

# BUILDING STRATEGIC PLANS IN A RECESSION/DEPRESSION

There cannot be a crisis next week.

My schedule is already full.



Henry Kissinger, 1923 - : New York Times Magazine, 1 June 1969

# Objectives

- Recognize key economic driving forces impacting volumes in 2009 – 2010 and possibly 2011.
- Identify specific service targets that have the greatest propensity to experience negative volume impact and those that will have minimal or no impact from economic driving forces (and secondary forces).
- Local actions for physician and senior leader collaborative teams to implement in the short- and long-term that minimize potential and achieve budget targets.

# Agenda



- **Organizational Introduction**
- Framing the issue – Driving forces and quantifying the problem
- Planning's questions and actions for change

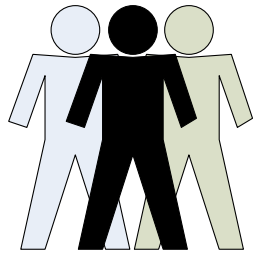
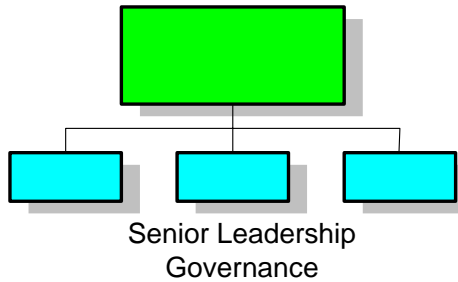
# Current Situation: What We See

- Admissions
  - ▣ Admits (with surgeries) consistent and close to budget.
- Surgical Volumes
  - ▣ Consistent volume trend for elective inpatient surgeries; moderate decline in elective surgical procedures in outpatient setting.
- Variation
  - ▣ Primarily in budget to actual versus actual to last year same time.
- Investment Income
  - ▣ Significant decreases in investment income are a key driver in overall margin reduction experienced by year-end 2008.

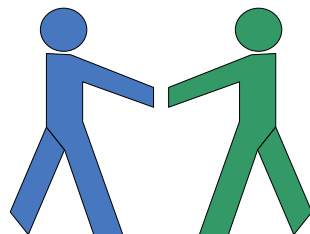
# Current Situation: What We Face

- Margin
  - ▣ Declining nationally, driven by investment income shortfall due to stock market
  - ▣ Short-term Budget Impact
- Volumes
  - ▣ Q1 is historically somewhat slower; “What would you expect?”
- Senior leadership
  - ▣ Engaged in cost control, efficiency, current or possible “cuts.” : Short term Budget Impact
  - ▣ Issue: Cut or Grow (?)
- **The BIG Question: Budgetary controls in motion; but are volumes and growth plans being updated as well?**

# Organizational Construct



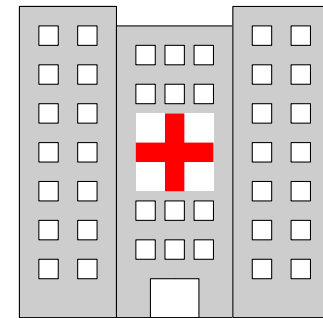
Human Resources



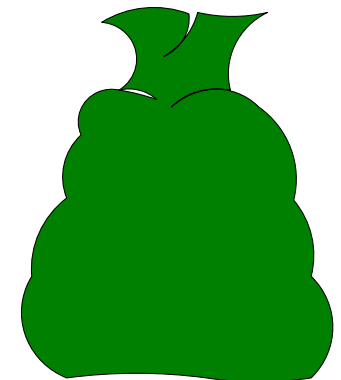
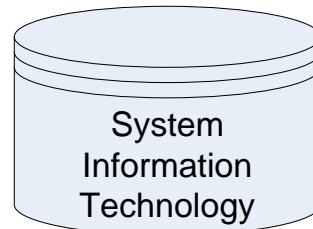
Marketing  
Communications

What unique  
competencies does  
planning bring to  
the table in the  
search for  
solutions?

What is planning's  
value?



Clinical Operations



Finance

# Current Situation: Planning Role



# Planning's Value in Telling the Story

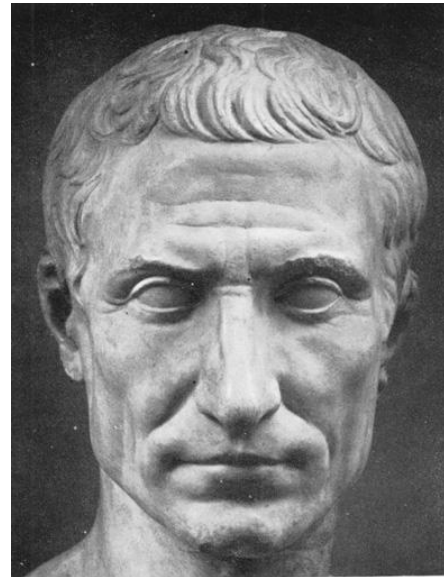
- Facilitate Response
  - Chicken Little Syndrome
  - Financial reality; Planning projections and forecast
    - Unchartered territory
  - Analytic response

# Agenda

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- Framing the issue – Driving Forces and Quantify the problem
- Planning's actions and questions for change

The die is cast.



Julius Caesar, 100 – 44 C.E.: Suetonius Lives of the Caesars “Dives Julius.

# Economy

## □ Unexpected

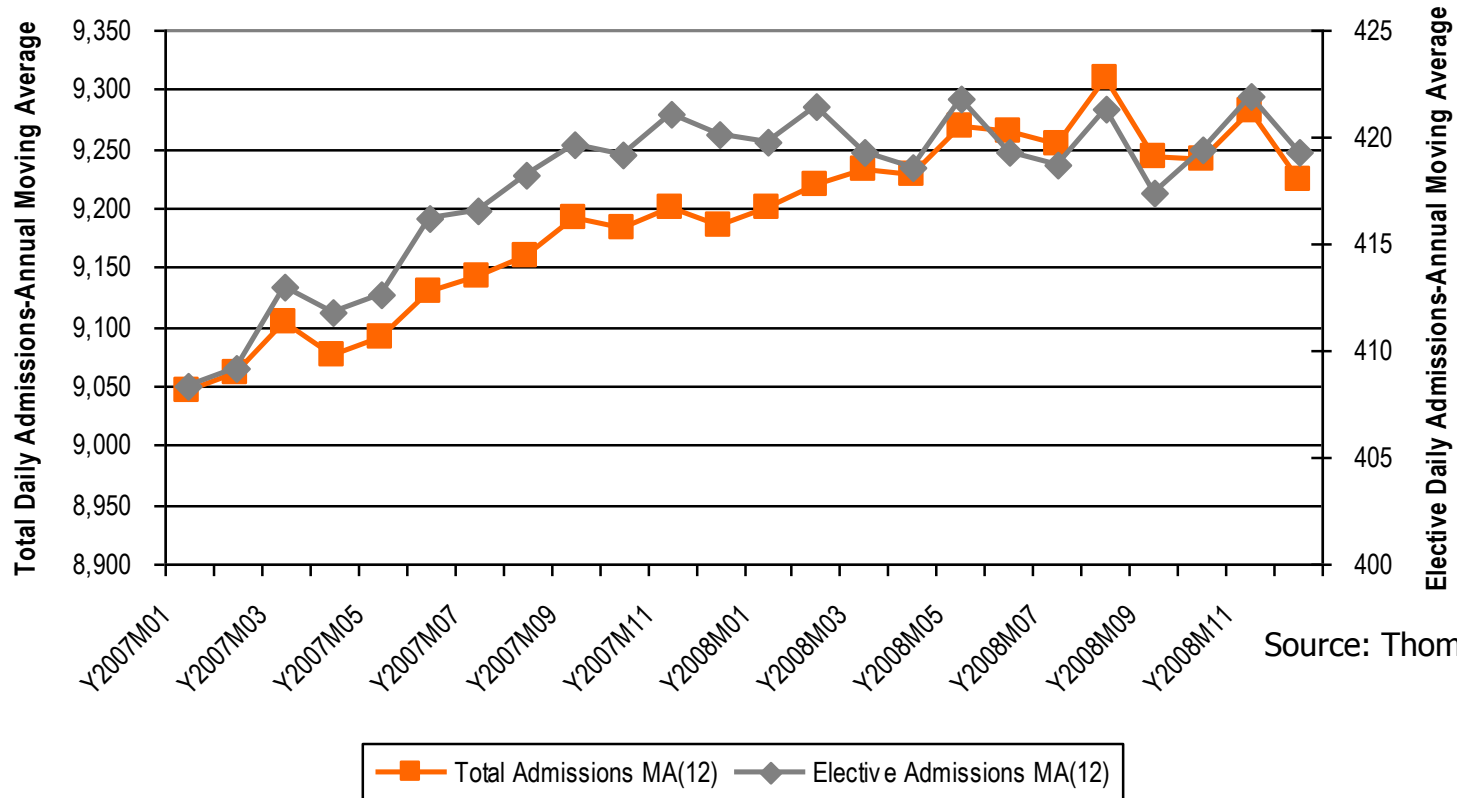
- Multi-year dependence on successful returns from investment income.
- Downward and fast spiral of investment income revenues coupled with increasing capital appetites.

## □ Expected

- Inpatient Prospective Payment System
- Outpatient Prospective Payment System
- Medicare Physician Fee Schedule
- Medicare ASC reimbursement model
- Medicare's ASC Conditions for Coverage
- CMS – Value Based Purchasing
- SCHIP
- Reform
- Medicare Trust

# In this Economy: Inpatient Volume Growth is Adjusting After ~1% Growth Since 2002

Total and Elective Inpatient Admissions



Source: Thomson Reuters

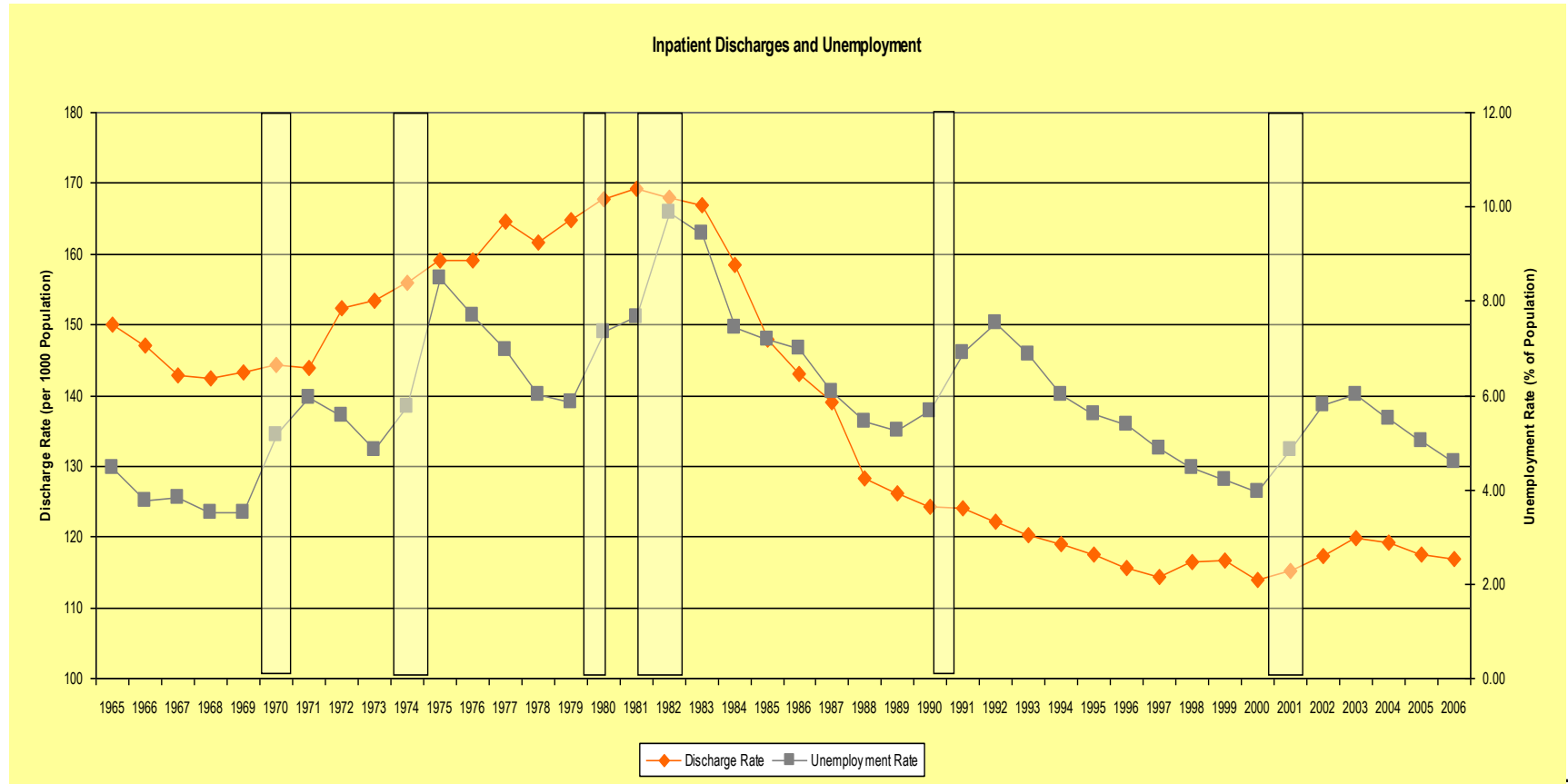
# Employment

## □ Employment (Unemployment)

### ■ Issues

- Availability of current data
- Reliability of data
- Fact versus Fiction: What you see in the news vs. what you see in the waiting room

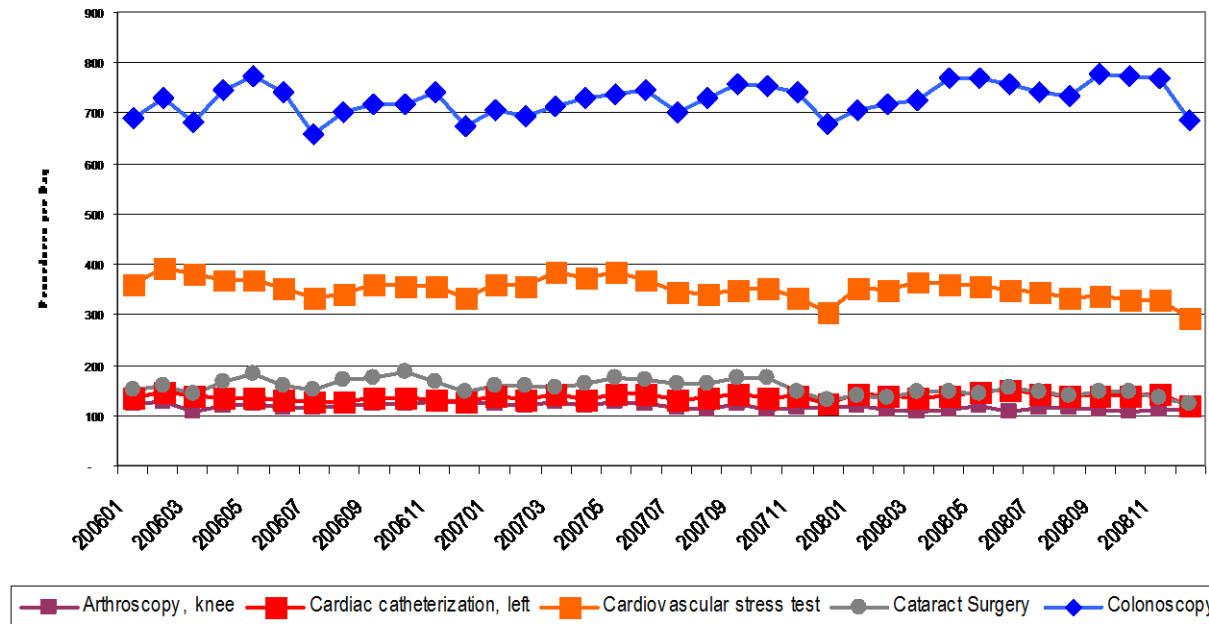
# In this Economy: Hospital Discharges Appear to be Related to Unemployment



Source: Thomson Reuters

# In this Economy: Hospital Core Outpatient Procedures Sustained 2006-2008

High Impact Hospital Outpatient Procedures



Source: Thomson Reuters

# Coverage Changes

## Percentage Point Change Among Nonelderly 0-64 by Coverage Type, 2006-2007

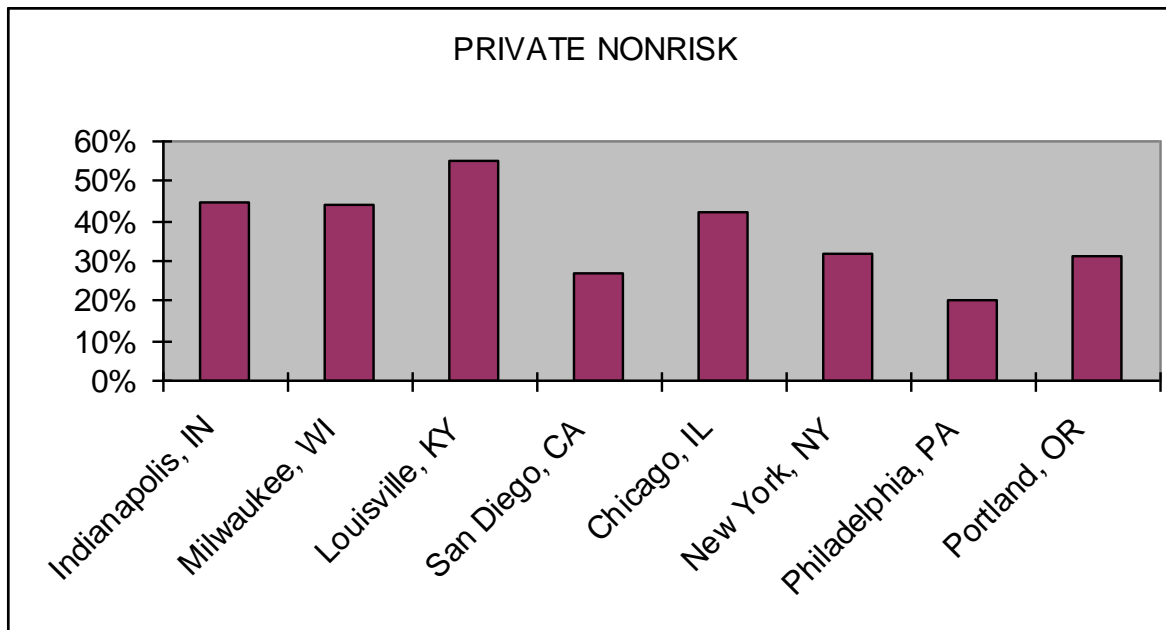
	IN %	US %
Employer-Sponsored Insurance	-1%	0%
Individual Insurance	-1%	0%
Medicaid	2%	0%
Uninsured	0%	-1%
Other Public (Federal)	0%	0%

Source: Kaiser Health

### □ Findings:

- **Local:** The change in coverage from 2006 to 2007 was greater than the most recent three-year change.
- **National:** Non-elderly residents of Indiana experienced the greatest change in type of coverage they have. The greatest change is with employer-sponsored insurance.

# Coverage Changes



Source: Thomson Reuters

## Findings:

- ▣ Indianapolis has a relatively high proportion of private non-risk residents compared to other markets
- ▣ **Implications:** Future changes suggest comparative stability, depending on employment changes impacting the “new poor”

# Payer Base Changes

Strategic question:  
One-time event or trend?

Primary Care	Q1 2008	Q2 2008	Q3 2008	Q4 2008
Medicare	48.5%	49.2%	50.0%	49.8%
Medicaid	12.6%	12.1%	12.4%	12.2%
Anthem/Wellpoint	15.7%	16.1%	14.9%	15.2%
Other Commercial	18.3%	17.4%	17.3%	17.3%
Self-Pay	4.8%	5.2%	5.5%	5.5%

Site of Care	q1 2008	q2 2008	q3 2008	q4 2008
Hospital N Self-Pay	3.4%	3.4%	3.2%	3.2%
Hospital E Self-Pay	4.8%	5.2%	5.5%	5.5%
Hospital S Self-Pay	4.9%	4.8%	4.7%	4.7%
Hospital H Self-Pay	2.5%	2.3%	1.8%	1.8%
Hospital A Self-Pay	7.3%	5.3%	5.3%	7.3%
Outpatient G Self-Pay	14.0%	14.8%	14.9%	14.3%
Outpatient C Self-Pay	4.8%	5.2%	5.5%	5.5%
Urgent Care/Occupational Health Self-Pay	4.8%	5.2%	5.5%	5.5%
ASC Self-Pay	0.5%	0.5%	0.5%	0.5%

# Demand and Utilization

- Local: Utilization has been relatively consistent during the past 16 months.
- Local Forecast
  - Without strategic growth intervention, forecasted volumes will be similar to 2008 at a system level.
  - Utilization at ambulatory and outpatient access points (e.g. ambulatory surgery) will experience the most significant decline while emergency and inpatients that are more acute will increase.

# Demand Trend

	2004	2005	2006	2007	2008
Change Previous Yr.	1.50%	2.10%	3.75%	4.96%	4.99%

## Strategic questions:

1. What comprised historic growth?
2. What is the migration to outpatient impact vs. reduced utilization?
3. Which is a primary factor --- clinical competency or demographic profile?

Inpatient Surgery	2006	2007	2008
q1	2,033	2,098	2,057
q2	2,153	2,169	2,153
q3	2,071	2,166	2,301
q4	2,042	2,281	2,135

Outpatient Surgery	2006	2007	2008
q1	20,813	21,957	22,343
q2	23,774	23,624	24,881
q3	21,584	22,655	24,335
q4	23,218	23,981	25,508

# Physician Partners

- National: Primary care physician offices will experience lower utilization, increased non-compliance and outpatient access points will be among the first to feel the impact of the recession
  - ▣ E.g. consumers foregoing surgical treatment at this time, select complementary and alternative medicine options).
- Local Forecast: Acute care inpatient access points will be the last to experience significant impact (e.g., increase in acuity related to patient non-compliance and foregoing immediacy of treatment).
- Reality: Inpatient and outpatient utilization changes will drive volume shifts, downward gross revenue charges, and reduced point of collection totals.

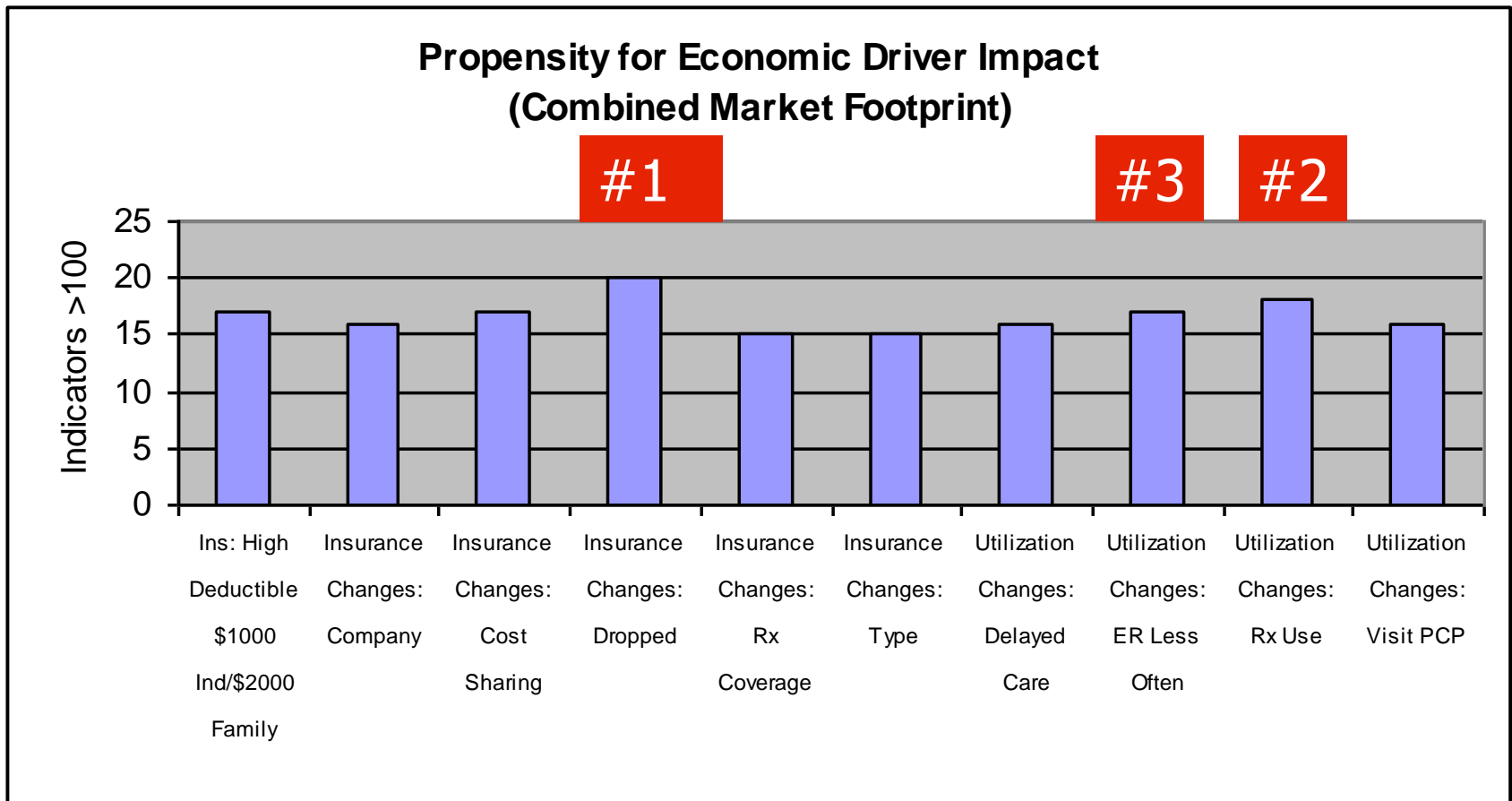
# Physician Partners

- National Assumption: Compliance with physician treatment and management will decline and drive increased physician frustration, decreases in evaluation and management codes in physical offices, and corresponding decreased in procedural volume.
- National: Procedural volume will experience minimal declines; the most significant impact will be experienced by office-based practices, diagnostic testing, ancillary clinical services, and ambulatory procedural services.
- Strategic question: Economic impact is gradual, how will physicians handle changes in compliance and utilization? Are there triggers to indicate change milestones?

# Physician quest for affiliation or collaboration as a response

- Drivers of change
  - ▣ Physician affiliation, integration, collaboration.
  - ▣ Increasing use of hospitalists.
  - ▣ Declining physician supply coupled with increased physician dissatisfaction with the industry.
- Strategic question: System preparedness for the outcome of the driving forces?

# Greatest potential to “feel” the change

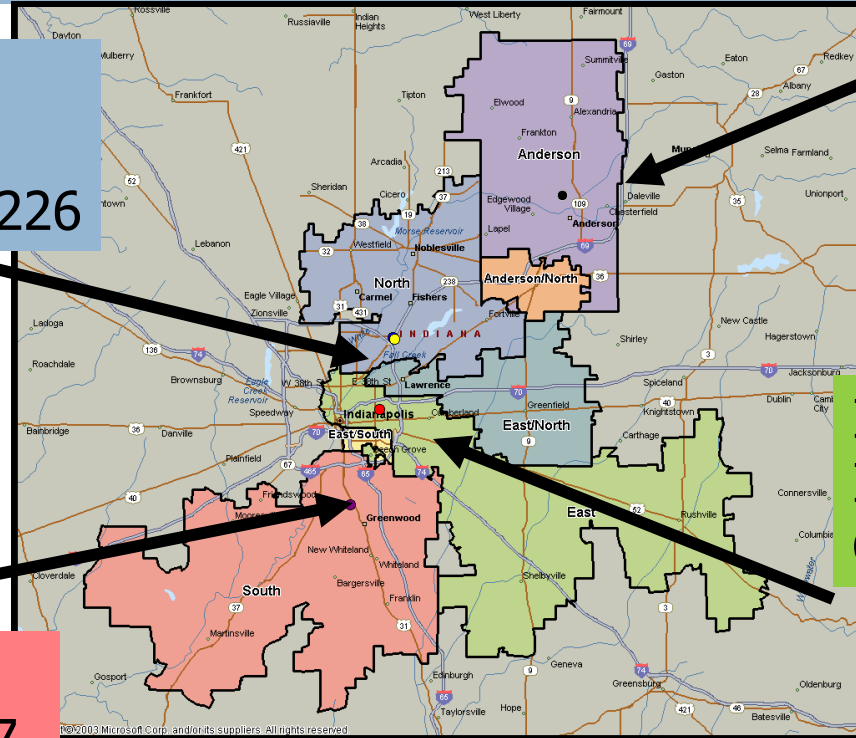


Source: Thomson Reuters

# Economic impact in specific areas

Alexandria  
Elwood  
Anderson 46106

Fishers  
Noblesville  
Indianapolis 46226

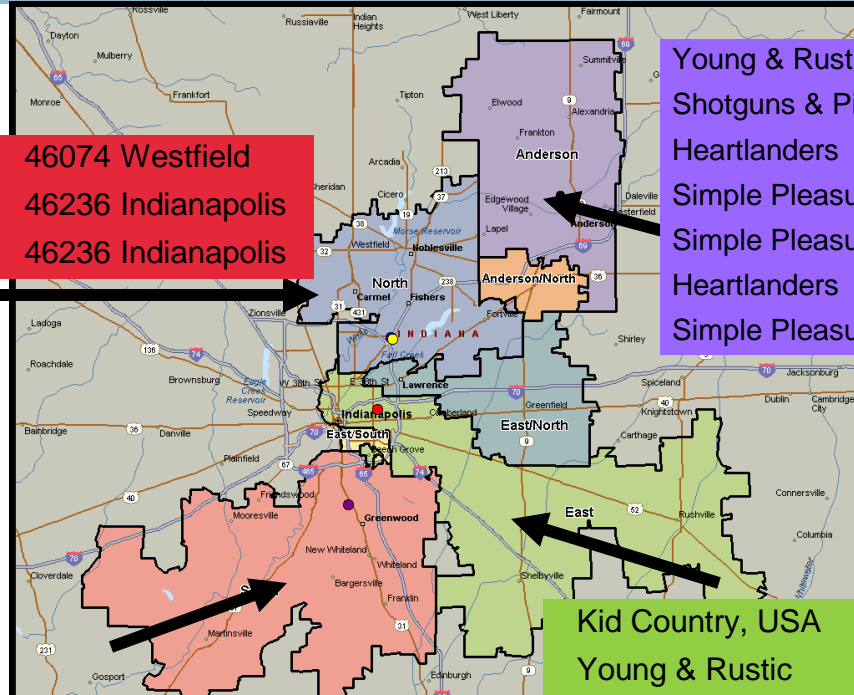


Indianapolis 46203  
Indianapolis 46201  
Greenfield

Martinsville  
Indianapolis 46227  
Franklin/Mooresville

Strategic question: Propensity?  
What impact? Where? How much?

# Impact by market segment



Kid Country, USA  
 Winner's Circle  
 Winner's Circle

46074 Westfield  
 46236 Indianapolis  
 46236 Indianapolis

Young & Rustic  
 Shotguns & Pickups  
 Heartlanders  
 Simple Pleasures  
 Simple Pleasures  
 Heartlanders  
 Simple Pleasures

46001 Alexandria  
 46064 Pendleton  
 46036 Elwood  
 46001 Alexandria  
 46036 Elwood  
 46051 Lapel  
 46011 Anderson

Kid Country, USA  
 Kid Country, USA  
 Kid Country, USA  
 Kid Country, USA  
 Shotguns & Pickups

46151 Martinsville  
 46158 Mooresville  
 46241 Indianapolis  
 46158 Mooresville  
 46158 Mooresville

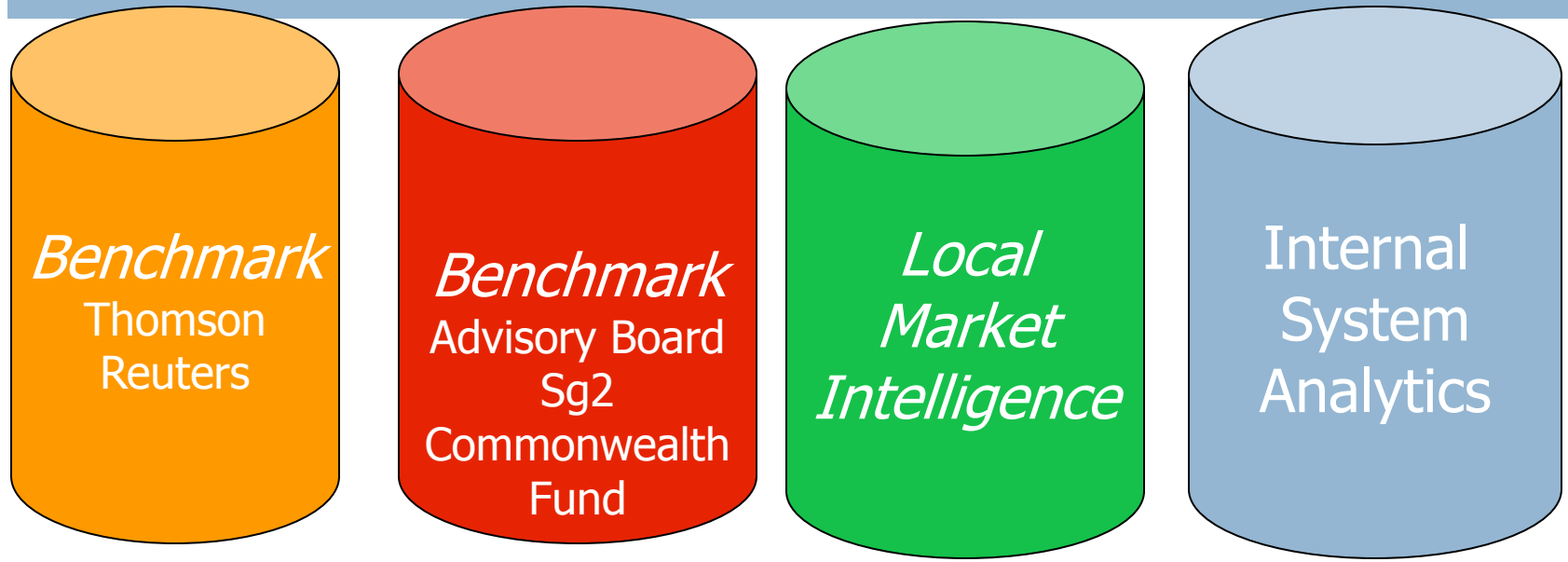
Kid Country, USA  
 Young & Rustic  
 Multi-Culti Mosaic  
 Multi-Culti Mosaic  
 Young & Rustic  
 Simple Pleasures  
 Young & Rustic

46140 Greenfield  
 46239 Indianapolis  
 46205 Indianapolis  
 46201 Indianapolis  
 46140 Greenfield  
 46140 Greenfield  
 46140 Greenfield

# Moving to “So What”

- These geographies have the highest propensity to be impacted by the current economic change.
- Based on consumer survey and responses, they have the second highest potential to be impacted by all indicators in the survey\*
- When combining geographies with 9 – 10 indicators ranking >100 there are approximately approx. 37,000 HHD included.
  - ▣ Market A – 42%
  - ▣ Market B – 28%
  - ▣ Market C – 19%
  - ▣ Market D – 12%
- **Strategic question: Volume impact on system access points in these targeted areas?**

# Putting it all together into a model



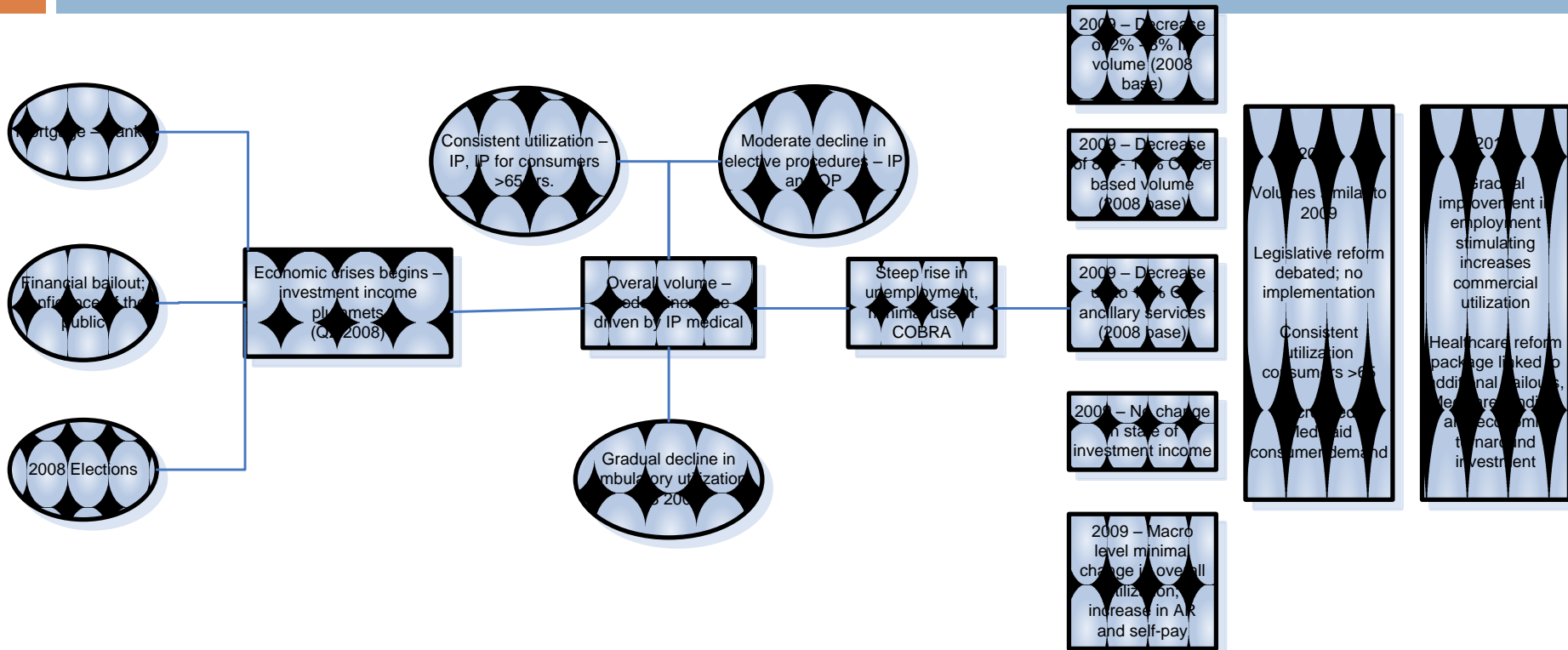
Objective:  
Data → Knowledge → Action

It is a capital mistake to theorize before you have all the evidence. It biases the judgment.

Arthur Conan Doyle, 1859 – 1930: A Study in Scarlet (1888)



# Hypothesis – Timeline and Events



# The New Healthcare Poor

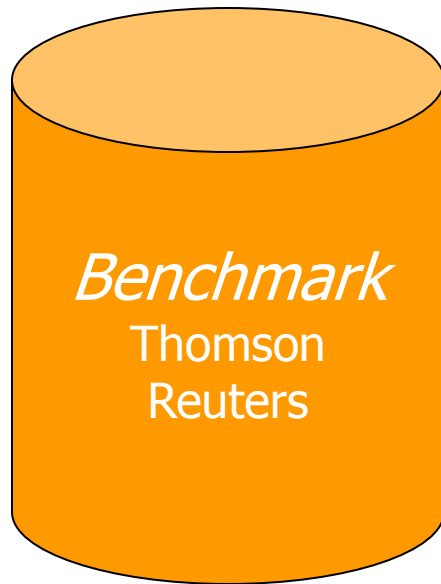
The overriding role of the economy as an industry driving force is creating a new market segment for the healthcare industry

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- ▣ Heretofore middle to higher socioeconomic level
- ▣ Educated, knowledgeable user of healthcare services
- ▣ Change experienced
  - Health Savings Account
  - Increased personal investment (increased deductible, co-pay)
  - Lack of eligible employer-sponsored coverage
  - COBRA

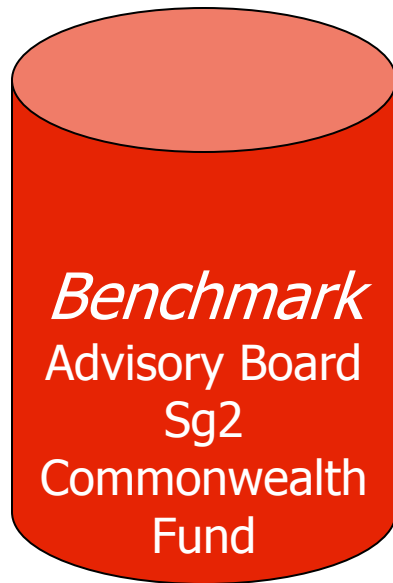


# Key Learning's



- Total national utilization to experience minimal change in 2009, 2010.
  - ▣ Service Line Stability in Inpatient and Outpatient
  - ▣ Service Demand will continue
- Payer base in a consistent state of flux: Gradual increase in self-pay, no-pay, COBRA eligible
- System access points will be impacted differently: by markets, consumers and other factors.
- Impacted working households may defer care, depending on unemployment impact

# Key Learning's



- Outpatient volumes to decline at ~10% v 2008 volume by year-end and go thru 2010.
- Outpatient (may) will have GREAT variation (10% v. 2008): E&M physician visits; Lab Services; Most ENT; Gyn Exams; Dermatology - Acne & Warts, Eczema & Psoriasis; Sports Medicine; Insemination/In Vitro Fertilization; Cosmetic Procedures; Bariatrics; Spine.
- Inpatient volumes (may) decline ~ 2.5% v. 2008, e.g. Endocrinology, Psychiatry, Joint Replacement (< age 65 years), Spine, Neuroscience, General Surgery.
- Consistent volume thru 2010 for pediatric inpatient, emergency, chronic disease

# Key Learning's



- Region: Health system major building programs on hold; typically 45- to 90-day reviews in initial statements.
- Region/National: 19 FQHC access sites receiving ARRA funding in second release.
- Region/Local: Large single specialty group practices that have significant IP presence are gaining interest in affiliation and collaboration.
- Region: Metro Indianapolis unemployment and State unemployment among highest in the nation.
- National/Region: Consumers with employer-sponsored health insurance are faced with higher deductibles, fewer options, and changing benefit plans – at a higher rate than the national average.

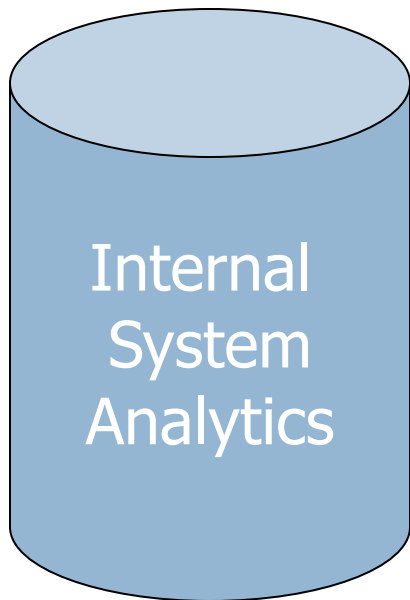
# Key Learning's



- Local: Healthcare competitor hiring freezes, targeted layoffs, salary freeze.
- National/Local: Emphasis placed
  - ▣ Identifying programs and services to be curtailed, sunset, or terminated.
  - ▣ Efficiency
  - ▣ Value question

# Key Learning's

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- To be determined within each system through identification of specific triggers and dashboards.

# Agenda

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- Organizational Introduction
- Framing the issue – Driving forces and quantifying the problem
- **Planning's question's and suggested actions for change**

You've got to accentuate the positive  
Eliminate the negative  
Latch on to the affirmative  
Don't mess with  
Mister In-between.



Johnny Mercer, 1909 – 1976: "Ac-cent-tu-ate the Positive" (1944, Song)

# Opportunity: Local Spine Market Size Versus Other Markets?

SPINE									
	Discharges				Days				
Market	2007	2012	Growth	% Growth	2007	2012	Growth	% Growth	
Indianapolis, IN	1,468	1,513	45	3.10%	5,210	5,417	208	4.00%	
Milwaukee, WI	2,085	2,089	4	0.20%	7,582	7,660	78	1.00%	
Louisville, KY	1,424	1,479	54	3.80%	4,907	5,142	235	4.80%	
San Diego, CA	5,305	5,885	580	10.90%	21,641	24,005	2,364	10.90%	
Chicago, IL	6,280	6,373	92	1.50%	28,405	29,026	621	2.20%	
New York, NY	2,009	2,151	142	7.10%	10,112	10,948	836	8.30%	
Philadelphia, PA	1,679	1,660	-19	-1.10%	8,267	8,223	-43	-0.50%	
Portland, OR	1,914	2,098	184	9.60%	5,141	5,677	536	10.40%	

Source: Thomson Reuters

- Findings: Good volumes, with adequate volume gains
  - If I was working in Milwaukee, that might be a different story
  - San Diego or Portland show clear opportunity
- Strategic question: Cost of growth? Opportunity outweigh other opportunities?

# Opportunity: Local Bariatric Market Size Versus Other Markets?

BARIATRICS									
	Discharges				Days				
Market	2007	2012	Growth	% Growth	2007	2012	Growth	% Growth	
Indianapolis, IN	276	269	-7	-2.50%	889	872	-16	-1.80%	
Milwaukee, WI	329	318	-11	-3.50%	805	781	-25	-3.10%	
Louisville, KY	232	229	-3	-1.30%	547	543	-5	-0.80%	
San Diego, CA	923	994	71	7.60%	2,379	2,577	198	8.30%	
Chicago, IL	1,514	1,456	-58	-3.90%	4,935	4,771	-164	-3.30%	
New York, NY	634	640	6	0.90%	1,553	1,573	20	1.30%	
Philadelphia, PA	618	588	-30	-4.90%	1,692	1,626	-66	-3.90%	
Portland, OR	100	105	6	6.00%	253	266	13	5.10%	

Source: Thomson Reuters

- Findings: Small Market with Projected Decline.
  - ▣ Not a strong investment in Indianapolis....
    - If I was working in San Diego, that would be a different story
- Strategic question: Value of system growth versus market potential

# Questions?

“... began to feel a little more comfortable, because when you are a Bear of Very Little Brain, and you Think of Things, you find sometimes that a Thing which seemed very Thingish inside you is quite different when it gets out Into the open and has other people looking for it.”



A.A. Milne (1882 – 1956, The House at Pooh Corner, 1928)

# Contact Information

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