Healthcare, Inc.

Steve Lindstrom: OLLI Fall Course 2023

Class 4

Hospitals

Change ---- not so much

Home > Industry > Healthcare Industry

FEATURE

The fax is still king in healthcare — and it's not going away anytime soon

Fax machines and servers may be old tech, but they're trusted. And, until someone comes up with a more secure and prolific method for transmitting patient information and prescription requests, the aging systems aren't going anywhere.

By Lucas Mearian

Senior Reporter, Computerworld | MAY 22, 2023 3:00 AM PDT

"Interoperability is still a challenge. And for that reason many providers still resort to fax," he said. "Security and privacy is also part of it. Fax and phone is often perceived as more secure compared to electronic methods, especially with those more used to traditional ways of doing things. It's simply hard to disrupt and dislodge old ways of doing things."

Types

Financial

- For-profit
- Not for profit
  - Community based
  - Religious based

Types Specific Focus

- General
- Specialty
- Teaching
- Community
- Tertiary Care
- Quaternary Care
- Psychiatric

- Rehab
- Long term care
- Cancer Centers
- Cardiac
- VA
- Critical Access Hospitals
- Maternity Hospitals
- Government

Trauma Levels
American College of Surgeons (ACS) Trauma Center Designation System

Adult and Pediatric Levels

Level I:

- Most comprehensive
- Equipped to care for the most critically injured patients
- Full range of specialists and services available on a 24/7 basis
- General surgery, neurosurgery, orthopedic surgery, cardiothoracic surgery, vascular surgery, and pediatric trauma care.

Level II:

- Like Level I centers
- Limited range of specialists
- Fewer resources for complex cases.

Level III:

- Equipped - less severe injuries
- More limited specialists
- Transfer complex cases

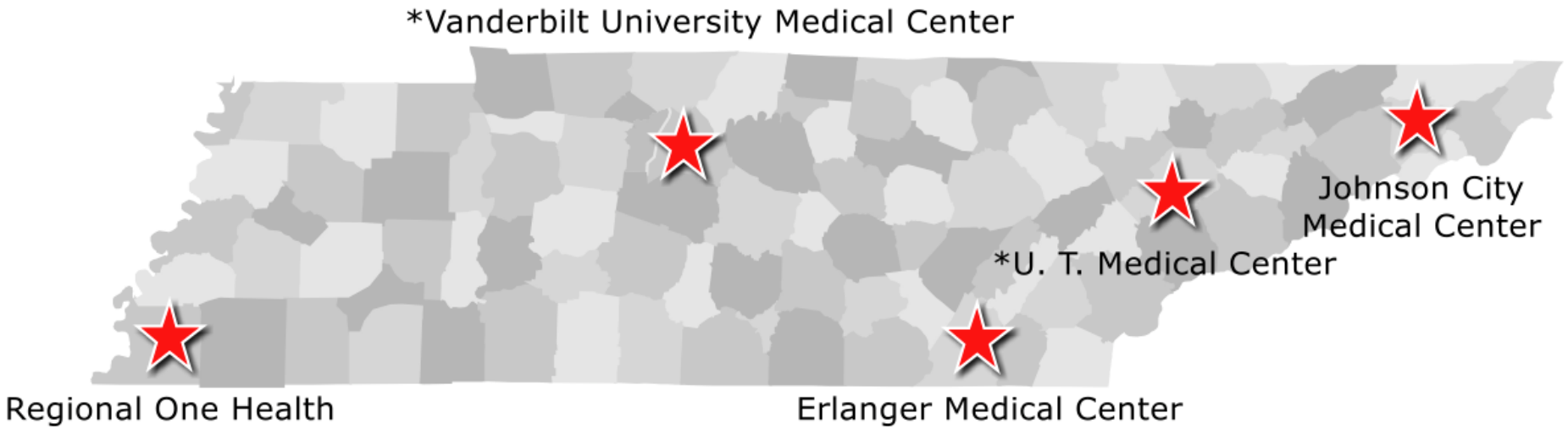
Level IV:

- Least comprehensive
- Equipped minor injuries
- Stabilize - transfer

Tennessee Trauma Centers

Current Trauma Center Location & Level of Designation

Level I Tennessee Trauma Centers



In addition to state designation "*" indicates verification as an American College of Surgeons Trauma Center

Tennessee Trauma Centers

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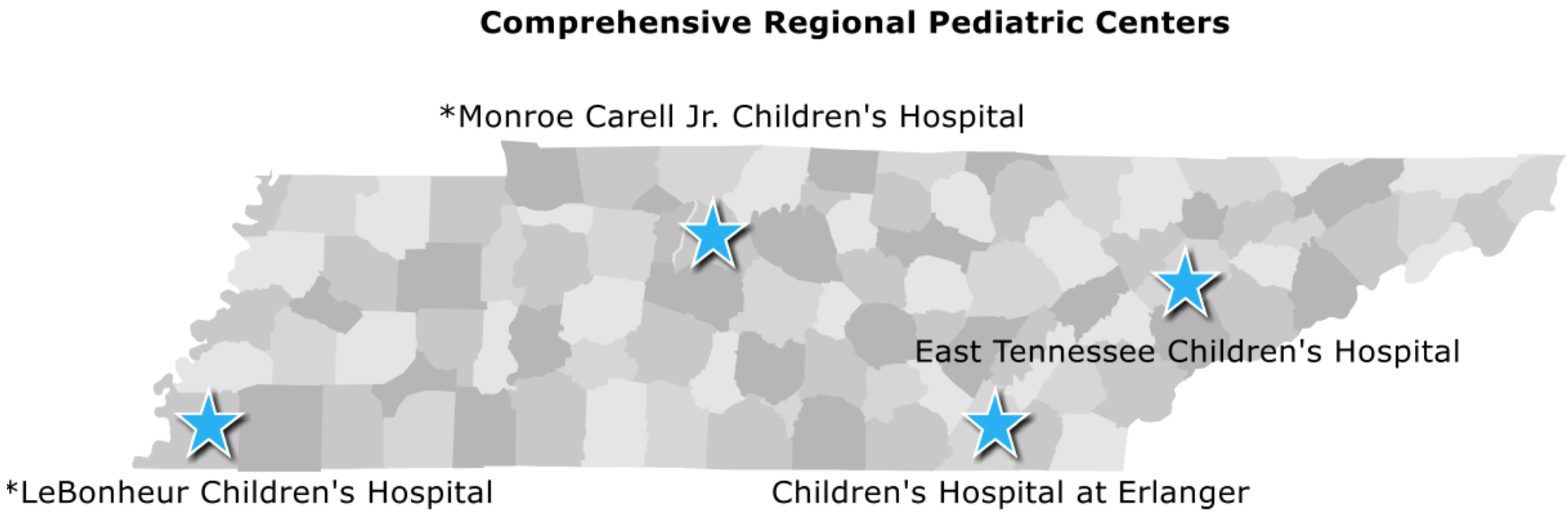
Tennessee Trauma Centers



*Indicates verification as an American College of Surgeons Pediatric Trauma Center

Rural Hospitals

17% of Population 46 million people

- **Between 2010 and 2021, 136 rural hospitals have closed**
- **19 in 2020**
- **74% of rural closures in states where Medicaid expansion was not in place**
- **Staffing shortages**
  - **Only 10% of physicians in rural areas**
  - **Rural - 14% of the population**
  - **70% of the primary care shortages are located in rural or partially rural areas.**
- **An AHA analysis 2010 and 2020 more than half of the hospitals that have been closed were independent.**

Rural Hospitals

17% of Population 46 million people

- **Despite facing ongoing challenges - pathways exist for financial sustainability.**
- **Partnerships, Collaborations, Mergers, Affiliations**
- **Easing of regulatory burden**
- **Government addressing low reimbursement – (50%of revenue)**
  - **2020 $5.8 billion in Medicare underpayments,**
  - **$1.2 billion Medicaid**
  - **$4.6 billion in uncompensated care**

Focus on Large Hospital Systems

- Multiple facilities
- Geographic coverage
- Diverse services
- Integrated care
- Research and education
- Economies of scale
- Care coordination
- Innovative systems of care:
  - Value-Based Care
  - Population health
- Financial stability
- Complex governance structure
- Collaborations and affiliations
- Ownership of physician practices
- Comprehensive approach to use of technology

Focus on Large Hospitals Systems

Top for profit systems 2022 Data Source: Most recent 10-k

	Revenue (USD billions)	Profit (USD billions)	Uncompensated Care	No. of Hospitals
HCA Healthcare	$60.2	$5.6	$3.4	182
Universal Health Services	$13.4	$.7	$2.6	28
Tenet Healthcare	$19.4	$1.0	.6	61
Community Health Systems	$12.2	$.179	$1.4	80
LifePoint Health Scion Health Kindred Healthcare	Not a public company	$	$1.1 From company report	65 79
Encompass Health	$2.8	$.36	---	157 Rehab
Steward Health Care System	Not a public company			33

Focus on Large Hospitals Systems

Top nonprofit systems 2022 Data Source: Fierce Healthcare

	Operating Revenue (USD billions)	Net Profit (USD billions)	Uncompensated Care	No. of Hospitals
Kaiser Permanente	$95.4	$(1.3)	$2.8 (Community Health)	39
Common Spirit Health	$34.6	$(1.3)	$2.0 UncCare $2.9 Comm Health	140
Advocate Health	$28.2	? New merger		67
Ascension	$28.3	$(2.6)	$1.7 $.4	144
Providence St. Joseph Health	$26.4	$(6.1)	$1.4 $2.1	51
UPMC	$26	$.23	$1.5	40
Trinity Health	$21.5	$(1.1)	$1.4	88

Focus on Large Hospitals Systems

Top nonprofit systems 2022 Data Source: Fierce Healthcare/ Organization website

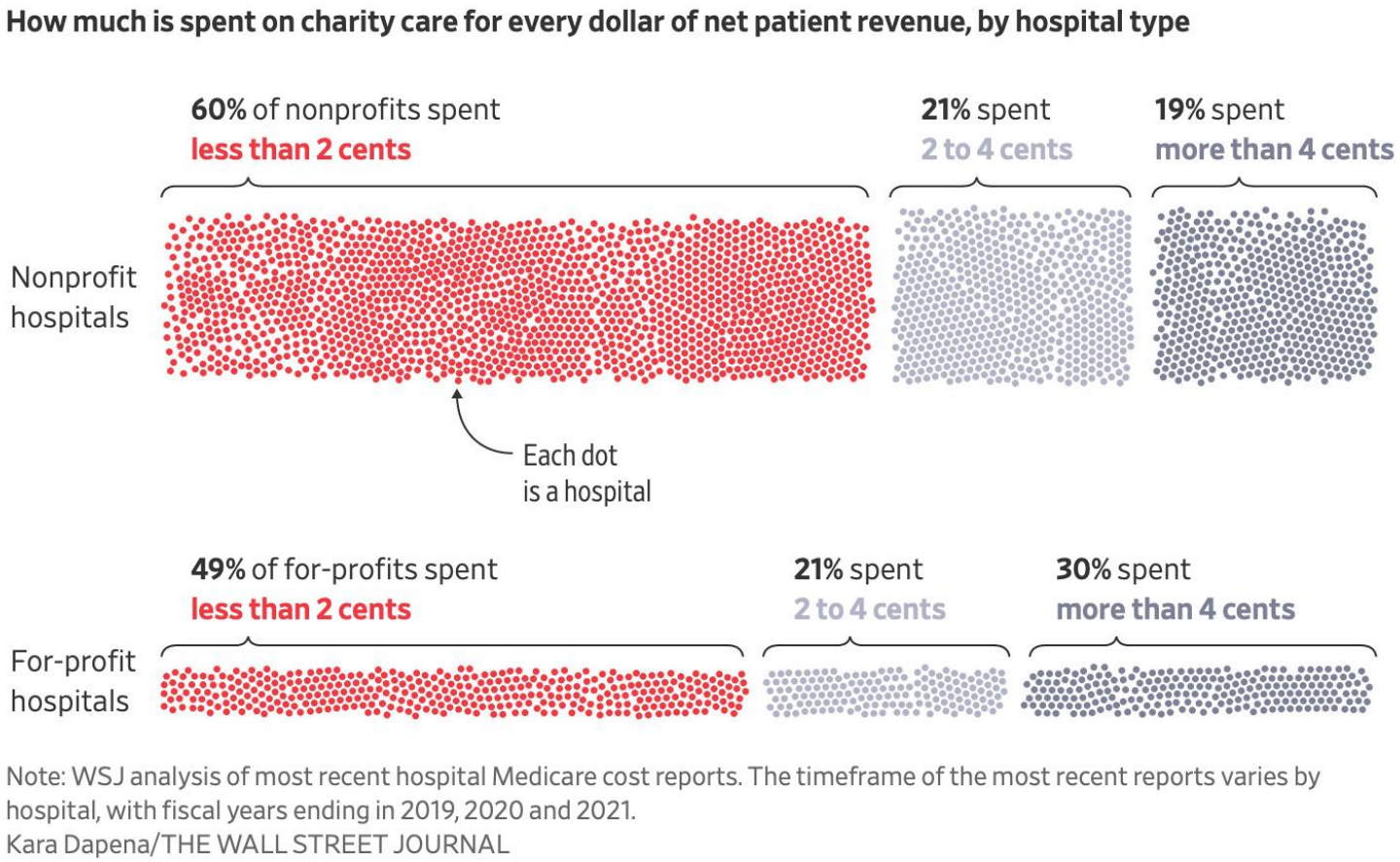
	Operating Revenue (USD billions)	Net Profit (USD billions)	Uncompensated Care	No. of Hospitals
Mass General Brigham	$16.7	($.43)	$2.3	
Univ. of Calif Med Ctrs	$16.5	$.33	2.8	5
Mayo Clinic	$16.9	$(.59)	$.6	19
Vanderbilt Univ Md Ctr	$5.3	$.15	$.530	3

Community Benefits

Not for Profit vs. For Profit

Patient revenue write-offs

- Majority charity hospitals 2.3%
- For Profit hospitals 3.4%



Source: WSJ July 2022 **Big Hospitals Provide Skimpy Charity Care—Despite Billions in Tax Breaks**

Kaiser acquires Geisinger

$5B - 5yr commitment

- Kaiser has a Value-Based Care Platform
- Kaiser wants to create a national brand to compete
- CEO “influence and survival”
- 4-5 other healthcare systems to follow

“American health care needs new ways to promote high-quality, affordable, accessible, and evidence-based care with equitable and improved health outcomes: We call it value-based care.

Check In

Diagnosis Related Group (DRG)

- System for classifying patients into groups based on their:
  - Diagnoses
  - Procedures
  - Age
  - Other relevant factors
- Developed by researchers in 1960’s
- Implemented in 1983 for DRG payment systems
- Hospitals paid a fixed amount for a bundle of services.

Diagnosis Related Group (DRG)

- Comparative across geographies and systems
- Encouraging efficiency
- Standard classification
- Decision support on resource allocation
- Quality improvements.

Disproportionate Share Hospitals - DSH

Serve a significantly disproportionate number of low-income patients

Receive special payments to cover the associated costs

Recognizes the financial challenges of serving this population

Outpatient Reimbursement
Medicare systems drive change

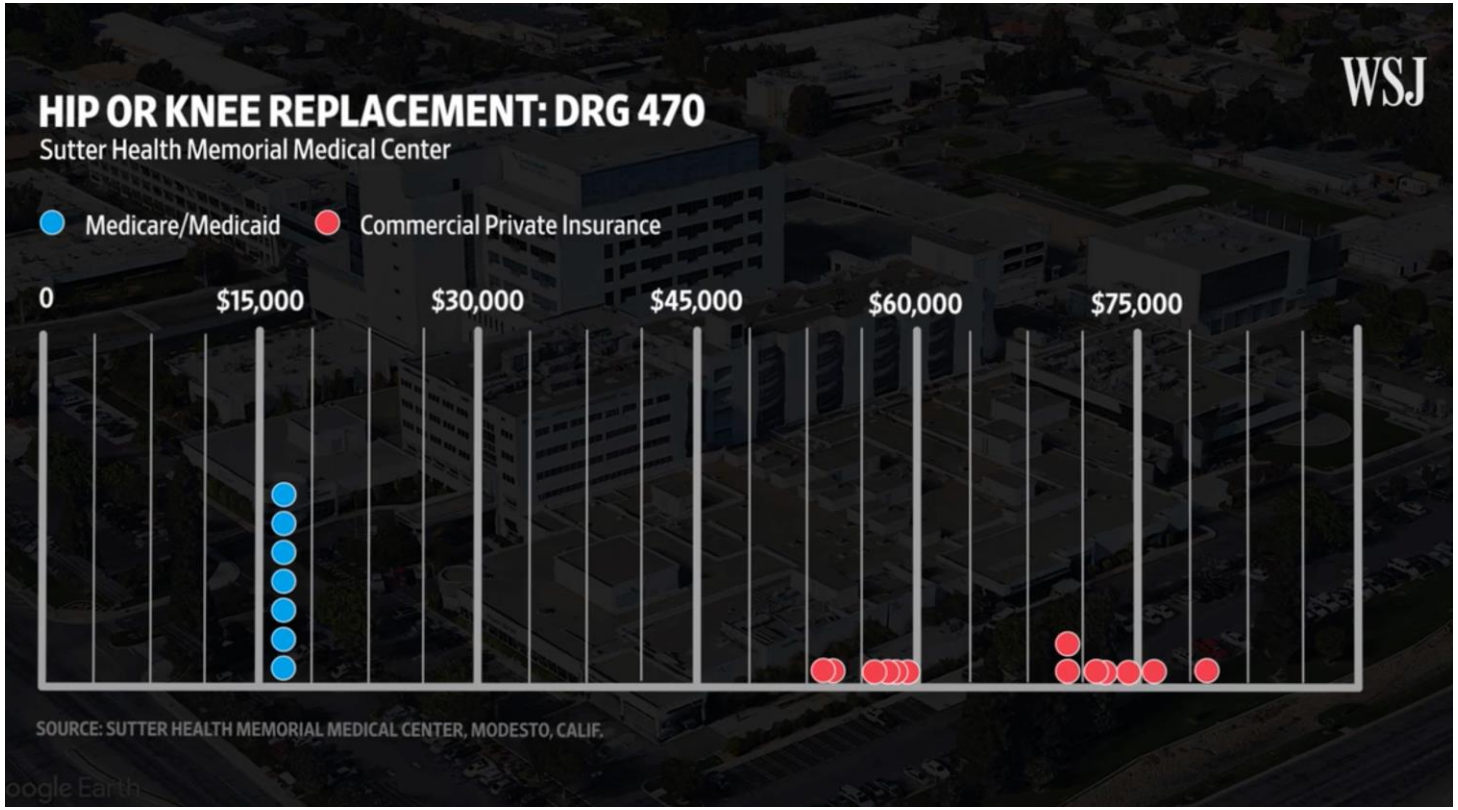
- Hospital Outpatient Prospective Payment System (OPPS).
- Ambulatory Payment Classification (APC)
- Key Trends - CMS
  - Increased payment -3.8% - 2023
  - Hospitals to submit quality data – rates reduced by 2%, if not submitted
  - Site-neutral payment policy for clinic visit services
  - Implications
    - outpatient reimbursement - remain stable
    - Exposure to potential risks from broad shifts in payment policy
    - Take steps to mitigate the risks to outpatient reimbursement
      - Investing in quality improvement initiatives
      - Expanding telemedicine offerings.

Disparities in Charges Exposed

Govt Regulation to Publish Prices 2021/23

- Competitors and contractors = full transparency
- Disparities exposed between Medicare and commercial
- “Chargemaster” - arbitrarily set
- Discounts = market share and leverage with Health Plans
- Create leverage by branding
- Consumers pre-procedure pricing
- Example: Sutter Health for routine knee or hip replacement surgery

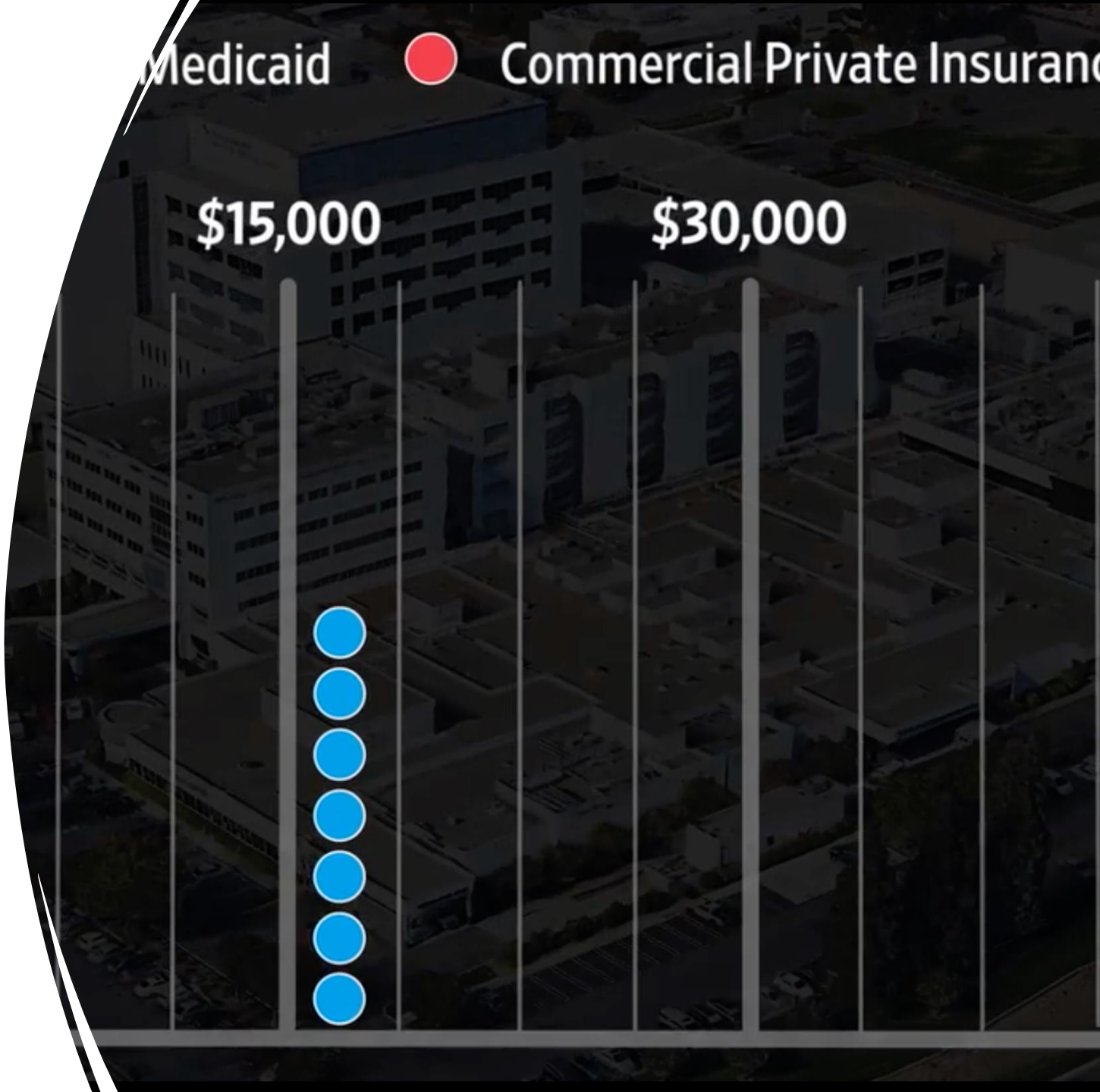
Disparities in Charges Exposed



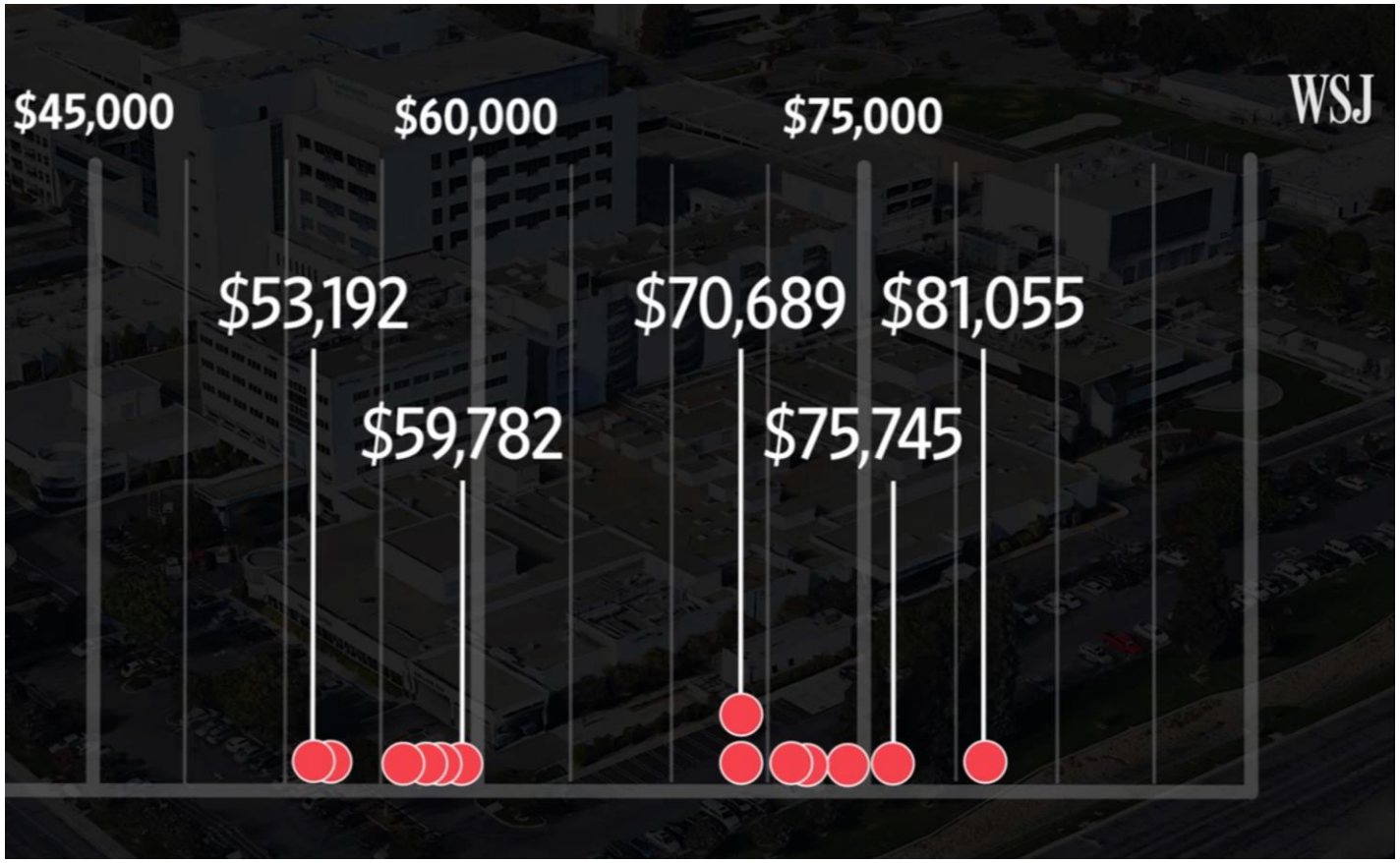
- Source: Wall St Journal article ”Big Nonprofit Hospitals Expand in Wealthier Areas, Dec 26, 2022

Disparities in Charges Exposed

- Medicare and Medicaid
- Not negotiated
- Establish base rate



Disparities in Charges Exposed



- Commercial Insurers
- 4x to 5x Government rates
- Wide range = $28K
- Each Insurer knows where they stand
- Imagine how this affects negotiation
- Who has leverage now?

Disparities in Charges Exposed

Vanderbilt Health Explainer

VANDERBILT HEALTH

List of Standard Charges

Hospital Pricing Transparency

Vanderbilt Health has provided links below to machine-readable files of the Standard Charge data for our hospitals and employed physicians. The data provided in these links was last updated September 1, 2023. You can also utilize our easy online tool to create an estimate of your personal out-of-pocket costs for many Shoppable Services (Estimates and Charges (Shoppable Services) | Vanderbilt Health Nashville, TN).

Standard Charge Data

The Standard Charge data incorporates information required to comply with Section 180.50 of the Hospital Price Transparency Rule (Title 45 of the Code of Federal Regulations Part 180) for individuals seeking hospital items and services. Definitions of information included in the Standard Charge data files are as follows:

1. **Gross Charge:** Amount billed for each item or service, absent any discounts
2. **Discounted Cash Price:** the charge for each item or service to an individual patient who is uninsured or pays cash
3. **Payer-Specific Negotiated Charge:** The price for each item or service negotiated with third-party payers presented with the payer's name
4. **Minimum Negotiated Charge:** The lowest charge negotiated among third-party payers for an item or service, without naming the payer
5. **Maximum Negotiated Charge:** The highest charge negotiated among third-party payers for an item or service, without naming the payer

If you view or download the Standard Charge data file, you understand and agree that the data is for the informational purposes required by Section 2718(e) of the Public Health Service Act and the Hospital Price Transparency Rule. It is not an offer or promise of the actual price of any item or service. The Standard Charge data files do not take the place of an estimate specific to items and services you are scheduled to receive. Vanderbilt Health has an online tool for estimating your charges and out-of-pocket costs (My Health - Patient Estimates for Shoppable Services (vumc.org)), or it will provide an electronic or paper estimate upon request. The final charges you will be billed will vary due to actual services you require, such as: the length of time spent in surgery or recovery; specific equipment, supplies and medications needed; additional tests required by your physician; and/or any unusual special care or unexpected conditions or complications. If you have insurance, the Standard Charge data may reflect rates agreed to by your insurance company; however, your individual insurance plan and covered benefits will ultimately determine the amount you owe, which may include a deductible, co-pay, co-insurance, and out-of-pocket maximums. You may be eligible for financial assistance under the Vanderbilt Health financial assistance policy (

Vanderbilt Health example

VANDERBILT HEALTH

Find a Doctor | Patients & Visitors | Services We Offer | Healthcare Professionals | Locations | Giving | Search

Estimate Your Out-of-Pocket Costs

Knowing what you're going to be responsible for paying out of pocket is essential to planning for your healthcare. Vanderbilt Health's easy online tool lets you create an estimate of your personal out-of-pocket costs for many common procedures and services.

It's just one more way we're personalizing care for you.

At Vanderbilt Health, we work hard to provide accurate and personal estimates of your out-of-pocket costs. And if you need help paying for care, we offer financial assistance and counseling.

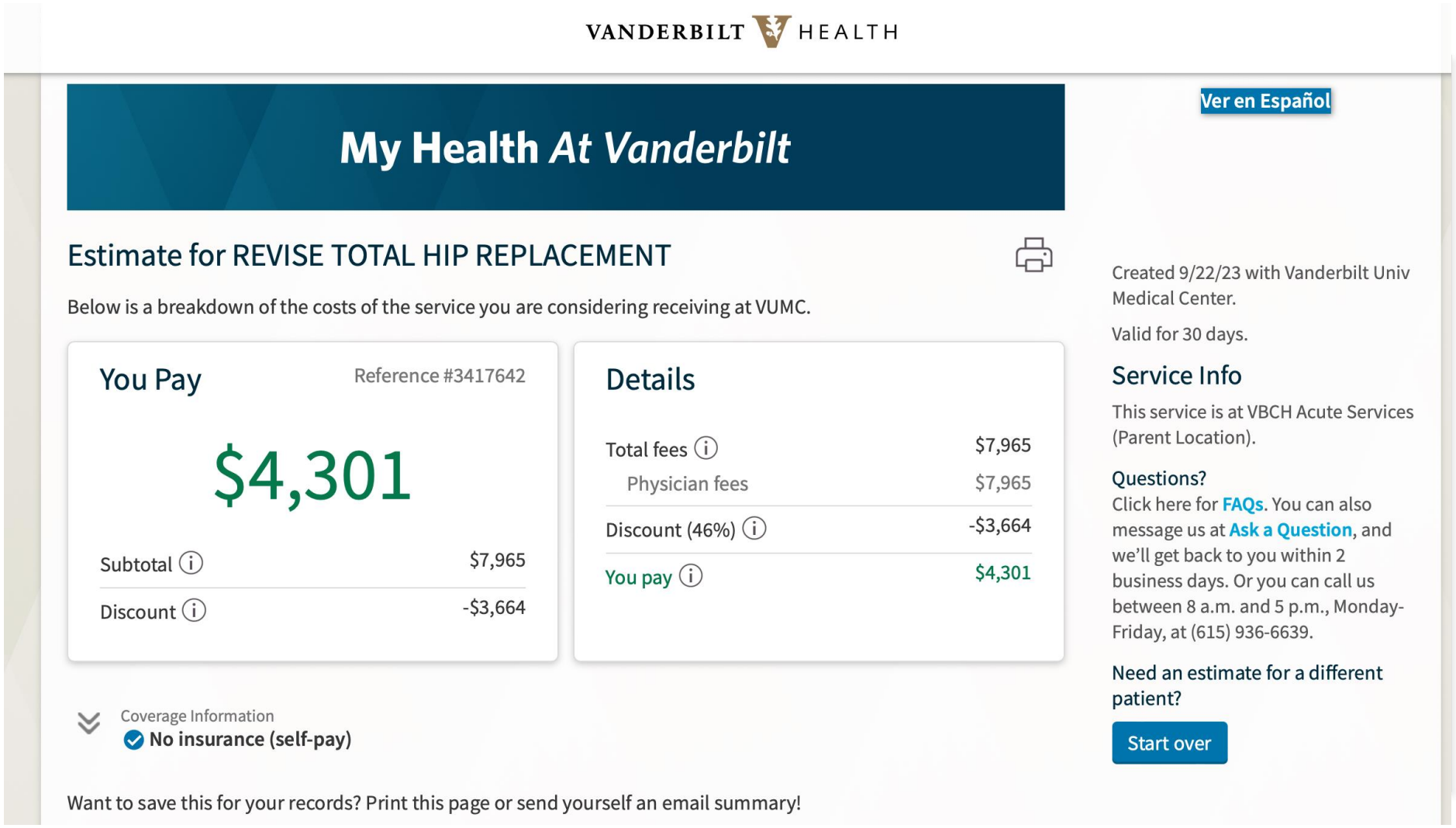
An estimate is just that – an estimate. It is not a guarantee of the exact amount you will be responsible for paying. Many things affect your out-of-pocket costs, including what your insurance covers and what co-pays, co-insurance and deductibles you may owe. Your care will be based on your specific needs. If the services you need change during your treatment, your out-of-pockets costs may change, too. ***More about understanding health insurance from Consumer Reports.***

As part of new regulations in effect January 1, 2022, Good Faith Estimates will be provided for all scheduled admissions and services to patients without insurance information on file. Learn more about Good Faith Estimates.

Billing and Finance Links

- Financial Assistance
- Guide to Billing
- Estimates and Charges (Shoppable Services)
- Standard Charges
- Understanding Your Bill
- Paying Your Bill
- Billing FAQs
- Surprise Medical Bills: Know Your Rights
  English | Other Languages

Vanderbilt Health example

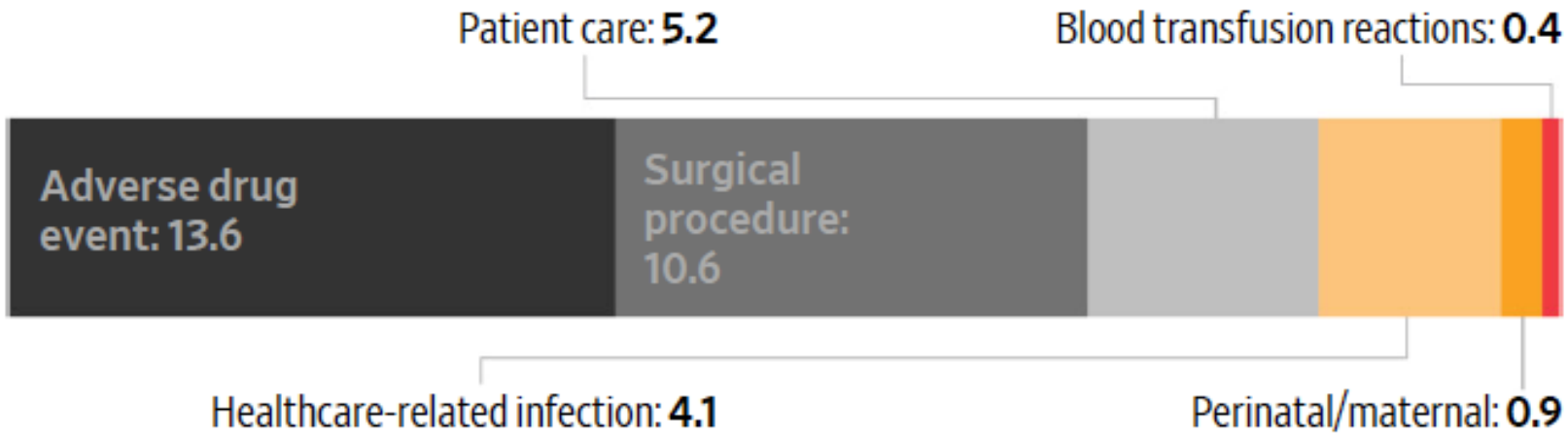


Why Hospitals Still Make Serious Medical Errors—and How They Are Trying to Reduce Them

Source: WSJ March 12, 2023

Persistent Problems

A random sampling of admissions at 11 Massachusetts hospitals found that adverse events occurred at a rate of 34.8 per 100 admissions. The rate by type of event:

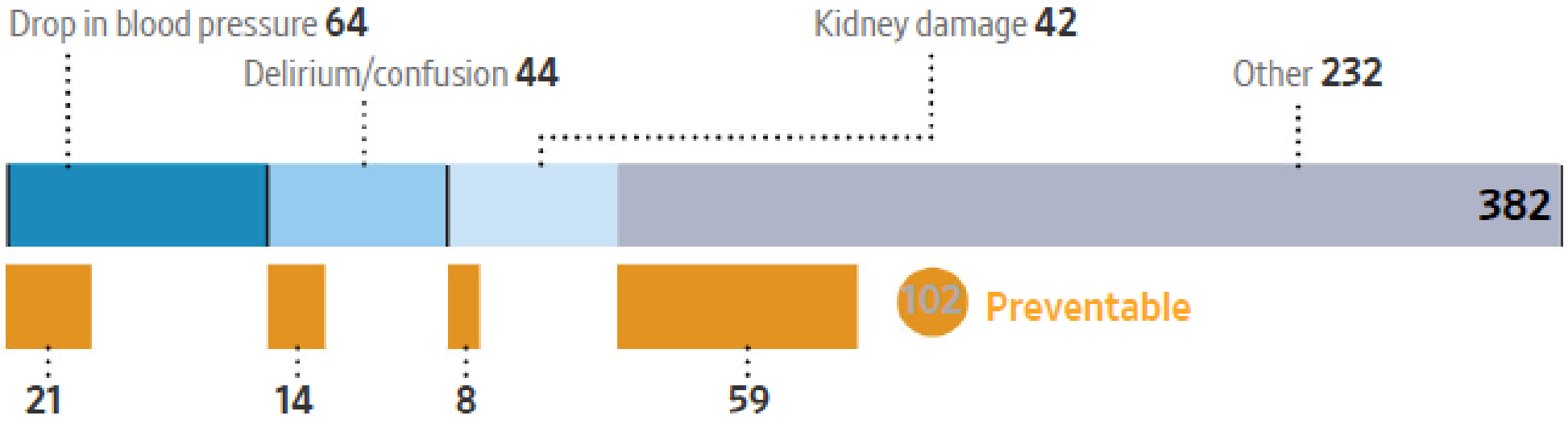


Why Hospitals Still Make Serious Medical Errors—and How They Are Trying to Reduce Them

Source: WSJ March 12, 2023

Where Errors Occur

How adverse events broke down by category in the study of Massachusetts hospitals, and how many of them were considered preventable



Hospital Systems Key Challenges

Balancing profitability and patient care

- Profits
- High quality care
- Where to cut costs
  - Workflow improvement
  - Lack of interoperability

Staffing issues

- Nursing need to create new sources and meet mandated staffing levels
- Burnout
- Cost of contract labor
- Competition for scarce physician talent and retiring providers

Rising costs and supply chain issues

- Labor
- Equipment Keeping up with latest technology
- Pharmaceuticals

Hospital Systems Key Challenges

Reimbursement challenges

- New payment models
- Extremely complex government incentive models
- Medicare and Medicaid payment levels
- Insurer consolidation to increase leverage

Regulatory compliance

- Federal, state and local
- Compliance is complex and costly, with consequences
- Insurers

Competition

- Other hospital systems
- New entrants picking off higher margin services

Hospital Systems Key Challenges

Shift traditional inpatient services toward lower revenue outpatient services

Technology investments

- Data management
- Support of new payment models
- Infrastructure

Keeping up with Advances in Medical Science

Hospital Systems Key Challenges

Future use of AI

- Nursing/ Patient management
- Complete charting and billing
- Predictive models where problems are lurking

Public perception

- For-profit in healthcare
- Negative press on adverse events and collection issues
- Health Equity

Patient Safety

- Hospital-acquired infections
- Adverse events

Nonprofit Hospitals
Current Issues

Struggling financially in recent years

Median operating margin in 2022 .2% Range 27%--21.5%

•Source: Fierce Healthcare

Pandemic related issues

Access to capital markets

How to deal with underserved areas

Decline in government funding

Access to capital

Tax-exempt status

Not enough charity care

Transparency in accounting

Use of for-profit subsidiaries

Sustaining differentiated Non-Profit Branding positions in communities they serve

Community benefit

Reputation

Mergers and affiliations

Level of reliance on donations – economic headwinds?

Competition with for-profit systems

Nonprofit Hospitals Challenge to Underserved Markets

“Many of the nation’s largest nonprofit hospital systems, which give aid to poorer communities to earn tax breaks, have been leaving those areas and moving into wealthier ones as they have added and shed hospitals in the last two decades.”

”Big Nonprofit Hospitals Expand in Wealthier Areas, Shun Poorer Ones” Wall St. Journal Dec 26,2022

Check In

Case Study

Ascension

Source: Company website

- Catholic nonprofit
- 134,000 associates
- 35,000 aligned providers
- 140 hospitals, 40 senior living facilities, 19 states
- Revenue flat, and expenses increasing
- Shift from Inpatient services to outpatient
- “Strengthen service line growth and ancillary and outpatient footprint”
- Senate Investigation into Wisconsin operations and nonprofit use of for-profit subsidiaries 2/13/2023 Senator Baldwin

Ascension Performance Indicators

	Years ended June 30, 2023	2022
Net Patient Service Revenue	$ 25,648	$ 25,199
Other Operating Revenue	2,700	2,776
Operating Expenses	29,946	28,774
Income (Loss) from Recurring Operations before SITF investment return[1]	(1,599)	(799)
Recurring Operating Margin	(5.6%)	(2.9%)
Impairment and Nonrecurring Gains (Losses), net	(1,495)	26
Income (Loss) from Operations	$ (3,044)	$ (879)
Net Income (Loss), excl. Noncontrolling interests	$ (2,660)	$ (1,844)

- Revenue Flat
- Expenses increased
- Sales of assets
- Investment in Outpatient and Telemedicine

Ascension Performance Indicators

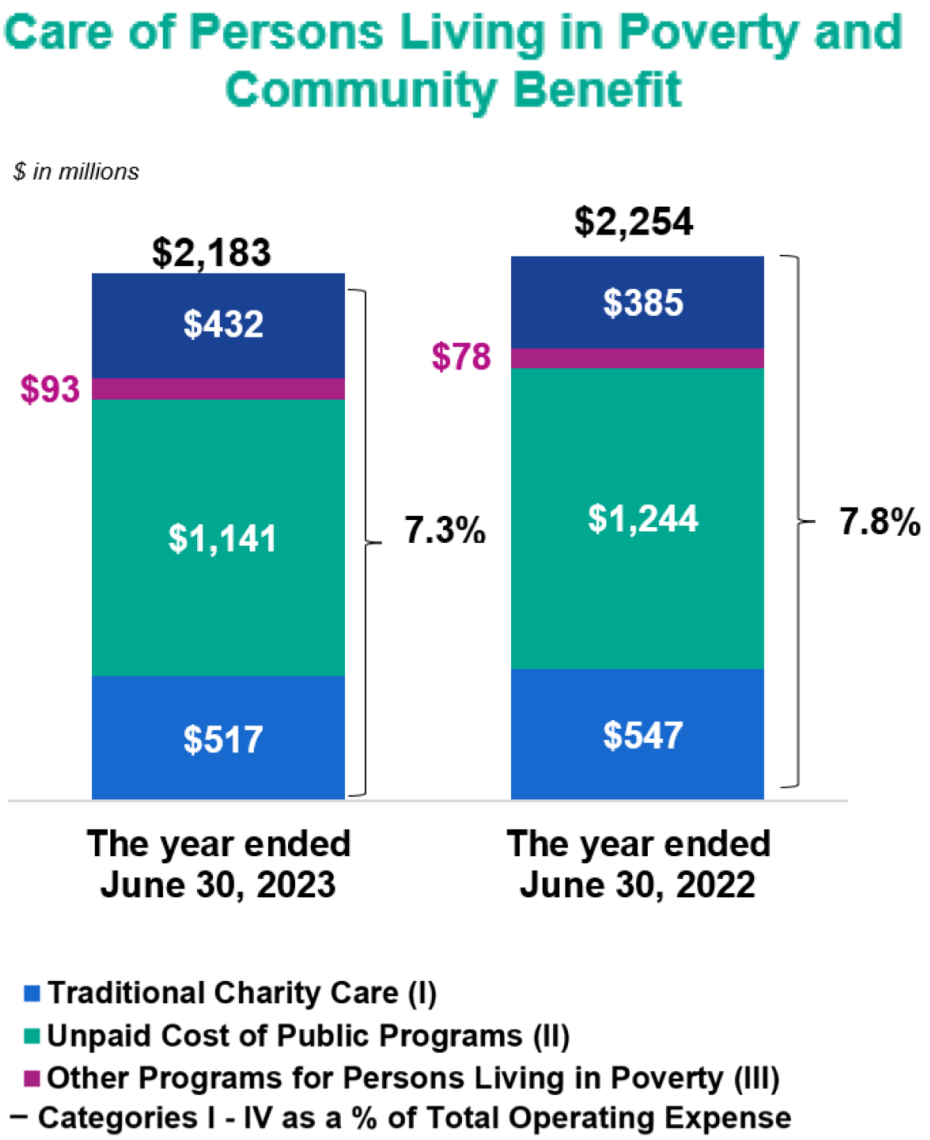
Volume Metrics	Three months ended June 30, 2023	2022	Inc/(Dec)
Equivalent Discharges	399,221	389,971	2.4%
Total Admissions	178,680	176,146	1.4%
Surgery Visits (IP)	41,384	40,408	2.4%
Surgery Visits (OP)	111,208	109,325	1.7%
Observation Days	68,883	76,360	(9.8%)
Emergency Room Visits	765,929	758,705	1.0%
Urgent Care Visits	73,819	117,399	(37.1%)
Physician Office and Clinic Visits	4,231,866	4,042,318	4.7%

Ascension Performance Indicators

	6/30/2023	6/30/2022
Current Assets	$6,470	$ 6,066
Long-Term Investments*	19,418	22,058
Property and Equipment	9,942	11,424
Other Assets	4,628	4,528
Total Assets	**$ 40,458**	**$ 44,076**

*Includes assets limited as to use and the noncontrolling interests of Investment Funds.

Ascension Performance Indicators



Case Study
HCA

Source: HCA Q4 2022 Investor update company website

HCA Healthcare

HCA Healthcare is one of the nation's leading providers of healthcare services, comprised of **182** hospitals and approximately **2,300** ambulatory sites of care in **20** states and the United Kingdom.

*As of or for the year ended December 31, 2022

Our Network *

Hospitals	FSERs	ASCs	U
182	130	126	2

Our Patients *

Patient Encounters	ER Visits	Admissions	De
37.2M	9.0M	2.1M	2

Our People *

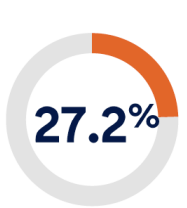
Medical Staff	Colleagues	RNs
45k	294k	93k

- Massive scale
  - 3x next for-profit competitor
  - 2x largest NFP

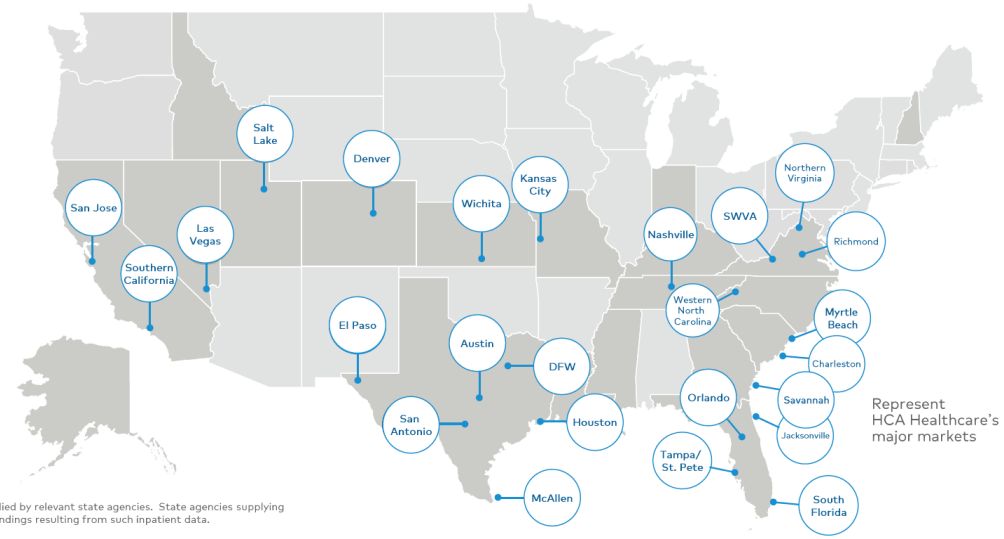
Case Study
HCA

- Market focus for share
  - Negotiation leverage
  - Attractive networks

Strong presence in attractive high growth markets



HCA Healthcare's Enterprise Market Share



Represent HCA Healthcare's major markets

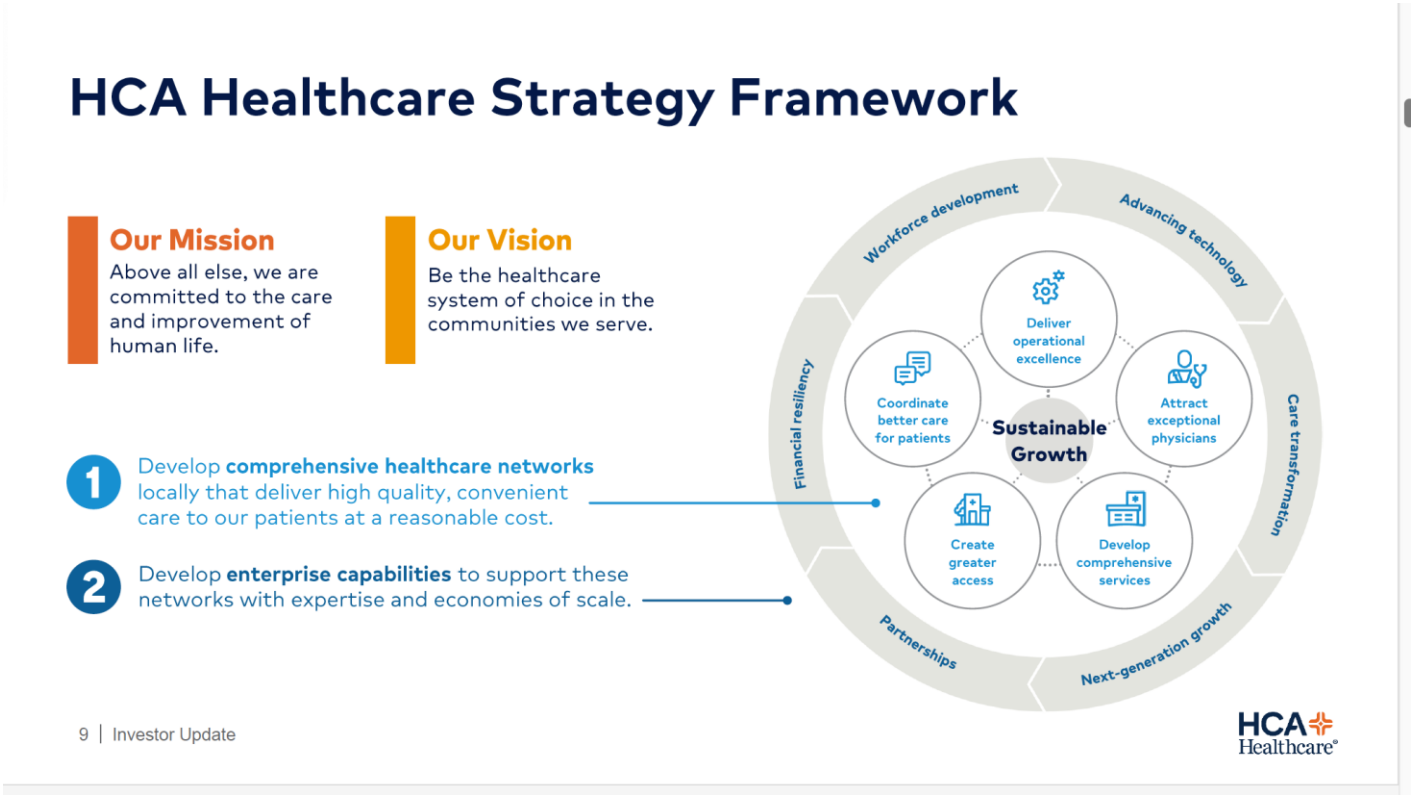
- Statistics are derived by analyzing inpatient data supplied by relevant state agencies. State agencies supplying inpatient data specifically disclaim the statistics and findings resulting from such inpatient data.

HCA Healthcare®

Case Study
HCA

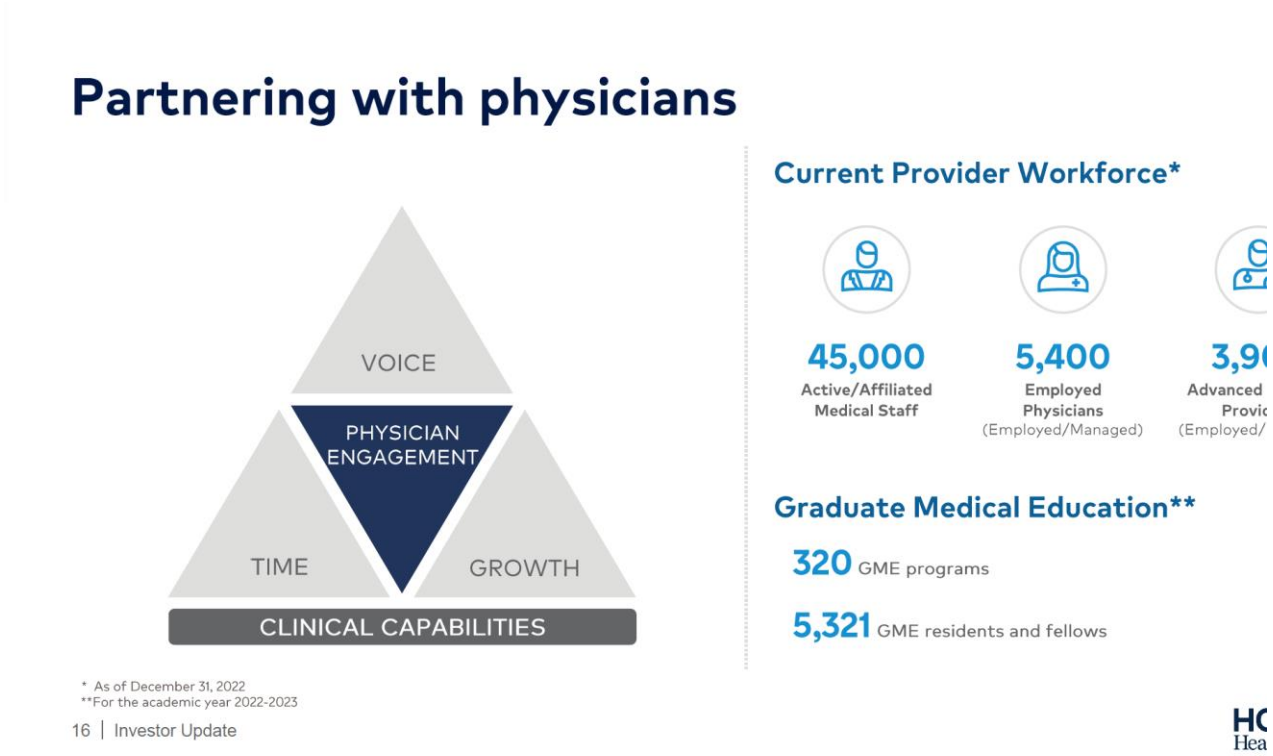
- Control of key areas of support
  - Cancer Care
  - Supply Chain
  - Liability Insurance
  - Nurse supply
  - Revenue cycle management
  - IT
- Provide services to others outside owned network

Case Study
HCA



- Continue market development
  - Share
  - New markets
- Support functions under its control
  - Expertise
  - Scale

Case Study
HCA



- Physicians
  - Control purchase of services
  - Value Based Care requires cooperation to be successful
  - Patient experience
- Pipeline for staffing
- Enhanced Surgery Recovery Program
  - Multi disciplinary approach to surgery recovery
  - 44% reduction in opioid use post-op

Case Study HCA Challenges

- Labor costs increase faster than revenues from contracts
  - Government payment schemes
  - Multi-year contracts with payers
  - Cost cutting in other areas
- Balancing staffing levels with shortages and assuring quality
- Dominant market share keeping them in the spotlight on all issues
- Investing for the increased needs of an aging population
- Investing for care outside the hospital and new innovations that put current models at risk - Value-Based Care
- Data security
  - Recent healthcare data breach
  - Class action suit
  - Lots of systems face similar challenges

Hospitals Summary

- Complex business
- Challenges with government and commercial payers controlling cost by addressing payments
  - A mismatch between contracts and labor costs
  - Preparation for new payment methodologies
- Seeking benefits of:
  - Size for economies of scale
  - Market share to create leverage
- Unforeseen events
  - Next public health crisis
  - Economic headwinds

Hospitals Summary

- Consolidation in the Insurer market
  - CVS
  - United Health Care
- Continue to improve:
  - Hospital-acquired infections
  - Adverse events
- Innovators carving out high-margin business

Hospitals Summary

DISRUPTERS

Source: AHA: Healthcare Disruption 2023 Outlook

- Amazon
- CVS Health
- United Health Group
- Walgreens Boots Alliance
- Walmart
- Apple
- Google/Alphabet


Q&A