TRANSFORMING FOR TOMORROW
PLANNING FOR THE FUTURE 2.0

California Hospital Volunteer Leadership Conference
February 21, 2017

C. Duane Dauner
President / CEO
California Hospital Association
Federal Issues

- Election and fallout
- New government
- Political environment
  - Partisanship / issues
- ACA
- Violence / homeland security
- Immigration
- Medicare and Medicaid
  - ACA / other cuts
Federal Issues (cont’d)

- Income inequality
- Tax reform
- Foreign policy
- Environment
- Balance of Power
- Infrastructure
- Civil justice
- Education
JUXTAPOSITION OF

- Populist principles espoused by President Trump
- Traditional Republican ideals embodied by U.S. House Speaker Paul Ryan (R-WI)
- Influence of the House of Representatives’ Freedom Caucus

= significant challenges and uncertainty!

- U.S. Supreme Court
OUTLINE STATING POLICY PRINCIPLES FOR HEALTH CARE

- Repeal the ACA and replace it with policy that would:
  - Provide for state regulation of health insurance
  - Expand use of health savings accounts
  - Allow cross state purchasing
  - Support state high-risk pools
- Advance research and development in health care
- Tax reform
Reform the Food and Drug Administration to put greater focus on the need of patients for new and innovative medical products.

Modernize Medicare, so that it will be ready for the challenges with the coming retirement of the Baby Boom generation — and beyond (premium support).

Maximize flexibility for states in administering Medicaid, to enable states to experiment with innovative methods to deliver health care to our low-income citizens (block grants / per capita caps).
Intensity to move repeal legislation quickly!

Budget Reconciliation = most expedient method to pass an ACA repeal

- Legislative mechanism that requires a simple majority in the U.S. Senate to pass legislation that has a budgetary impact

- Two-stage process:
  - Reconciliation instructions that call for legislation to be developed achieving a desired budget outcome are included in the budget resolution
  - The resultant legislation is considered under expedited legislative procedures
Use the current fiscal year (2017) budget to pursue reconciliation legislation focused on the ACA during January

Limitations

- Byrd Rule — a provision can be considered extraneous if it doesn’t change spending or revenues or if its change in spending or revenues is “merely incidental” to the provision’s non-budgetary effects

- Congress used the reconciliation process to pass repeal legislation (H.R. 3762) last winter that was ultimately vetoed by President Obama and to pass portions of the ACA
What can be repealed via reconciliations?

- H.R. 3762, the Restoring Americans’ Healthcare Freedom Reconciliation Act could be the blueprint
  - Funding for Marketplaces
  - Premium tax credits and cost sharing subsidies
  - Individual and employer mandate penalties
  - Medicaid expanded coverage for adults
  - Taxes (Cadillac, medical devices, insurer fee, tanning tax)
  - Restrictions on “consumer directed” health plans (HSAs, MSAs, FSAs)
Vulnerabilities for Hospitals

- Coverage
- Medicare & Medicaid cuts
  - -$165 billion net impact of loss of coverage to 22 million individuals (2018-2026) if immediate repeal without replacement;
  - -$289 billion impact in continued Medicare cuts to hospitals nationwide
  - -$50 billion for California in ACA related Medicare cuts (market basket, productivity, DSH)
- Area Wage Index Rural Floor Budget Neutrality
- Physician owned specialty hospitals
- 340B Expansion
- CMMI
Procedural questions – replace with repeal or after?

- Republicans have pledged: no immediate impact
- Repeal bill created a two-year transition period (2016)
- Congressional Budget Office estimated 22 million people would lose insurance after the transition period ended
- Stability of individual / small group insurance markets?
1 in 3 California residents rely on Medi-Cal for coverage, a total of 13.6 million individuals

3.7 million individuals gained coverage through the Medi-Cal expansion

The Medi-Cal expansion provided coverage for 1.8 million children, nearly a half million seniors, and 1.3 million individuals in low income working families

The Medi-Cal expansion covers a diverse population, including nearly 2.4 million Latinos, African Americans and Asians
Implications for Hospitals

UNCOMPENSATED CARE COSTS

Although bad debt and charity care have been reduced by increased coverage, growing losses from Medicare and Medi-Cal have resulted in higher uncompensated care.

- Although bad debt and charity care have been reduced by increased coverage, growing losses from Medicare and Medi-Cal have resulted in higher uncompensated care.

The hospital fee program mitigates about 40% of the Medi-Cal loss.

1 Annual OSHPD Data 2013 and 2015
2 Annual OSHPD Data 2013 and 2015
3 Annual OSHPD Data 2013 and 2015
4 Estimated, excludes hospital fee
Implications for Hospitals

HOSPITAL FEE AND OTHER PROGRAMS

Federal Block Grant/Per Capita Cap

GF/CMS

Federal dollars for the hospital fee

Federal dollars from IGT/CPE programs

Federal dollars for DSH payments

Federal dollars for Medi-Cal expansion
CHA Priorities and Next Steps

- Size of the Pie
- Comparable Coverage
- Quality & Access
- Engage the delegation
  - Majority & Minority Leaders
    - House split: 241 Republicans to 194 Democrats; California House Split: 39 Democrats to 14 Republicans
    - Senate: 52 Republicans, 46 Democrats, 2 Independents; California’s Senators are both Democrats
- Prepare for an active advocacy year
CMS Policies

- Medicare DSH / Medicaid DSH
- New model would bundle payments to acute care hospitals for heart attack and CABG
- Expands CJR to include surgical treatments for hip and femur fractures beyond replacement (7/1/17)
- Medicaid Managed Care Rule
- Barriers
2017

- Workforce / residency slots
- Expiring rules
- HOPD site-neutral payments (Section 603)
- AWI / Rural floor
- Medicaid Managed Care rule implementation
- Broad RAC reform
- Cybersecurity
- Income inequality
- Executive compensation
Rural provisions
  – Physician supervision

GME (IME and DME)

Readmissions measures for socio-demographic factors

Bundled payments and global payments

Evolving risk arrangements/VBP

MACRA

Workplace
2017

- Rx pricing
- Behavioral health
- Charity care /community benefit
- Insurance company consolidations
- Tax-exempt status
- Cybersecurity
- Hospital consolidations
- Violence and gun control
- Surprise bills
State Issues

- Power and influence
- 2016 election / aftermath
- Behavioral health
- ACA implementation
- Long-term financial stability
- Special interest priorities
- Pressure points / EMS
- State budget / Medi-Cal
- Rx
State Priorities

- Access/quality/direct care
- Adversarial actions against hospitals
- Behavioral health / homeless / substance abuse
- Upstream social determinants of health
- Hospital-physician alignment
- Specific issues
  - Executive compensation
  - Community benefit
- Emergency services
The U.S. is an Anomaly in Health and Social Spending Patterns

- Health expenditures as % of GDP
- Social service expenditures as % of GDP

Graph showing health and social spending patterns across various countries, with the United States highlighted.
Trends

- Consumers’ involvement
- Bundled, global and risk-based payments
- Consolidation of payers and providers
- Transparency and data
- Disruptive technology
- Exchanges – 2017
- Socio-demographics
- Millennials and Gen X
- Boundary erosion / differentiation
- New schools for health care professionals
The New Health Economy is Changing the Health Care Landscape and Driving Deal Activity in the Market

New entrants are redefining care delivery models

Fact: Of the 38 Fortune 50 companies with a major stake in healthcare, 24 are new entrants

Healthcare players are expanding their scope of services to capture additional revenue streams

Fact: Total hospital transaction value increased from $1.9B in 2012 to $18.6B in 2013

Risk Shifting

Payors are shifting risk to providers & consumers and incentivizing low cost quality care

Fact: By 2018, 50% of health systems are expected to apply for an insurance license

Convergences

Healthcare players are coming together to achieve scale and maximize efficiencies

Fact: Consolidation has increased more than 50% since 2009

Consolidation & Affiliation

Health care leaders will need to adjust their strategy to align with the new definitions of success in the New Health Economy

Source: Hospital Physician Alignment. The Future of Integrated Health Care, PwC
Future of California Hospitals

- Changes in utilization and services
- Changes in payment models
- New relationships, alignments and partners
- Aligned clinical and financial incentives
- Coordinated care
- Markets / competition
- Value
- Risk
- CAHs
Challenges for California Hospitals

- Fixed assets and expenses
- Time / cost of transformation
- Creation of coordinated care partnerships and arrangements
- Leadership
- Differentiation
- Financial stability and risk
- Enterprise entities
Challenges for California Hospitals

- Costs and prices / contracts
- Political environment / CHPAC
- Labor environment
- Utilization
- Changing landscape and trends
- Community benefit
- Tax status
- Workforce and compensation
Hospitals

- Systems and consolidation
- Partnerships and alliances
- Evolving roles in communities
- Virtual networks
- Integrated systems
- Enterprises
- Future roles
Delivery Innovations

- Predictive modeling
- Multiple networks / differentiation
- Unit cost and utilization focus
- Evolving into pharma, specialty, mental health, long-term care, ambulatory settings
- Provider segmentation
- Case management
Platforms have Become the Next Dominant Business Model

THE EXPERIENCE

PLATFORM

VALUE

CONSUMERS

PRODUCERS
eCommerce Continues to Disrupt Physical Retail

Nearing 10% of all total retail sales

Digital's Share of US Retail Sales

- Media, Sporting, and Hobby Goods
- Electronics, Appliances, Computers
- Clothing and Accessories
- Furniture and Home Furnishings
- Health and Personal Care
- Food and Beverage

Source: 2015 US Economic Census, BI Intelligence
By 2020, 80% of the Global Population will own a Smartphone and the Smartphone owns our attention

87% of smartphone owners say it never leaves their side

Millennials checks their phones every 10 minutes

Goldfish now have better attention spans than humans

Human in 2000: 12 seconds
Human in 2013: 8 seconds
Goldfish: 9 seconds
The Next Wave(s) of Tech Innovation are Already Underway

3D printing, IoT, VR, AR, Frictionless Payments, etc.
The Future

- Risk for defined populations / care episodes
- Total care / whole person care
- Team orientation
- Actual and virtual models
- Enterprise structures
- Disruptors
- Continuous change
- Technology
Role of the Volunteer

- General understanding of landscape
- Voice of reassurance
- Ambassadors to the community
- Extended role externally
- Technology and interpersonal liaison
Creating the Future

- Understanding where we are and what trends are beyond our control
- Knowing where we intend to go
- Having the vision and courage to take calculated risks
THANK YOU
Transforming for Tomorrow: Planning for the Future 2.0

California Hospital Volunteer Leadership Conference
February 21, 2016

Dimitrios Alexiou, FACHE
President & CEO
Hospital Association of San Diego & Imperial Counties
State Issues

2016 was a successful year

- Eliminating the distinct-part skilled-nursing facility (DP/SNF) “clawback"
- Defeat of harmful bills including executive compensation, notification, bed registries, etc...

Ballot initiatives

- Props 52, 55 and 56 passed

ACA implementation

- Covered California
- Medi-Cal
2017 Issues

- 2016 Elections
- Behavioral Health
- Emergency Medical Services
- ACA implementation & Medic-Cal Expansion??
- Over 1,600 bills already introduced to date
2017 Priorities

Behavioral Health
Mandates
Emergency Services
Medi-Cal

= FINANCIAL CHALLENGES
Local Issues

- Medi-Cal
- Emergency Services
  - Access and volumes
- Behavioral Health
  - Gaps in the Continuum
  - Reimbursement
- Workforce
- Community Benefit
  - Social Determinants of Health
Medi-Cal and Covered California Enrollment

*California 2015 population – 39.1 million

www.hasdic.org
Medi-Cal and Covered California Enrollment in San Diego County

*San Diego 2015 population – 3.3 million

www.hasdic.org
Medi-Cal Coverage Expands (ACA)

• Demand increases
• Providing coverage to more than 13 million residents (half of all children) 1 in 3 residents
• Access barriers are amplified by low Medi-Cal payments
• Expanding coverage without access

www.hasdic.org
Medi-Cal Under-Funding Crisis / Cost Shift

- Medi-Cal uncompensated care in hospitals exceeds $7 billion a year

Cost of Providing Care and Services

- Private payer
- Medicare
- Medi-Cal
Demand For Health Services Surges

- Medi-Cal expansion is driving increased demand
- More than 200,000 additional Medi-Cal inpatients
- 4 million more Medi-Cal outpatient visits

[Images: 200,000 + 4 million +]
Coverage Does Not Equal Access

- Demand for care increased Medi-Cal ED visits by 1 million
- Low payments to doctors have reduced access
- Medi-Cal patients turn to overcrowded hospital EDs
Emergency Department Volumes Continue to Grow

*San Diego 2015 population – 3.3 million
Emergency Care Systems Initiative

Californians are turning to hospital emergency departments in record numbers, often because they cannot get the care or assistance they need elsewhere. These people are in need of help, but many do not need emergency medical treatment.

How do we get people appropriate care and preserve emergency departments for those truly needing life-saving care?

It is a daunting question that demands our attention. It is a societal problem that is compromising patient care, increasing health care costs, and crippling hospital emergency services.

The time for action is NOW.

14 Million Visits
were made to California EDs in 2015
Behavioral Health Challenges

- Steadily increasing 5150s – law enforcement detentions requiring medical evaluation.

  **Child / Adolescent**
  - Community-based services lag needs
  - Lack of Crisis Residential (more in planning)

  **Adult / Older Adult**
  - Lack of sufficient Crisis Stabilization, Residential, i.e., wait list
  - Lack of sufficient Skilled Nursing Facilities (SNFs) with special treatment program status
  - Lack of IMD capacity, especially for “step down” programs
  - Lack of sufficient acute rehab beds (i.e., Crestwood programs)
  - Wait lists for Long Term Care beds (i.e., Alpine, state)

- Low Medi-Cal reimbursement contributes to low up-take

www.hasdic.org
### Workforce

#### Traded Economies: Employment Breakdown

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>12.6%</td>
</tr>
<tr>
<td>Tourism</td>
<td>11.8%</td>
</tr>
<tr>
<td>Military</td>
<td>10.2%</td>
</tr>
<tr>
<td>Healthcare &amp; Social Assistance</td>
<td>54.7%</td>
</tr>
<tr>
<td>Local (Except Healthcare)</td>
<td>10.8%</td>
</tr>
</tbody>
</table>

#### Largest Employers

<table>
<thead>
<tr>
<th>Rank</th>
<th>Organization</th>
<th>Total Local Employees</th>
<th>Full-Time</th>
<th>Part-Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Sharp Healthcare</td>
<td>17,809</td>
<td>11,804</td>
<td>6,005</td>
</tr>
<tr>
<td>3</td>
<td>Scripps Health</td>
<td>14,863</td>
<td>**</td>
<td>**</td>
</tr>
<tr>
<td>6</td>
<td>Kaiser Permanente</td>
<td>8,406</td>
<td>4,814</td>
<td>3,711</td>
</tr>
<tr>
<td>7</td>
<td>UC San Diego Health</td>
<td>7,438</td>
<td>5,777</td>
<td>789</td>
</tr>
<tr>
<td>10</td>
<td>Rady Children’s Hospital – San Diego</td>
<td>5,129</td>
<td>3,614</td>
<td>1,515</td>
</tr>
<tr>
<td>14</td>
<td>Palomar Health</td>
<td>4,467</td>
<td>2,700</td>
<td>1,028</td>
</tr>
<tr>
<td>21</td>
<td>VA San Diego Healthcare System</td>
<td>3,121</td>
<td>2,726</td>
<td>395</td>
</tr>
<tr>
<td>24</td>
<td>Tri-City Medical Center</td>
<td>2,189</td>
<td>1,556</td>
<td>633</td>
</tr>
<tr>
<td>26</td>
<td>Alvarado Hospital Medical Center + Paradise Valley Hospital</td>
<td>2,118</td>
<td>1,498</td>
<td>219</td>
</tr>
</tbody>
</table>

** Would not disclose

- FOUR of the top SEVEN largest employers are hospitals.
- 37% of total employees at the top TWENTY-SIX largest employers work for hospitals.
### Age of Physicians

**Select States vs. United States, 2012**

<table>
<thead>
<tr>
<th>State</th>
<th>Under 40</th>
<th>40 to 60</th>
<th>Over 60</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>16%</td>
<td>52%</td>
<td>32%</td>
</tr>
<tr>
<td>New York</td>
<td>18%</td>
<td>52%</td>
<td>30%</td>
</tr>
<tr>
<td>Florida</td>
<td>13%</td>
<td>57%</td>
<td>29%</td>
</tr>
<tr>
<td>United States</td>
<td>17%</td>
<td>55%</td>
<td>28%</td>
</tr>
<tr>
<td>Illinois</td>
<td>20%</td>
<td>54%</td>
<td>26%</td>
</tr>
<tr>
<td>Texas</td>
<td>19%</td>
<td>56%</td>
<td>25%</td>
</tr>
</tbody>
</table>
2016 CHNA Top Health Needs

- **Cardiovascular Disease**
  - Hypertension

- **Obesity**
  - Co-occurrence w/ other chronic disease

- **Type 2 Diabetes**
  - Uncontrolled diabetes

**Behavioral Health**
Alzheimer’s disease, Anxiety, Drug & Alcohol Issues, Mood Disorders

Social Determinants of Health

- Food Insecurity & Access to Healthy Food
- Access to Care or Services
- Homeless/Housing issues
- Physical Activity
- Education/Knowledge
- Cultural Competency
- Transportation
- Insurance Issues
- Stigma
- Poverty

- 38.1% of adults with an income less than 200% of the federal poverty level in San Diego were food insecure

www.hasdic.org
Health Spending vs. Social Spending

Health expenditures as % of GDP
Social service expenditures as % of GDP

Source: OECD
What’s Going on in San Diego?

San Diego is one of the few areas of the state with significant new construction...

Kaiser Permanente (321 bed hospital in Kearny Mesa scheduled to open in early 2017)

Scripps Health opened the John R. Anderson V Medical Pavilion, a state-of-the-art $130 million outpatient clinic featuring 17 medical and surgical specialties (June – 2016)

New Tijuana hospital to have binational focus
April 16, 2016
...as well as much expansion of facilities and services and new partnerships...

- Sharp opens Bonita hospice facility
  December 2, 2015

- Sharp, UCSD create joint transplant program
  January 10, 2016

- Area’s first geriatric ER coming to UCSD
  May 2, 2016

- UC San Diego Health to Collaborate with Company for Cancer Care in Imperial Valley
  March 7, 2016

- Palomar, Kindred to build rehab hospital
  June 14, 2016

- Tri-City, UC San Diego form partnership
  October 14, 2015

- Scripps affiliates with Brawley hospital
  October 5, 2016
Trends / Key Issues to Confront / Prepare For

- Population management, accountable care and physician/hospital alignment imperatives
- Expected further reduction in inpatient volume
- Continued movement toward capitated-like models (e.g., bundling)
- Affordability challenges in replacing/upgrading aging facilities
- Smaller pool of supplemental funds for hospitals
  - Provider fee, DSH, Other
- Aging physicians further aggravating shortages
- Consolidation: hospitals, medical groups, health plans, others
  - Will they be allowed?
The Future is in Front of Us

EXTRA! EXTRA!
READ ALL ABOUT IT!
CHANGES COMING!!!
Questions?

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