

# Third Annual Southwest Healthcare Transactions Conference

The Adolphus Hotel at Dallas

May 5, 2010

# Managing Through the Transition of National Healthcare Reform

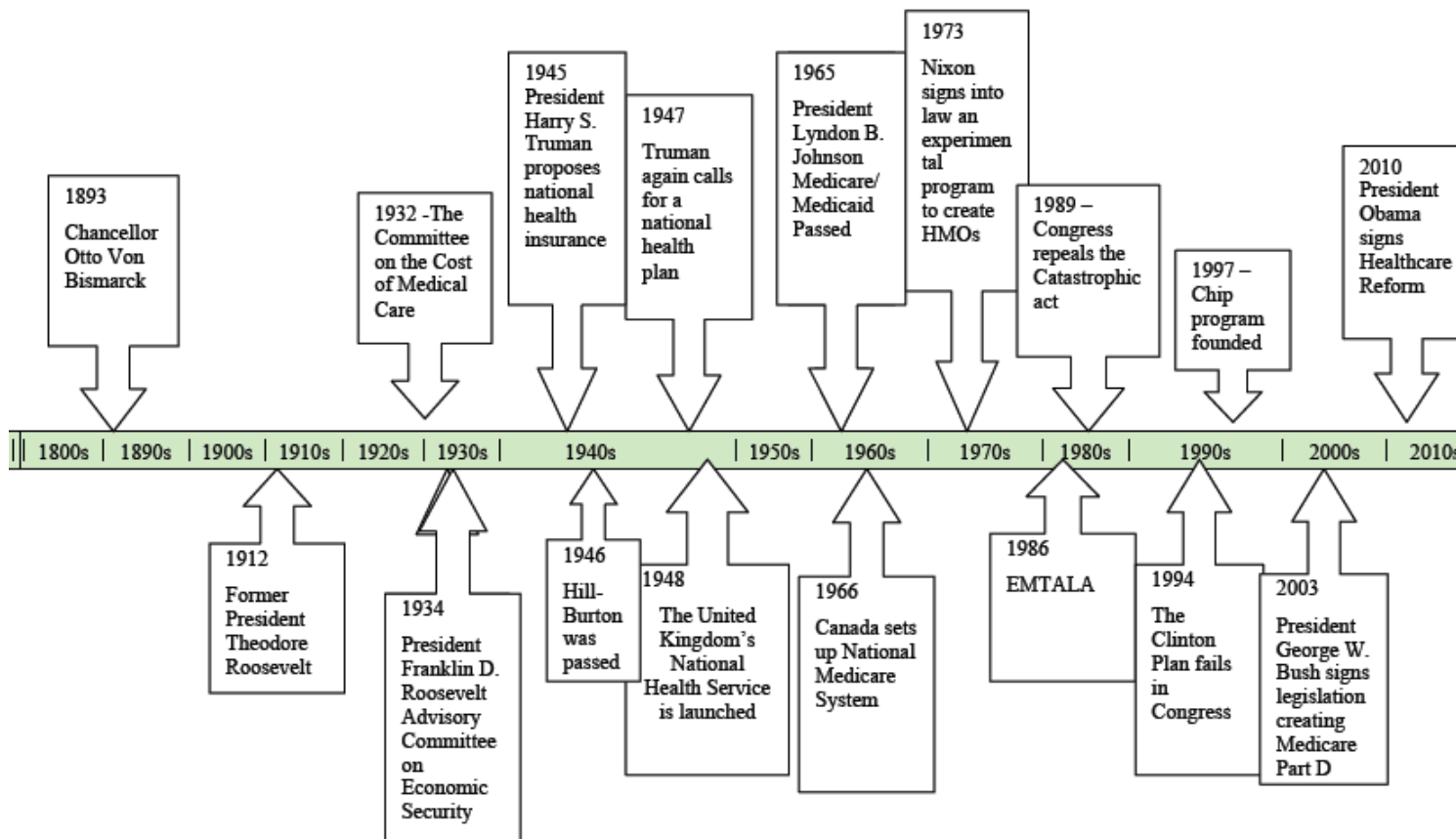
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Chairman – Fred L. Brown and  
Associates, LLC

Advisor – Nexus Health Capital, LLC

Source:  
Modern Healthcare  
March 29, 2010

# The Long, Long Road to National Health Reform (A Short History)



# The Cost and Efficiency Problem

- The classic model developed by Mark Chassin, MD to analyze the inefficiencies in the U.S. health care system – overuse, underuse, and misuse – suggests that there is a strong case establishing the relationship of cost and efficiency with the quality and safety of care provided to the public
- The most frequently cited causes of overuse are fee-for-service payment and the practice of “defensive medicine” by doctors fearing malpractice lawsuits

## The Rising Cost of Healthcare in the United States

- National expenditure on healthcare will be \$2.7 trillion in 2010 or about \$7,700 per U.S. resident
- Healthcare spending will account for 19.6 percent of the Gross Domestic Product by 2016
- Healthcare spending has risen about 2.4 percentage points faster than GDP annually since 1970

# The Cost and Efficiency Problem

- A February 2008 report from Deloitte concludes that Americans want more from the health care system than they are currently getting.
- At the same time, their anxiety about rising health care cost has increased.
- Interest and reliance on alternative medicine and services and new, more efficient providers of care like Convenience Care Clinics that can save money

# The Cost and Efficiency Problem

- The Deloitte study found that:
  - Thirty-four percent of Americans say that they will use a retail clinic while 16 percent say they already have
  - Sixty percent want physicians to provide online access to medical records and test results
  - One in three Americans want holistic or alternative therapies in their treatment programs
  - Over 75 percent want expanded use of in-home monitoring and online tools that would reduce the need for in-person visits and allow individuals to be more active in their care

# The Cost and Efficiency Problem

- Just over half of national health spending is for hospitals, physicians and clinical services
- Spending on prescription drugs accounts for 10 percent of health expenditures

# The Cost and Efficiency Problem

- A national study of Medicare beneficiaries showed that there did not seem to be any significant differences in the quality of care or access to care from region to region despite the fact that Medicare beneficiaries in high spending regions like Miami, Florida, received about 60 percent more care than beneficiaries in low spending regions like Minneapolis, Minnesota. (The Challenge Facing the U.S. Health Care Delivery System, Harvard Business School, June 2007.)

# The Cost & Efficiency Problem

## Desired Future State

- The AHA estimates that about 21 percent of a hospital's revenue is spent on administrative cost, billing and insurance related activities
- Healthcare reform includes significant expansion of the administrative simplification requirements under HIPAA

# The Cost & Efficiency Problem

## Desired Future State

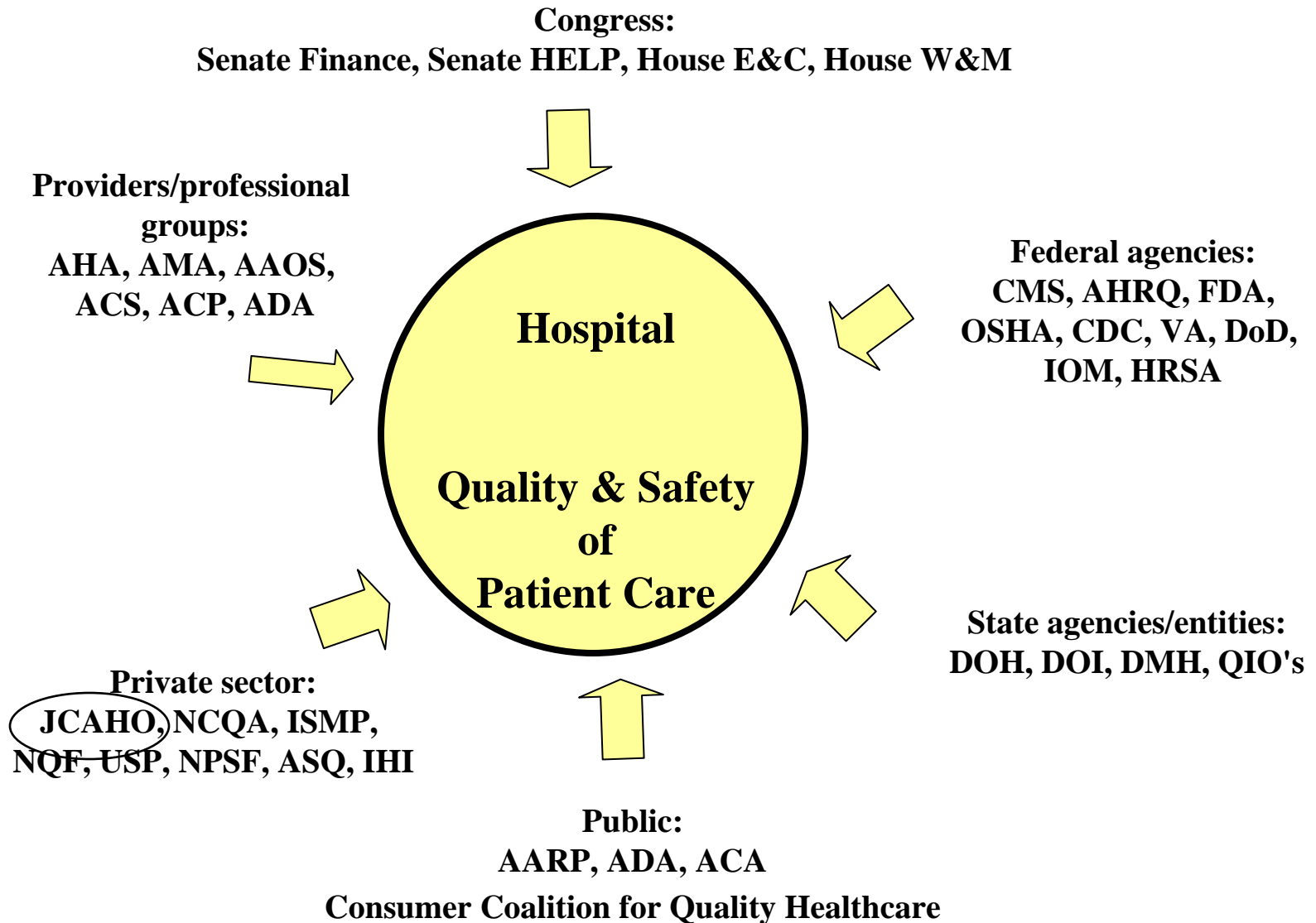
- Hospital and physician incentives, need to be aligned to encourage all to work toward the provision of effective care to prepare the organizations to become accountable healthcare organizations under healthcare reform
- Incentives should also be designed to reward both high levels of performance and substantial improvements for those hospitals that may not be current high performers but are making an investment to improve

# The Quality and Safety Problem

- Since the Institute of Medicine's 1999 report on patient safety, *To Err is Human*, there is little evidence that the U.S. health care system has made any progress toward meeting the IOM goal of reducing preventable adverse events by 50 percent

# Trends...Increased Interest in the Quality & Safety of Hospital Care

The Joint Commission



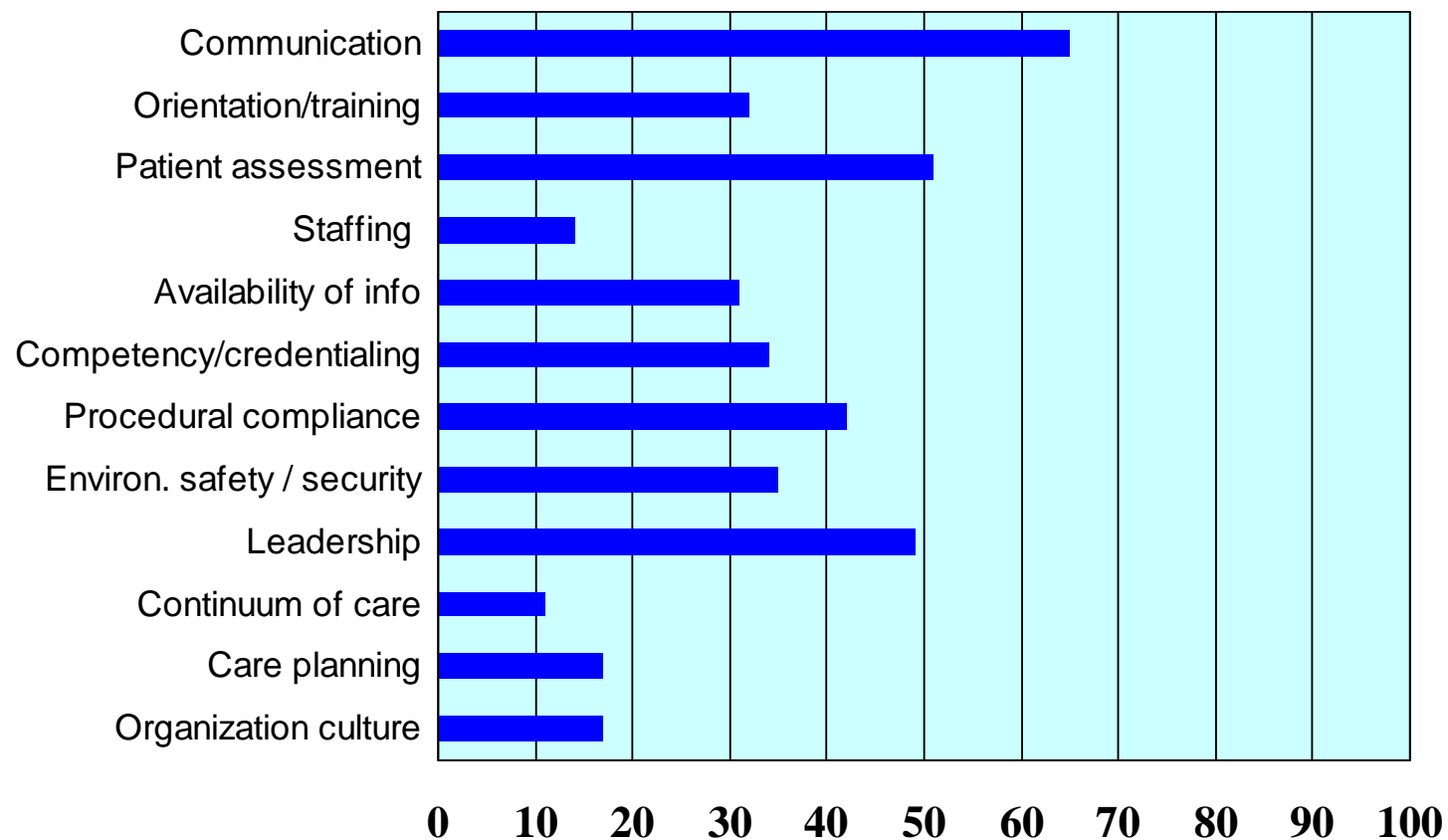
# The Quality and Safety Problem

- According to the IOM Study, *To Err is Human*, the results of a study conducted in Colorado and Utah imply at least 44,000 Americans die each year as a result of medical errors
- A second study conducted in New York, suggests the number may be as high as 98,000 deaths

# The Quality and Safety Problem

- New technologies often provide new and sometimes unforeseen opportunities for error
- Whether or not a hospital has a culture of safety and adequate staffing are critical risk factors contributing to an organization's patient safety track record

# Root Causes of Sentinel Events (All categories; 2006)



# The Quality and Safety Problem

## Desired Future State

- Health care industry leaders must work collaboratively to identify and spread the implementation of effective solutions to our most pressing quality and safety challenges

# The Quality and Safety Problem

## Desired Future State

- The challenge for the U.S. health care system will be to move to quality and safety records comparable to those in high reliability organizations like the airline industry, and nuclear power plants
- Hopefully this will be the next evolution of the American healthcare system