



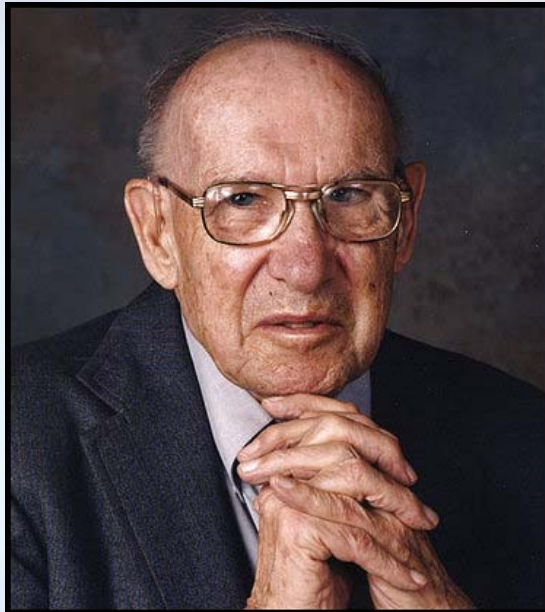
The Future of Healthcare: The Good, The Bad & The Ugly

Michele Molden

Executive Vice President, Chief Administrative Officer

Piedmont Healthcare





“Even small healthcare institutions are complex, barely manageable places... Large healthcare institutions may be the most complex organizations in human history.”

*Peter F. Drucker
(1905-2005)*



Roadmap for Discussion

THE GOOD

- Financing of Care Increasingly Linked to **PERFORMANCE**
- **TRANSPARENCY** of Cost, Quality and Service
- Patient **SAFETY** Gains
- **TECHNOLOGY** is Transforming Healthcare Delivery

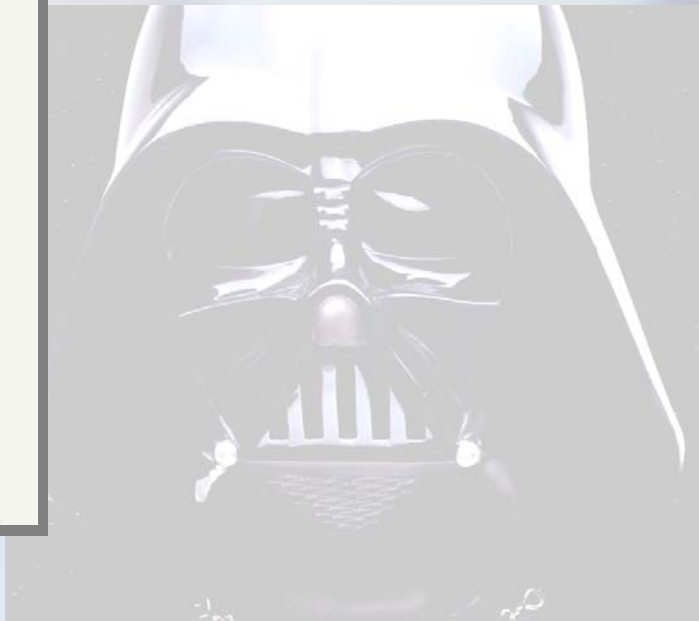
THE BAD

- **FRAGMENTED** Provider Market in Atlanta
- Payors are Rapidly **CONSOLIDATING**
- Community Hospitals Under Fire From **SPECIALTY PROVIDERS**
- Large-Scale **SHORTAGES** of **HEALTHCARE PERSONNEL**

THE UGLY

- **COSTS** Continue to Rise
- Severe Fiscal Concerns Surround the Future of **FEDERAL FUNDING**
- Ongoing Problems with **ACCESS** to **CARE**
- **PHYSICIANS** as Competitors

THE GOOD



Pay-for-Performance

- Will soon become the norm
- Healthcare providers must be able to demonstrate *clinical* AND *performance* excellence
- Requires increased data accumulation, which leads to more informed decision-making
- “A Rising Tide Floats All Boats” – providers will either increase their quality or be penalized



Effects of Consumerism

- High-Deductible Health Plans have arrived in Atlanta
- Patients are assuming more risk, and expectations are increasing
- As more power shifts onto those receiving care, increasing numbers of patients will choose healthcare services based on **VALUE** (equal to $\frac{\text{Access} + \text{Quality} + \text{Service}}{\text{Cost}}$)
- Will lead to demands for **TRANSPARENCY** and will result in a savvy and more informed consumer



Quality & Patient Safety

- Now *strategically* important, not just *professionally* important
- Transparency
- Pay-for-Performance
- 100,000 Lives Campaign

100k *lives* Campaign

SOME IS NOT A NUMBER. SOON IS NOT A TIME.



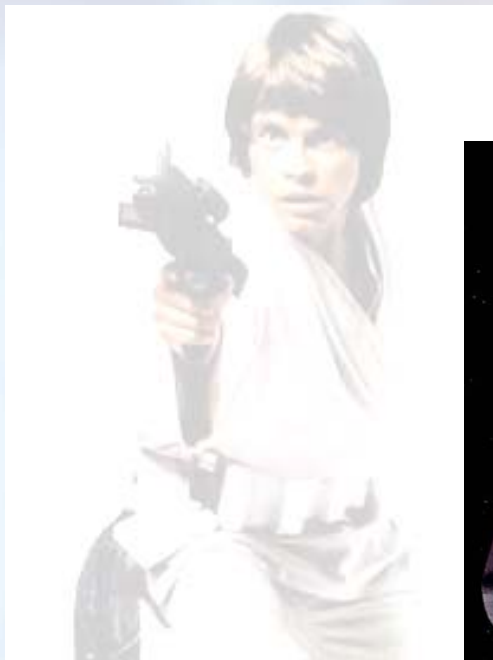
Technology

- Changing the way care is delivered
- Electronic Medical Records
- Telemedicine
- Clinical Advances – shift from Inpatient to Outpatient to Physician Offices
 - ▶ In 1983, 74% of all U.S. medical procedures were done in the hospital inpatient setting
 - ▶ In 2003, that figure had declined to 21%





THE BAD





The Fragmented Atlanta Provider Market

- More than 50 hospitals in the greater metro-area
- Leading hospital has 8.1% total inpatient market share
- Leading health system has 13.6% total inpatient market share
- No dominant referral hospital
- No clear leader in many service lines
- Often cited as the **most fragmented provider market in the country**

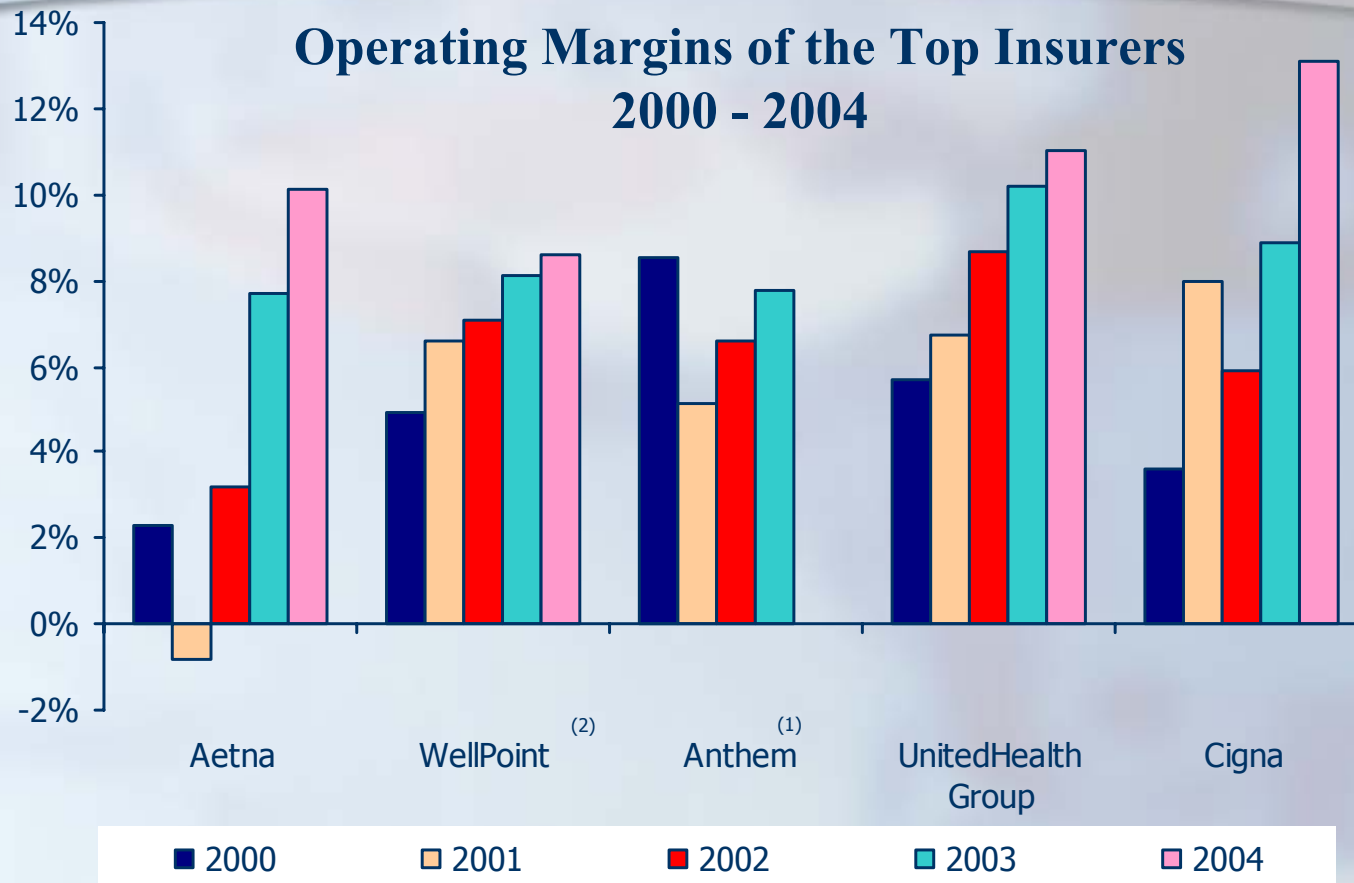


Consolidation of the Insurance Industry

- For-Profit Insurers are rapidly growing and gaining leverage over providers
- Three major for-profits dominate the Atlanta market
- Will this be the end of cross-subsidy economics in healthcare? If so, how will hospitals finance public services?
- Almost half (41%) of all Georgia hospitals are already operating in the red



Consolidation of the Insurance Industry



Source: Robinson J. Consolidation and the transformation of competition in health insurance. *Health Affairs* 2004;23(6):11-24 for 2000 – 2003 data and Hoover's Annual Income Statement for 2004 data.

(1) 2004 operating margin data for Anthem are not available due to the merger of Anthem with WellPoint in November 2004

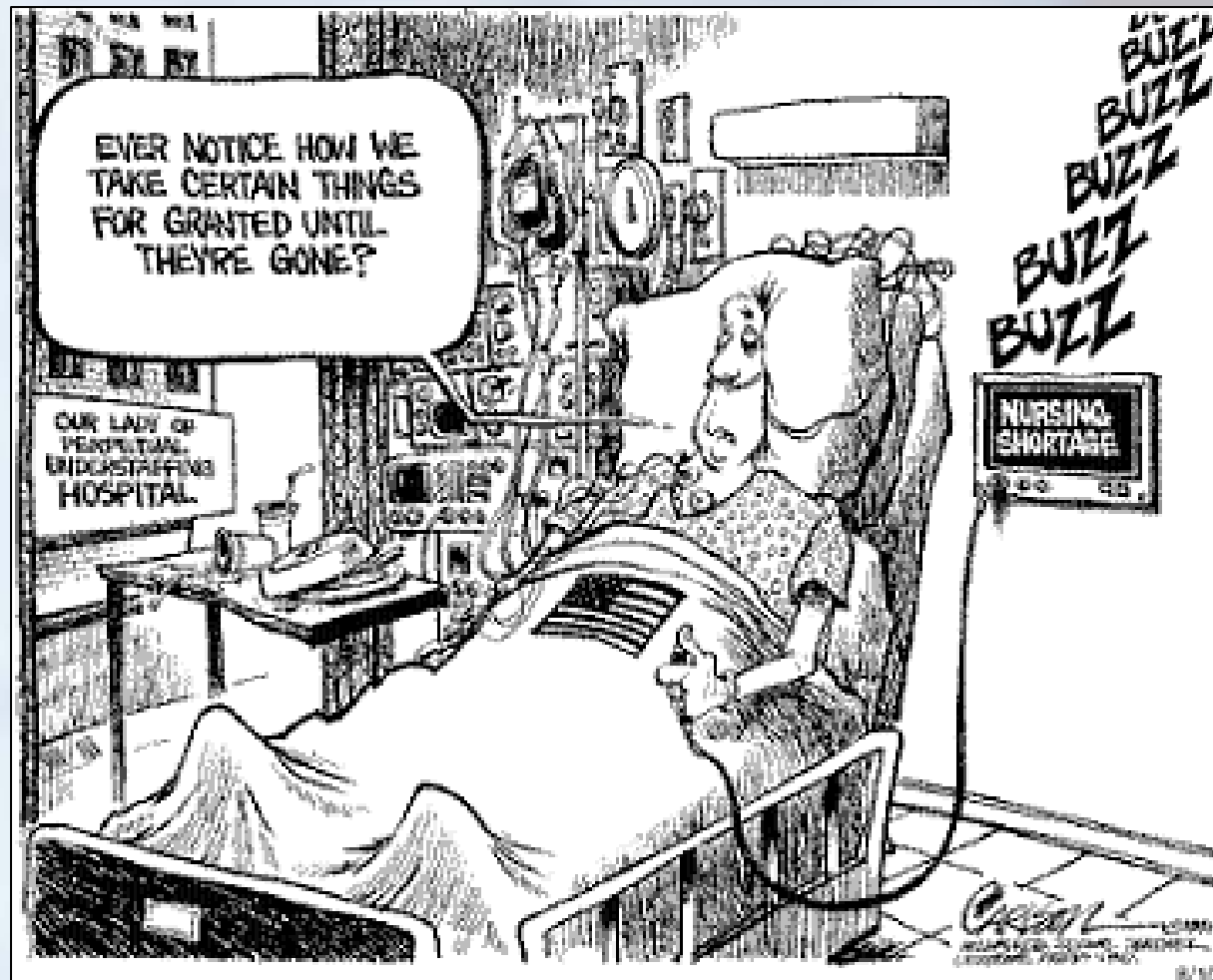
(2) 2004 operating margin data for WellPoint include both pre- and post-merger data for the merger with Anthem in November 2004



Specialty Providers

- Continue to exploit weaknesses in the current system of healthcare financing without community obligation
- The Feds recently unveiled a plan to overhaul the reimbursement structure in an effort to close the loophole under which specialty hospitals receive windfall profits
- A moratorium is in place on construction of these facilities but, in some cases, the damage is already done

Staffing Shortages



Staffing Shortages

- There are overwhelming statistics that indicate severe shortages in nursing and allied health occupations
- 42% of hospitals experience gaps in specialist coverage in the ED
- The situation is getting worse each year
- Healthcare providers are incurring massive costs in an effort to reverse this trend
- Hospitals are feeling the effects of this shortage (ED overcrowding, employee morale, patient satisfaction, etc.)





THE UGLY



The Cost of Caring

Recent Technology Related Medicare Coverage Expansions

Technology	Medicare Costs
Drug-eluting coronary stents	\$2 - 4 B
ICD for sudden death prophylaxis	\$1 - 3 B
PET for Alzheimer's disease	\$1 B
Verteporfin for macular degeneration	\$750 M
Left-ventricular assist devices	\$1 - 7 B

Source: Neumann, PJ, *Medicare National Coverage Decisions: How is CMS Doing?*
Presented at National Health Policy Conference, February 2005

The Cost of Caring

- Clinical advances in medicine offer astounding new possibilities, but add billions to the nation's cost of caring
- Information Technology required to promote quality and patient safety costs millions of dollars
- Disaster readiness has become critically important in recent years and requires staff, equipment and training
- Increasing incidence of chronic diseases such as diabetes and congestive heart failure have strained the system to the brink of collapse
- The demand for care continues to grow, requiring significant capital investments in facility expansions
- The ability to meet these challenges is compromised by the significant financial pressures facing hospitals



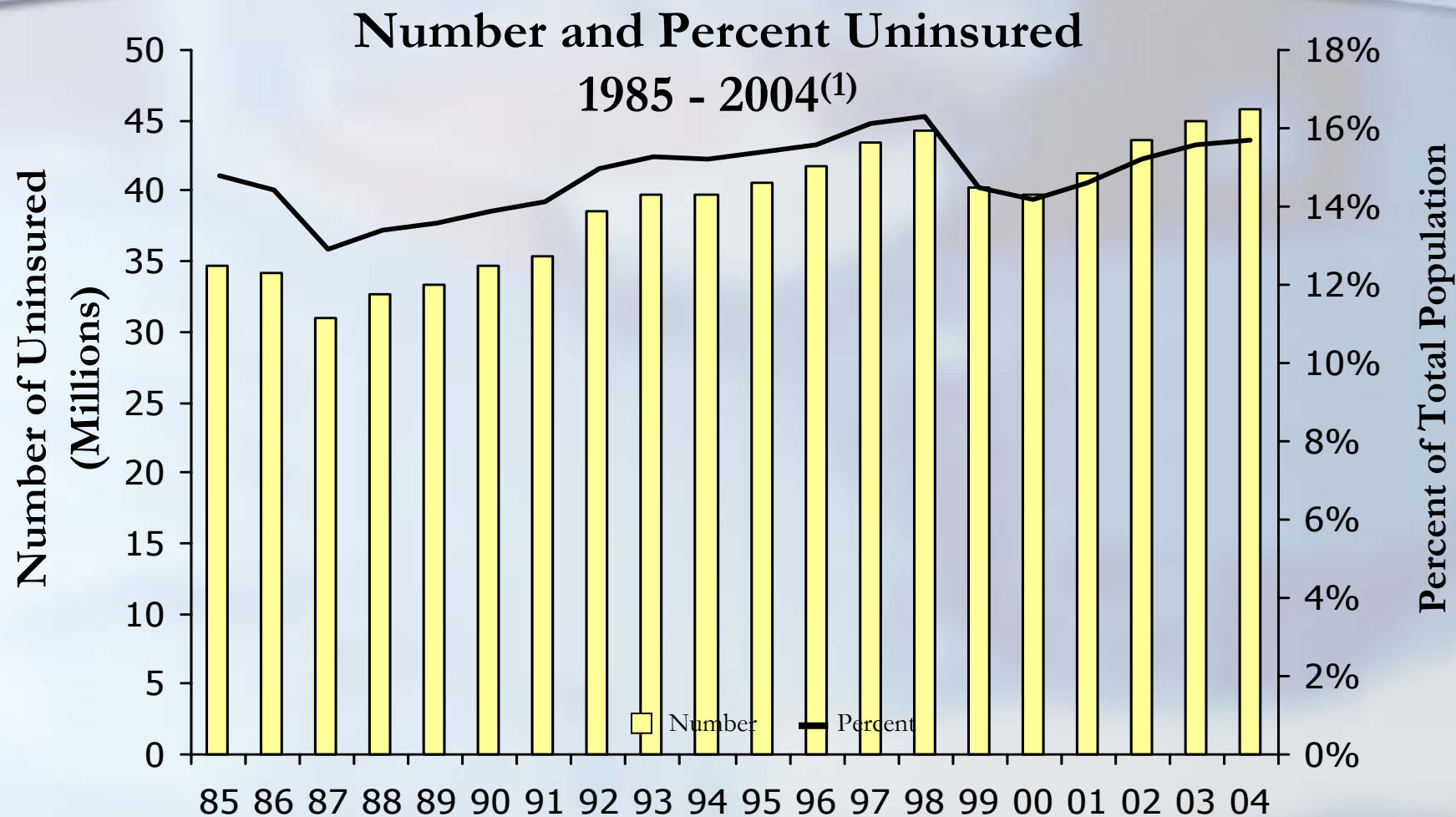
Medicare and Medicaid

- Current Medicare Load: 41 Million beneficiaries (expected to double by 2040)
- Recent report estimated that the Medicare trust fund will be exhausted by 2018, leading to debates of massive cuts to the program
- Since Medicare and Medicaid cover more than half (54.8%) of all medical care provided, federally funded programs drive hospital financial performance
- The Problem:
 - ▶ **68% OF HOSPITALS LOSE MONEY ON EVERY MEDICARE AND MEDICAID PATIENT THAT THEY TREAT**





The Uninsured



Source: US Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2004*

⁽¹⁾ 1999 - 2004 data use population estimates based on Census 2000

The Uninsured

**Average Percent Uninsured by State
2002 - 2004**

State	Average Percent Uninsured	State	Average Percent Uninsured
1 Texas	25.1%	27 Indiana	13.7%
2 New Mexico	21.4%	28 Virginia	13.6%
3 Oklahoma	19.2%	29 Alabama	13.5%
4 Nevada	19.1%	30 District of Columbia	13.5%
5 Louisiana	18.8%	31 Utah	13.4%
6 Florida	18.5%	32 Tennessee	12.7%
7 California	18.4%	33 South Dakota	11.9%
8 Alaska	18.2%	34 Delaware	11.8%
9 Montana	17.9%	35 Ohio	11.8%
10 Idaho	17.3%	36 Missouri	11.7%
11 Mississippi	17.2%	37 Pennsylvania	11.5%
12 Arizona	17.0%	38 Michigan	11.4%
13 Colorado	16.8%	39 Nebraska	11.0%
14 Arkansas	16.7%	40 North Dakota	11.0%
15 Georgia	16.6%	41 Connecticut	10.9%
16 North Carolina	16.6%	42 Kansas	10.8%
17 Oregon	16.1%	43 Massachusetts	10.8%
18 West Virginia	15.9%	44 Maine	10.6%
19 Wyoming	15.9%	45 New Hampshire	10.6%
20 New York	15.0%	46 Rhode Island	10.5%
21 New Jersey	14.4%	47 Vermont	10.5%
22 Illinois	14.2%	48 Wisconsin	10.4%
23 Washington	14.2%	49 Iowa	10.1%
24 Maryland	14.0%	50 Hawaii	9.9%
25 Kentucky	13.9%	51 Minnesota	8.5%
26 South Carolina	13.8%		

"A Partnership in Disrepair"

- An explosion of competition has revealed that hospitals are no longer the exclusive capital partners in the marketplace
- More than a dozen cases around the country of hospitals revoking privileges of medical staff members
- Medical staffs suing hospitals in which they practice
- Physicians and hospitals are both under the economic gun in today's healthcare environment, fueling the competitive nature of physician-hospital relationships





The \$64,000 Question:

**How do healthcare organizations
survive the pressure of current
market forces?**

Positioning for the Future

How Piedmont Healthcare is addressing...

...the good...

- The Baldrige Journey
- Renewed focus on customer service
- QUEST for Better Patient Care
- Investing in state-of-the-art equipment

...the bad...

- Growing to meet metro-Atlanta's healthcare needs in their community
- Becoming the provider of choice for payors
- Being a legislative voice for community providers
- Piedmont-Mercer Center for Health and Learning

... & the ugly.

- Negotiating better vendor contracts through bargaining power
- Optimizing operations and keeping a keen eye on costs
- Being a steward of the community
- Creating innovative partnerships with physicians



The first choice of Atlanta since 1905.