



Deloitte 2017 Survey of US Health System CEOs: Moving forward in an uncertain environment



The challenge is that health care is getting much more complex...new government rules, reimbursement reduction[s]...advancing technology, advancing expectations around cybersecurity, and really making the new expensive drugs available to patients...It's hard to plan the future when the rules today make no sense and no one is thinking about developing rational rules with transparency for the future.

—CEO of a large nonprofit health system



Introduction

Turnover among hospital and health system chief executive officers (CEOs) is higher than in other industries.¹ Along with navigating ever-changing policies and regulations, hospital CEOs must work with multiple payers, meet community obligations, stay current with evolving technology, contend with complex staffing issues, and keep their doctors and board members happy—all while delivering high-quality care. The American College of Healthcare Executives credits consolidation, industry transformation, and aging leaders with an 18 percent turnover rate among hospital CEOs for the last three years.²

As a follow-up to our 2015 Deloitte Survey of US Health System CEOs, we interviewed 20 health system CEOs in May 2017. We found that, of all the issues that may keep hospital CEOs up at night, they say they are most concerned about the future of Medicaid; CEOs also worry that the transition to value-based care is moving too slowly. Declining margins is another top concern, as are challenges in finding, recruiting,

and retaining forward-thinking and adaptable health care leaders. Keeping up with new technology—and the cybersecurity risks that accompany it—and adapting to evolving consumer expectations are also important issues. (Many of these issues are interrelated.) CEOs note that effectively addressing the above challenges is compounded by uncertainty about the new administration and its health care policies.

The Deloitte Center for Health Solutions will be launching a series of short-form reports on hospital CEOs' top concerns, starting with the first in the series on preparing for potentially changing Medicaid reimbursement models and other policy issues, which is found on the next page. We will then be launching additional reports on a monthly basis on the following additional topics that were also identified as top concerns for health system CEOs:

- » Implementing population health and value-based care
- » Maintaining or improving margins
- » Recruiting and retaining top talent, including health care leaders
- » Keeping up with evolving technology and cybersecurity risks
- » Adapting to changing consumer demands and expectations.

Many CEOs say they are focusing on developing new revenue streams, lobbying and influencing policy, investing in the future (e.g., technology, growth, talent), and developing alternative payment methods. Strategies vary based on the populations each hospital serves.

While no single strategy will work for every hospital, ideas that CEOs are considering include:

- » Diversifying and identifying alternative revenue streams
- » Developing more primary care locations and alternative sites of care, including urgent care and retail clinics
- » Reducing inefficiency and rethinking how care is delivered
- » Investing in strategies to prepare for value-based care, including shifting funding from hospitalists to primary care practitioners and chronic-disease management
- » Meeting consumer demands—ultimately, the players with the most 'members' are going to do the best

About the survey

The Deloitte Center for Health Solutions interviewed 20 hospital and health system CEOs during May 2017. In 2016, their organizations collectively generated \$91 billion in annual operating revenue, with all generating more than \$1 billion annually.*

The CEOs represent a wide range of organization types, including:

- » Seven nonprofit hospitals/health systems
- » Seven academic medical centers (AMCs)
- » Three faith-based nonprofit hospitals/health systems
- » Three children's hospitals

*Based on Deloitte analysis of DACBond, Hoovers, and organization websites



While none of the key themes emerging from our interviews have really changed since we last spoke with health system CEOs in 2015, the urgency certainly has. Instead of thinking about these issues in a futuristic sense, **CEOs are ready to address and tackle them now.**



CHAPTER 1

Uncertainty about the future of Medicaid and health care policy

Eighty-five percent of the 20 CEOs we surveyed cite uncertainty about the future of the Medicaid program as a top concern. If Congress rolls back the Medicaid expansion authorized by the Affordable Care Act (ACA), or otherwise reduces federal funding, CEOs are worried that they will see an increase in uninsured patients. Though the expansion of Medicaid reduced uncompensated care in expansion states, hospitals nationally still accrued \$35.7 billion in uncompensated care costs in 2015.³ A Commonwealth Fund report estimated that hospitals in Washington, DC and the 31 other Medicaid expansion states could see a 78 percent increase in uncompensated care costs over a next decade if the House bill, the American Health Care Act of 2017 (AHCA) went into effect. Additionally, researchers found that the impact will vary across states. Hospitals in Nevada, for example, could see uncompensated care costs double during the next decade under the proposed AHCA.⁴

In addition to uncompensated care,⁵ health system CEOs are concerned that Medicaid hospital payments will fall below existing rates. Medicaid reimbursement rates are about 45 percent lower than private rates, according to some studies.⁶ If rates fall further, hospital and health system CEOs are worried about the impact on margins.


Medicaid covers the health care of roughly two in five children.⁷ Many of the CEOs of children's hospitals we interviewed expressed concern that this is not commonly discussed. While Medicaid expansion helped low-income, childless adults, the program still serves many of the most vulnerable people in US society, including about 48 percent of those with disabilities or in

permanently poor health and half of all births.^{8,9} CEOs worry that if Medicaid is scaled back, these vulnerable populations will still need care but have no way to afford it.

Proposed changes to Medicaid

The Senate's proposed bill to replace elements of the ACA, the Better Care Reconciliation Act of 2017 (BCRA), would move Medicaid from an open-ended entitlement program to per capita caps. BCRA would authorize an annual increase for Medicaid based on per capita spending targets beginning in 2025. The House bill, AHCA, proposes using a formula that uses the Consumer Price Index for Medical Care (CPI-M) plus one percentage point to set state spending targets. The Senate bill, however, would tie spending targets to the Consumer Price Index for Urban Consumers (CPI-U) which has traditionally grown at a much slower rate than the CPI-M. This would mean an annual growth rate of about 1.3 percentage points annually over the next 10 years according to Congressional Budget Office (CBO) projections. In June, the CBO projected that this would decrease federal Medicaid outlays 26 percent over 10 years.¹⁰

The bill would also make other changes that would affect enrollment, including presumptive eligibility. Under current law, States can authorize health care providers to screen for Medicaid eligibility and immediately enroll those who appear to be eligible. Both the Senate and the House legislation proposes ending this option in 2020.



States do not want flexibility; they want cash. They want the ability to serve people.

—CEO of a large academic medical center



The Congressional debate about repealing and replacing the ACA has continued since the 2016 election, with observers speculating on whether the AHCA or BCRA will pass. The uncertainty about what policy changes will happen seems to frustrate CEOs even more than the specific policies. However, 85 percent of the CEOs say that reducing federal funding for Medicaid tops their list of concerns. They worry that if the bill passes, states would not receive enough funding to cover program costs and would react by lowering Medicaid payment rates, covering fewer services, or dropping enrollment, which would both increase the number of uninsured and hurt hospitals' bottom lines. Additionally, the health of communities, the primary focus of these hospitals, would suffer if consumers are less likely to seek preventative or primary care.

"Medicaid expansion is very important in [our] state. There's been an incredible amount of funding that has come into the health system. What would it mean if that were totally reversed? Quite frankly, it would be a disaster in the state and would be very significant for us. We have a lot of Medicaid business."

—CEO of a large nonprofit health system

Even though hospital CEOs in states that expanded Medicaid are most concerned about the potential loss of Medicaid funding, CEOs of children's hospitals and hospitals in non-expansion states also are worried about potential cuts.

"What [capping federal Medicaid contributions] does is push a 25 percent reduction to the states. That means the state has to come up with [it]. It's unlikely, and so that means that either services or benefits get cut for the people who probably need it the most. So, while that's positioned as state flexibility, it's basically a block-and-chop...The caps that are proposed now, besides being a cut of 25 percent, they also don't allow for when you have unusual things in your community that pop up, like emergent diseases."

—CEO of a large nonprofit health system

In the face of uncertainty about Medicaid's future, what are forward-looking CEOs doing to prepare their organizations? We heard about strategies to radically reduce costs, find new revenue streams, invest in alternative payment models, and access the capital needed to invest and innovate.

To address Medicaid concerns, hospital CEOs are focusing on:

- » Increasing government affairs/lobbying at both the federal and state levels
- » Keeping apprised of the Medicare budget process
- » Creating value-based contracts
- » Instating new strategies built around the core mission of delivering high-quality care
- » Emphasizing areas that transcend policy, such as quality, cost, and customer experience
- » Implementing cost-reduction strategies
- » Pursuing new revenue streams.

Other policy issues that will affect the bottom line

About half of the CEOs we interviewed say they are concerned about repeal of the individual mandate. Though roughly 10 million people have purchased coverage through the health insurance exchanges, Medicaid expansion has increased enrollment in that program by 16.7 million since 2013—a 29 percent jump—and, therefore, remains a greater concern to the CEOs.¹¹

A few CEOs note that the Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) will be the first significant government push to improve population-based health. Although many CEOs say they are unaware of the impact this could have on their margins, hospitals that have acquired physician practices and those that have a large number of Medicare patients are more aware of MACRA and have invested in the transition to value-based care or a population health model.

Finally, AMCs, children's hospitals, and other organizations that rely on federal grants are concerned about cuts to the National Institutes of Health (NIH), Health Resource and Service Administration (HRSA), or the Food and Drug Administration. Hospitals concerned about government programs like Medicaid and payment laws like MACRA may want to consider a plan of action that reflects where the hospital is located, who it serves, and its financial circumstances.

Hospitals concerned about Medicaid transitioning to a per capita or block grant program and receiving lower reimbursement per patient could consider diversifying or expanding into new geographic areas. Meanwhile, hospitals concerned about an increasing number of uninsured should consider ways to triage patients to the appropriate care setting (i.e., urgent care versus the emergency department).

Generally, all health systems should be thinking about ways to reduce inefficiency. Rather than trim around the edges, CEOs need to rethink how care is delivered: How can the hospital deliver care to patients more cost-effectively? How can data and technology drive clinical and back-office efficiency improvements?

Health care policy and market drivers are pointing in the same direction—toward tighter margins and higher value. Rather than watching and waiting to see what happens in Washington, hospital and health system CEOs should consider identifying and addressing common challenges at a both a macro and enterprise level, and investing in “no regrets” strategies to better deliver care in the future.

“We feel confident that when you are building a strategy that is aligned with your mission and deliver greater outcomes per dollar spent for the people you serve, that’s always going to be a winning strategy. So, the federal framework has not caused us to take our eye off of what we know will be most beneficial to our patients and our community members going forward.”

—CEO of a large nonprofit health system



Endnotes

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¹⁰ "Better Care Reconciliation Act of 2017 Cost Estimate," Congressional Budget Office (CBO), June 26, 2017. Available at [<https://www.cbo.gov/publication/52849>].

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