Navigant Executives Identify Trends to Watch in 2019
Healthcare continues to see record-high numbers of hospital mergers and acquisitions intended to achieve such benefits as gaining economies of scale. Scale up, and you’ll bring down costs. Yet, such consolidation doesn’t always mean costs come down.

A Wharton School study found the average estimated supply chain savings for target hospitals in a merger of equals to be a fraction of what was expected. In some cases, acquiring hospitals experienced supply-chain cost increases in certain areas. Further, a recent Navigant analysis of 104 health systems found no correlation between higher revenues and better operating margins.

Even credit rating groups have begun to openly state that they’re deemphasizing size and scale in their analyses of who’s healthy and who’s not.

“The benefits of scale won’t just be there unless you’re organized and have discipline to take advantage of it.”

DAVID BURIK

WHAT PROVIDERS NEED TO DO

If size has lost some of its importance as a metric, what will take its place? Something that’s much harder to measure: discipline. This isn’t to suggest that health systems will or should abandon growth efforts. It’s just that those efforts will lead to less than desirable outcomes if they aren’t executed with strategic and operational discipline.

Where should providers look to enhance their discipline? Addressing executive compensation, unnecessary layers of management, clinical variation, and technology outlays leading to higher - rather than lower - operating expense.
All signs point to Medicare Advantage’s (MA’s) continued expansion in 2019, as members of the baby boom generation gradually work their way up to a median age of 65. (They’re currently at 63.)

Boomers are attracted to the privatized managed care programs because of both familiarity with network-based plans and perks not offered under traditional Medicare, including gym memberships, dental and vision coverage, and consumer-friendly options like telemedicine and concierge care – not to mention capped out-of-pocket costs.

The result has been an explosion in coverage. MA’s penetration has doubled to 20 million beneficiaries since 2010. By 2025, that number is projected to double again. The two biggest behemoths to embrace MA are also seeing that move pay massive dividends. Humana recently cruised past Wall Street’s earnings estimates, largely on the strength of its MA success. The same was true for UnitedHealthcare stock as it hit a new record high.

The penetration numbers make Medicare Advantage all but impossible for payers and providers to disregard.

KAI TSAI

MARKET TREND:

Medicare Advantage growth will continue to accelerate among payers and providers as more consumers demand it.

WHAT PAYERS NEED TO DO

Some payers have struggled with MA due to an administrative services approach, whereas its clients – employers – retain care management and risk responsibilities. Expect more payers to instead emulate UnitedHealthcare’s and Humana’s focus on innovation, nimbleness, and being more directly involved in managing care delivery.

WHAT PROVIDERS NEED TO DO

Hospitals and health systems – those managing risk in particular – should also approach MA via collaborations with:

- Commercial payers
- Enablement partners like Lumeris, Bright Health, and Clover
- Provider-sponsored health plans with MA experience such as Presbyterian Healthcare Services’ Fluent
As we wrote last year, health systems have been gobbling up physicians to in part prepare for the population health movement, but they aren’t achieving the financial return they expected. Physicians are also frustrated as these acquisitions often result in a loss of autonomy without the promise of less back office and administrative burden.

Enter private equity (PE), which has shown a growing appetite for acquisitions that only looks to increase. According to a recent report, the number of healthcare PE deals increased by 29% from 2016 to 2017. Dermatology, ophthalmology, and orthopedics are considered particularly attractive targets, as are physician staffing companies.

For physicians, PE often offers a chance to retain autonomy and an ownership stake in the practice, as well as better access to capital, translating into enhanced technology options and better pay.

“Health systems need to make some tough choices to avoid getting left behind, starting with managing physician practices instead of hosting them.”

RULON STACEY

WHAT PROVIDERS NEED TO DO

- Streamline staff and support functions, including thinning the portfolio of doctors if not all fit your organization’s strategy.
- Assess and strengthen leadership based on qualifications, instead of who was in a role when the practice was purchased.
- Appropriately tailor compensation to the organization’s volume and value reimbursement mix to ensure physician compensation drives productivity.
We’re a decade into the EHR revolution, yet life isn’t any easier for the providers who use them. For one, EHRs are a major contributor to clinician burnout, with doctors and nurses spending almost half their professional time typing, clicking, and checking boxes.

A less noted area of EHR dissatisfaction is the revenue cycle. A recent HFMA/Navigant survey of hospital finance executives shows more than half believe EHR revenue cycle adoption challenges have been equal to or outweighed their benefits. Further, 56% of executives said their organizations can’t keep up with EHR upgrades, up from 51% last year.

These frustrations, unfortunately, will only continue. The problem is that while providers have invested billions of dollars, EHRs have not been integrated well into healthcare models. This results in frequently needed upgrades due to new software releases that providers struggle to keep up with, and that carry additional hefty outlays. It prompted an attendee of Navigant’s 2018 CEO Forum to say, “Maybe this is something we’re just going to have to get used to with these new releases.”

And as another CEO Forum executive suggested, “It’s way past time to put the onus back on vendors to optimize their products.” We couldn’t agree more.

“Expect the pressure on clinicians and administrators to generate value from their EHRs to increase, along with the pressure they exert on EHR vendors themselves.”

TIMOTHY KINNEY

WHAT PROVIDERS NEED TO DO

As my Navigant colleague Jeff Goldsmith wrote in Harvard Business Review, a usability revolution is desperately needed to transform EHRs, including:

- **Typing and point-and-click must go.** Voice and gesture-based interfaces should replace the unsanitary and clunky keyboard and mouse.

- **AI needed to make the clinical system smarter.** The existing, primitive state of artificial intelligence (AI) in EHRs must become a lot smarter - reducing needless and duplicative documentation requirements is a key starting point.
Rural hospitals are essential to the health of communities nationwide. Beyond providing care, they’re also economic engines, often the largest employer and a driver of additional businesses and jobs to communities.

Since 2010, 5% of rural hospitals have shut down, and the economic effects are immediate — one study found that when a community loses its hospital, per capita income falls by 4% and the unemployment rate rises by 1.6%. These hospitals are more apt to struggle since their populations often have higher rates of uninsured, Medicaid, and Medicare patients, leading to more uncompensated and under-compensated care.

And the biggest problem is that the trend looks likely to accelerate.

A Navigant analysis shows that nearly one-in-four rural hospitals are at a high risk of closing unless their financial situations improve. The figure is approaching 50% for states like Mississippi, Alaska, and Alabama.

The situation would significantly worsen in the case of an economic downturn, something that’s looming given that the country is in its longest period of economic expansion ever.

“The decline in rural hospital finances and the services they offer their communities will only worsen when the economy hits a rough patch.”

DAVE MOSLEY

WHAT PROVIDERS NEED TO DO

Better reimbursement around telehealth can help promote partnerships between rural hospitals and regional tertiary centers and academic medical centers. Rural hospitals must explore such partnerships and turn to their local and state legislators to help make legislative changes happen.
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