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Market Insights

For the Health of Your Health System

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Dashboard

Economic and Healthcare Indicators

	Most Recent	Trend	Discussion
ECONOMIC INDICATORS			
Economic Growth (GDP)[1]	**+0.1%**	➡	GDP for Q4 2012 +0.1%, essentially flat versus same period prior year; slowest growth in 8 quarters. Federal Reserve expects "moderate" growth ahead.[2]
Unemployment[3]	**7.7%**	⬅	Employers added 236,000 jobs in February 2013, unemployment fell to 7.7%, lowest rate since December 2008.
Inflation[4]	**2.0%**	➡	The Consumer Price Index (CPI) increased 0.7% in February 2013; for the past 12 months the all-items index increased 2.0%.
Consumer Confidence[5]	**73.8**	➡	After fiscal crisis averted in December, there was a slight uptick in confidence in January.
HEALTHCARE INDICATORS			
Healthcare Spending[6]	**+3.9%**	➡	In 2011, health spending grew at slowest rate in 52 years.
Spending at Hospitals[7]	**+4.3%**	➡	Spending at hospitals grew 4.3% in 2011 after growing 4.9% in 2010. Slower growth is attributable to low growth in use of hospital services and slower growth in hospital prices.
Hospital Admissions[8]	**-1% to -5%**	⬅	Every month between January 2011 and July 2012, total admissions declined 1% vs. previous year.
30-Day Readmissions[9]	**17.8%**	⬅	30-day readmissions fell to 17.8% after being 18.5% to 19.5% for previous 5 years. CMS attributes decrease to payment reforms and increased focus.

Bottom Line

Economy. Economic outlook remains uncertain. Unemployment continues to fall and inflation remains low, but economic growth is tepid and only moderate growth is expected going forward. Business leaders in all sectors, including healthcare, have to prepare for and adapt to a lower-growth environment. Government sequestration only adds to the economic uncertainty.

Healthcare. Healthcare cost growth is slowing. Controlling the costs of care and lowering utilization, while assuring quality patient outcomes and experiences, is a growing mandate. Hospitals simultaneously have to balance optimizing revenue flow from declining fee-for-service admissions with changes in healthcare delivery that incentivize population health.

Public Policy Perspective

Healthcare Reform Continues in 2013 as Big Changes Loom in 2014

Recent articles in *Becker's Hospital Review* and *Kaiser Health News* summarized the main events thus far in healthcare reform, what will happen in 2013, and major changes in 2014 and beyond.

Thus Far

PPACA signed into law March 23, 2010

2010 highlights

- Tax credits to small businesses; rebates to seniors for drugs
- Children can't be denied coverage for pre-existing conditions

2011 highlights

- Insurers must spend 80–85% of premiums on care or provide rebates
- New services for elderly and disabled to decrease time in hospital

2012 highlights

- ACOs begin; 153 at year end
- Supreme Court upholds individual mandate, strikes down requirement for states to expand Medicaid

Late 2012 and 2013

October 2012

- Hospitals meeting EHR benchmarks become eligible for incentive payments.
- CMS begins value-based purchasing program. Reimbursement affected by performance on quality measures.

2013

- Now more than 250 total Medicare ACOs, covering 4 million people, and 428 total ACOs (including commercial ones)[10]
- National pilot of bundled care models

2014 and Beyond

- Individual mandate begins. Individuals who don't obtain health coverage and firms of 50+ full-time employees that don't offer it may be fined.
- Health Insurance Exchanges begin. All states will have an online exchange to purchase insurance. Enrollment begins October 2013; coverage starts January 1, 2014. Some individuals will be eligible for Medicaid or subsidies.
- When exchanges begin, insurers will be unable to reject applicants with pre-existing conditions.
- Beginning 2015, the Independent Payment Advisory Board (IPAB) is charged with making binding, cost-cutting plans for Medicare.

Two Important Regulations Announced Early 2013

New regulations were announced on patient privacy and essential insurance benefits.

- **Patient privacy**. HHS announced new rules to protect patient privacy and secure health information. Major changes include that providers' business associates (partners and vendors, including those involved with e-prescribing) must comply with HIPAA. For more information, visit *Physicians News Digest*.
- **Essential benefits**. On February 20, 2013, HHS announced the "essential health benefits" that must be included in insurance policies. It includes 10 benefit categories such as hospitalization and drugs.

Sequestration's Impact

Since Congress was unable to reach a budget deal, on March 1, 2013, sequestration kicked in — with a significant impact on healthcare, as noted in publications such as *The Hill* and HealthLeaders as well as a detailed analysis by Deloitte. Of sequestration's projected $85 billion in cuts in fiscal 2013, $11 billion comes from reduced Medicare payments to providers, which are decreasing by 2%.

Other major sequester amounts include the Federal Hospital Insurance Trust Fund ($5.8 billion), Federal Supplementary Medical Insurance Trust Fund ($5.3 billion), the NIH ($1.6 billion), and the Medicare Prescription Drug Account ($588 million).[11]

Bottom Line

Healthcare reform and new regulations continue to add complexity. The spending cuts in sequestration are real, exacerbating the financial pressure on providers.

- **What is your organization's No. 1 priority in 2013 related to healthcare reform?**
- **With reduced reimbursement and bundled episode-specific payments, did you know your pharmacy can contribute to reducing patient-care costs while maintaining quality care for patients?**

Financial Focus

Financial Challenges Remain Hospital CEOs' No. 1 Concern

In a recent ACHE study (American College of Healthcare Executives), hospital CEOs rated financial challenges as their top issue, followed by patient safety and quality. The top financial challenges are Medicaid and Medicare reimbursement, and government funding cuts. Maximum penalty will rise over the next three years from 1% of base operating DRG payments in 2012 to 3% in 2014.

Issues	Financial Challenges
• Financial challenges • Patient safety and quality • Healthcare reform implementation • Governmental mandates • Care for the uninsured • Patient satisfaction • Physician-hospital relations • Technology • Population health management • Personnel shortages • Creating an ACO	• Medicaid reimbursement • Government funding cuts • Medicare reimbursement • Bad debt • Decreasing inpatient volume • Increasing costs for staff, supplies • Inadequate funding for capital improvements • Other commercial insurance reimbursement • Managed-care payments • Revenue cycle management • Emergency department • Competition from specialty hospitals

Source: ACHE Annual Survey of Top Issues Confronting Hospitals, January 7, 2013

CMS Launches Bundled Payment Initiative

On January 31, 2013, CMS launched its bundled payment initiative,[12] with four different models and 450 providers participating.[13] Providers will receive one payment for all services related to an episode of care, instead of separate payments for all providers involved.

The Four CMS Bundled-Payment Models

1. Retrospective acute hospital stay only
2. Retrospective acute hospital stay plus post-acute care
3. Retrospective post-acute care only
4. Acute care hospital only

Hospital Drug Expenditures Reflect Only Slight Increase

A report in *AJHP* (the *American Journal of Health-System Pharmacy*) showed that hospitals' drug expenditures rose less than 1% from 2011 to 2012. In 2013, they are projected to rise from -0.5% to 1.5%. Per the IMS Market Prognosis Report for 2012–2016, in coming years there will be increased overall demand for pharmaceuticals, though not all from inpatient care. This includes treatment for an aging population, the growing incidence of chronic diseases, and increased diagnosis of diseases resulting from the new emphasis on screening programs. This will cause payers to seek cost efficiencies in drug spending through greater use of generics and increased cost-sharing.

<1% ***Increase in hospital drug expenditures from 2011 to 2012***

Bottom Line

Financial challenges remain health-systems leaders' greatest challenges. The involvement of pharmacy can play a key role in reducing the total costs of patient care, while at the same time promoting optimum outcomes and helping hospitals meet overall financial, clinical and quality goals.

- **What are your most pressing issues and financial challenges?**
- **How can pharmacy be better leveraged to lower total costs of patient care and reduce hospital operating costs or expand revenue?**
- **What is your organization's involvement with Value-Based Purchasing, bundled payments or other new care delivery/payment systems that impact reimbursement?**

Clinical Quality Remains a Top Priority

A January industry study by HealthLeaders[14] found that "clinical quality" was listed as the second highest organizational priority, falling just behind patient experience and satisfaction and slightly ahead of cost reduction. When asked about their great challenges in improving clinical quality, survey respondents said: 1) care coordination; 2) population health management; and 3) readmissions.

Also, many health systems have found that improving quality can produce significant cost savings. A few examples:

- Henry Ford Health System in Detroit implemented quality improvement and patient-safety programs that produced $10 million in cost savings over four years and led to receipt of the Malcolm Baldrige National Quality Award.[15]
- Denver Health has achieved spectacular improvements in quality and reductions in cost, as reported in Hospitals & Health Networks.[16] Just one small example is an 80% drop in blood clots among hospitalized patients and savings of $1.75 million as a result of reduced complications.

Pharmacies Help Hospitals Transition to New Value-Based Business Models

Under CMS' Hospital Value-Based Purchasing (HVBP) program, 1% of CMS' payments to hospitals are withheld and then earned back based on performance against core measures (70%) and patient experience (30% based on HCAHPS scores). This article from the Studer Group provides a great primer on HVBP and the core measures.

Because several of the core measures are related to medications — in the hospital and prescribed at discharge — pharmacists can play a key role in ensuring compliance with these core quality measures, which can mean hospitals will be entitled to greater reimbursement. In this *Pharmacy Times* article ("Hospital Pharmacists Help Improve Core Measure Scores"), a case study is shared where pharmacists helped a Pennsylvania hospital improve its performance on nine medication-related core measures of quality.

Many core hospital performance measures are related to medications

Good Process Helps Hospitals Manage Drug Shortages

Drug shortages are persisting, and managing through them is a challenge that can affect patient safety. Standard processes developed by multidisciplinary teams, often led by pharmacy (highlighted in this article), can help hospitals manage shortages in the most efficient, effective ways. Key steps can include a standardized drug-shortage management plan where shortages are identified and tracked, computerized alerts in the computerized prescriber order entry (CPOE) system, and hospital-wide communication.

$10M savings

Henry Ford Health System produced $10M in cost savings

Bottom Line

Improving quality and patient safety is a top hospital priority that can actually help produce cost savings. Pharmacists can play a key role in helping hospitals deliver safer, higher-quality care and achieve quality-driven cost savings.

- **What quality initiatives are underway within your organization?**
- **How is pharmacy helping your hospital impact revenue through achieving HVBP core measures? What further role could they have?**
- **Are pharmacists in your organization involved with transitions of care, including Primary Care Medical Homes, to help impact outcomes and lower costs of care?**
- **What processes has your hospital employed to deal with drug shortages?**

Six Ways Hospitals Are Combating Shrinking Margins

How Pharmacy Departments Are Helping Meet the Challenge

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With the most transformative period of U.S. healthcare delivery evolving, revenue and margins are a major concern for health systems everywhere. According to an April 2012 poll by HighRoads, around half of hospitals (55%) expect a decline in revenue because of ACA.[17] The American Hospital Association reports that more than one in four U.S. hospitals (28%) had negative operating margins in 2011. According to the Health Care Advisory Board,[18] the average 2% margins hospitals have now is below the 4% margin needed to sustain operations.

With increasing margin pressure, hospital leaders are actively identifying new ways to generate revenue, preserve or improve margins, cut costs, and improve quality. Many innovative hospitals are partnering with their pharmacy team to fundamentally change care delivery by reducing inpatient demand and succeed with payment systems requiring population health management.

Take a look at six ways that health-system pharmacy teams are helping meet the margin challenge:

1 **Ambulatory pharmacy.** Healthcare leaders are beginning to realize how much ambulatory pharmacy can do for them. Not only can it be an additional source of revenue, but it also can help assist discharged patients with medication adherence,[19] a critical means of reducing avoidable readmissions. As the acuity level of services provided in the outpatient setting increases, the opportunity associated with ambulatory pharmacies is also on the rise.

- **Revenue growth.** A recent survey of healthcare leaders found that over half (54%) plan to boost financial growth over the next five years by expanding outpatient services.[20]
- **Decrease readmissions.** The Agency for Healthcare Research and Quality (AHRQ) suggests that when patients understand their post-discharge medication instructions, they are 30% less likely to be readmitted or visit the ER.[21] This may help translate into savings under value-based payment systems.

By providing services to the community, hospital pharmacies can also help develop new customer relationships. According to the American Society of Health-System Pharmacists (ASHP), 35% of the 5,000 hospitals in the country have at least one pharmacy that serves discharged patients.[22]

2 **Streamline operations.** Nowhere is the phrase "do more with less" heard more than in the hallways of today's hospital. With the expansion of pharmacy services, streamlining operations is critical to help ensure that time and resources are well spent. Two examples of streamlining operations are:

- **Process improvement techniques.** Through employing Lean Six Sigma methods, manufacturing giants such as Motorola and Toyota created highly efficient operations yielding nearly defect-free products. Today, hospitals such as Virginia Mason are leveraging Lean Methodology to transform their organization and eliminate waste.
- **Drug spend management tools.** At Georgia Regents Health System, Administrative Director of Pharmacy, Rehabilitation and Respiratory Care Services, Tad Gomez, employed tools and resources to efficiently analyze drug spend, implement clinical initiatives, and then track and document the savings. Over the course of a year, this led to a savings of more than $1.3 million. When asked for comment, Tad replied, "As the healthcare landscape evolves, we're looking at ways to evolve with it. Bottom-line savings such as this help us focus our finances on medication safety and better patient-care outcomes."

3 **Accurate billing.** More providers are taking a closer look at reimbursements, and pharmacy is certainly no exception. Improved margins can occur when billing and reimbursement processes are optimized.

- Keep the pricing database aligned with changing regulations to ensure revenue integrity
- Identify discrepancies between the amounts of medication purchased and dispensed
- Find disparities between medications and the charges for particular subsets of drugs
- Transition from retrospective underpayment analysis to real-time payment recovery
- Normalize the pharmacy system and the chargemaster to improve financial performance
- Standardize pricing for similar drugs across hospitals and systems

4 **Drug discount programs.** Pharmaceutical Assistance Programs (PAPs) are programs sponsored by pharmaceutical manufacturers to provide financial assistance for low-income, uninsured and underinsured patients. But the complex nature of these programs means many hospital pharmacies don't always capture all available cost-saving opportunities. E. Thomas Carey, director of pharmacy services at SwedishAmerican Hospital in Rockford, Il, outsourced PAP management and recovered $450,000 in replaced medications.[23] Outsourcing PAP management can be a promising way to benefit patients and help bolster the bottom line.

Another way for eligible facilities to help improve their margins is through 340B drug-pricing programs. Some estimate that participation in 340B programs can generate savings in the vicinity of 20% to 50% of outpatient drug costs.[24]

5 **Employee pharmacy coverage.** Offering prescription coverage to employees through the hospital pharmacy provides a way to manage operating costs. Many hospitals have outpatient pharmacies, but they are often underutilized by employees. Leveraging the in-house expertise of hospital pharmacies can help reduce the cost of a hospital's employee pharmacy benefit. Additional savings can be derived through GPO discounts on medications required by employees.

6 **Drug diversion.** Many hospital leaders are increasing their focus on drug diversion, requiring pharmacy leadership to implement procedures to insure safeguards are in place to identify and prevent it. To prevent drug diversion loss, pharmacies must consider what people, processes, and systems are needed. Promising approaches include automated inventory-tracking systems, computerized recordkeeping controls and automated dispensing cabinets. A Lean Six Sigma engagement can also be used to identify areas of potential diversion risk.

Conclusion

Health systems are on a mission to achieve better care at sustainable costs in settings that are shifting more to outpatient services. While there is no one silver bullet to help reduce costs and improve margins, many options are now being found as pharmacy leaders and hospital leaders join forces and strategize on solutions that work. Forward-thinking healthcare suppliers and consultants can be helpful partners to support the quest toward better health of your health system.

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