

Hospital and Neighborhood Committee Healthcare Reform: Impact on Oaklawn Hospital

The 2000+-page Patient Protection and Affordable Care Act was signed into law on March 23, 2010. A week later, the Healthcare and Education Reconciliation Act of 2010 was signed. Together, they constitute the largest change to America's health care system since the inception of Medicare. Implementation of the laws' various regulatory changes, programs and new taxes levied on the healthcare industry will begin in 2010 and continue over the next 5-10 years. 1,069 times the law says the "secretary shall [create, expand, provide], etc. The law creates nearly 180 new committees, councils, task forces or boards that do not currently exist. On top of the two health care reform laws, on July 13th CMS released the 864-page Meaningful Use rule, which addresses the electronic health record. Suffice it to say massive change has been mandated.

Healthcare reform: impact on Oaklawn Hospital

1. **Nationally, ½ of the newly insured (16 million) will be on Medicaid.** The eligibility level was raised to 133% of the poverty level. Michigan's Medicaid reimbursement rates are among the worst in the country. We will see an increase in Medicaid patients, for whose care we are paid 40¢ for every \$1.00 of cost (not charges). We expect to lose money on these new patients despite the fact that our bad debts will decrease. Implication: Our profit margin will be lower.
2. **Oaklawn's Medicare reimbursement will be reduced \$11MM** over the next 10 years, and Medicare reimbursement will be reduced nationally by \$155BB. We don't expect to be able to offset that very significant loss with cost savings. Implication: We must be able to grow to achieve greater economies of scale.
3. **The cost for our health plan will go up** because of mandated coverage for employees' dependents to age 26, the ban on lifetimes limits, mandatory coverage for those with pre-existing conditions, mandatory offering of "free" preventive

services (meaning that plans are prohibited from charging cost-sharing for preventive care), and limits on cost-sharing and deductibles. Cost-sharing for Emergency Room services will be required to be the same regardless of whether the providers are in or out of network. Implication: Our profit margin will be lower.

4. **Bundled payments**: Trials will be conducted in which the payments for doctors and hospitals are bundled together and paid to the hospital, which will then need to negotiate with physicians to determine how to split the money. Implication: More physicians will become hospital employees. Hospitals will need to vertically integrate.
5. **Accountable Care Organizations (ACO's)**: An integrated network of computers and software will enable all care providers to know what is being done for every patient. An ACO must agree to be accountable for the overall care of their Medicare patients. Reporting measures will be clinical processes and outcomes, costs, patient and caregiver experiences and utilization. Implications: Significant expenditures on computers, software and information security measures to create a system in which information is accessible to appropriate providers and ACO's perform population-wide case management services.
6. **Pay-for-Performance**: High quality will get full reimbursement and low quality will receive reduced reimbursement. Public reporting of quality data will be widespread. Hospitals will be paid based upon their actual performance. Implications: More staff will be hired to ensure compliance with all quality protocols. More overhead will be needed to maximize quality scores, some of which are not necessarily indicative of quality (e.g., readmission: in cases of the very elderly, seriously ill patients or those with multiple comorbidities, some readmissions are to be expected).
7. **Consolidations/Mergers**: Many industry experts believe a major wave of consolidations and mergers will occur due to the rigors of the new reform law, the resultant inability to generate profitability and the lack of subsequent access to

capital for renovation/modernization projects. Implications: Oaklawn's competitors will become part of larger systems and Oaklawn will find it increasingly difficult to remain independent. Oaklawn will necessarily have to consider options that would allow it to gain scale. We will also have to run with even greater efficiency, meet new quality measures, continually expand our services, and keep facilities and equipment up-to-date so we can compete with increasingly large and better-funded competitors.

8. **Penalties for adverse events:** Certain readmissions within 30 days will not receive reimbursement. Expanded audits will be implemented to take back Medicare payments the government will say were not justified based on the documentation submitted. Additional reporting requirements were also imposed by the new laws. Implications: Oaklawn will have to do more follow-up and conduct home care visits (perhaps with higher level of care) on more patients to reduce the number of readmission penalties, regardless of whether Oaklawn could have prevented the readmissions.
9. **Insurance companies will consolidate:** The law requires 80-85% of premiums collected to go toward claims, pre-existing conditions must be covered, and many other rules will negatively affect insurance companies. A \$60BB tax was imposed on insurance companies. Health insurance exchanges will intensify the competition among insurance companies. Implications: Insurance companies will be forced to consolidate and cut reimbursement to doctors and hospitals to try to remain solvent. Bigger insurance companies will be harder for Oaklawn Hospital to negotiate with.
10. **Taxes imposed on others will inevitably flow to hospitals:** the 2.3% excise tax on device manufacturers (orthopedic joints, surgical instruments, medical supplies) equates to \$20BB in additional taxes on the industry over the next 10 years. Additionally, the law imposes a \$27BB tax on the drug industry. Insurance companies will pay \$60BB over 10 years. Implications: Most of these

taxes will result in reduced reimbursement to doctors and hospitals, which will lower Oaklawn's operating margin.

11. Lowering of hospitals' operating margin: Industry experts anticipate hospital operating margins will be lower due to many of the above component parts of health care reform. Implications: Oaklawn could have its bond rating lowered, which would drive up our interest expense. Our profit margins could be lowered, which would make it harder for us to build new facilities because we would not have the requisite cash and would be unable to access the capital markets. We would no longer be able to replace our equipment before it became technologically obsolete. Wages and benefits would be eventually lowered, which would make recruiting talented, high-quality employees and doctors more difficult. Getting the best doctors would be harder as we would no longer have the ability to offer competitive salaries. Being able to acquire other service lines/businesses for vertical integration would also be more difficult, rendering care for our patients more fragmented. Increased competition for bigger consolidated health care systems will also negatively impact Oaklawn's operating margin.