centers

**...no margin, no mission→
no outcome, no income**

***Remember, as you pursue strategies
to create additional value, focus
first on quality...***

Quality always brings down cost!

Hamish Meldrum, Chairman of the British Medical Association, predicted the government's (proposed new) health and social care bill would see the NHS being rebuilt on a “philosophy that relies on a market-based health system rather like the one we see in the United States.”



Healthcare Mega-Trends

- Healthcare providers will have increasing difficulty accessing capital at acceptable rates
- Healthcare is getting more expensive throughout the world at a time when the world can least afford it
- Employer sponsored healthcare will increasingly demand compliance and life style changes
- Employer sponsored healthcare will increasingly shift cost to the employee
- Insurance restrictions are increasingly viewed as a barrier to accessing quality care
- Healthcare customers are increasingly searching for value
- Medicare advantage will change or be completely eliminated
- Local economic conditions profoundly impact healthcare provider financial performance
- Hospitals and physicians will be paid significantly less per unit of service
- Nurse practitioners and physician assistants will increasingly be your doctor
- End of life costs will be reduced by more rational provision of care
- Provider performance will become increasingly transparent and available to consumers
- Technology will play an increasingly dominant role over the coming decades
- Information Technology is particularly key to lowering costs
- Physicians will be rewarded for doing less and keeping costs down
- Everyone believes there is a better way
- Meaningful tort reform must eventually occur to significantly lower costs

***Providers must do more with less,
and do it better!***



Profiling The Snark

- **The U.S. must have universal healthcare coverage if it expects to achieve significantly lower total healthcare costs**
- **Our healthcare system must become more cost effective if we intend to remain a dominant economic power – increasing the allocation of national resources is not optional**
- **The relationship of quality and cost must be aligned to create the greatest value for America**
- **Employer sponsored health insurance should continue to be the “base” of U.S. healthcare to avoid chaos and a complete meltdown of U.S. healthcare**
- **All healthcare sponsors should pay their fair share of healthcare cost**
- **The payment system must be changed to reward value and not volume**
- **Administrative costs must be reduced substantially**
- **Current consumption must not be financed with long-term debt**
- **We must create a culture of wellness and prevention**

Quality:

Define it

Believe it

Be accountable for it

Communicate it

“We believe it is important to let customers decide what is of value to them.”

The real winners over the next several years will be those providers that successfully transition from volume to value

Take the risk!

***Lead the change
from volume to value!***



Believe to Achieve