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Collaboratives, Consolidation, and Compensation

Seven trends to look for in 2014

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We are in an unprecedented and historic time in the healthcare industry. The Affordable Care Act (ACA) is significantly impacting both how we pay for healthcare and how care is delivered. We are seeing consolidation across the industry, as well as cultural shifts in how we approach the care delivery process.

Our work with healthcare organizations across the country gives us the opportunity to see how reform is playing out in different regions. As a result, we have identified seven trends to look for in 2014.

Growth of Health System Collaboratives

Many systems are building collaboratives as a way to achieve the more meaningful benefits of consolidation, without losing their independence. A number of these collaboratives are coming together to accomplish critical mass and pursue revenue and cost strategies through network relationships. Logically, there is a lot more activity in this area than in classic mergers and acquisitions because this critical mass can be accomplished more quickly, without significant deployment of capital and time spent on management.

Expansion of Consolidation

Systems are going to focus on adding high-quality hospitals to their portfolios and transitioning from holding companies to more centralized and directive operating companies. Organizations are taking a harder look at the financial strength of the entities they are acquiring, and the market is becoming more sensitive to the quality of assets. There will also be continued consolidation and integration of medical groups and physicians in hospitals. Recognizing that consolidation may be inevitable, clinical organizations are looking at hospital partnerships in a more forthright way and realizing the potential to have "a seat at the table." We may also begin to see networks coming together in the next wave of "megamergers," creating giant collaboratives across states.

Shifts in Physician Compensation Models

Many compensation plans are not economically sustainable-they are overfunded relative to the value physicians are delivering. ECG's thirteenth annual National Provider Compensation, Production, and Benefits Survey found that as healthcare systems transition to clinically integrated models of care, physician compensation plans are reflecting quality, panel size, adherence to evidence-based medicine, and patient satisfaction scores as indicators of performance. A majority of member organizations responding to our survey reported that they have already begun to modify their existing physician compensation plans to incorporate these metrics.

Increased Consumer Focus

Hospitals are beginning to look to other industries such as financial services, hospitality, and retail to provide guidance on how to enhance the patient experience and reduce any impediments to the delivery of care patients may face when interacting with providers. Hospitals are also adjusting to the effects of patient satisfaction scores on their Medicare reimbursements, and with the Clinician and Group Consumer

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Assessment of Healthcare Providers and Systems (CGCAPS) coming down the pipeline, medical groups are also beginning to take note. Hospitals and health systems will begin borrowing consumer-driven models from other industries as patient satisfaction becomes more important to the bottom line.

Clinical Integration

More organizations are focusing on migrating to population health management, which requires clinical integration, to more efficiently manage care across a defined population. In the unlikely event the ACA is repealed, we would still see clinical integration expand because of the fundamental shift in organizational mentality in order to have patients released from hospitals and into less acute and less expensive settings in a meaningful, timely, and coordinated way.

Aggressive Cost Reduction

As they experience a significant rate pressure on their commercial business, CEOs are asking a common question: "Can I cover my costs on Medicare?" Reductions in cost per unit of service, as well as a reduction in units of service overall, are driving organizations to change their inpatient focus to less costly sites of service. There is also a loss in the insured base population, and with the trouble people are currently having with enrolling in exchanges, in the short term, we will see a fairly significant hit to hospital finances that will drive aggressive cost reductions.

Changes to the Insurance Market

The market is relatively fluid right now, as the introduction of exchanges will affect offerings. Insurers are diversifying the types of products they offer in order to mitigate potential membership losses from coverage shifts. In addition, a number of large insurers are not yet participating in the exchanges, and those that are may need to make significant pricing adjustments next year. On the buyer side, large employers like Walgreens, Sears, and the Darden restaurant chain have already begun providing employees with subsidies to purchase insurance through exchanges. In 2014, we may see more private employers become a portal to exchanges.

As 2014 approaches, we can expect the significant turmoil in healthcare to continue. According to the Congressional Budget Office, strains on the system will begin to manifest in 2015, and it is anticipated that an additional 24 million people will purchase health insurance by 2023.1 The hospitals and health systems that are adjusting now in anticipation of the changing demand are the ones that are most likely to succeed in the new era of healthcare.

References

1. Congressional Budget Office, Updated Budget Projections: Fiscal Years 2013 to 2023, May 2013

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