

University of Miami School of Business
Business of Health Care - Panel 3
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Panel 3: Current and Future Trends in the Health Care Business Sector

An afternoon panel on "Current and Future Trends in the Health Care Business Sector" focused on five trends in the business sector: consolidation, consumerism, capital, cost, and competition.

"New players like Amazon are challenging established ones," said moderator Richard Clarke, former president and CEO, Healthcare Financial Management Association and board member, Mercy Health Ministry. "We are also seeing shifting consumer decisions driven in part by high deductibles and co-pays, as well as different ways to access care."

Turning first to consolidation, Benjamin A. Breier, president and CEO, Kindred Healthcare, said the trend has moved from horizontal mergers and acquisitions (M&As) aimed at achieving economies of scale, such as physician groups or hospital systems, to vertical integration, often due to reimbursement and regulatory issues.

Noting that Kindred is planning to sell the long-term care company partly to Humana and partly to a private equity firm, Breier said, "Humana has one of the largest Medicare populations in the country, and was seeking a way to reduce costs and keep its members well."

After the sale, Humana will own the largest home health network and a sizeable hospice business as well, Brier added. That will allow Humana to manage populations in a different way, he said.

Jacques Mulder, American health sector leader, EY, said vertical consolidation allows other players to get closer to delivering community health services. "They will have opportunities to figure out an algorithm for better care, and I'm excited about that," he said.

Charles Alston, market executive and SVP, Healthcare and Institutions Southeast, Bank of America Merrill Lynch, said organizational leadership teams are concerned about costs, access to capital and culture when looking at mergers and acquisitions. "Even in a like-like merger, a key issue in consolidations is being able to create a common culture," he said.

Growth of consumerism

Clarke then asked panelists to comment on a shift in the delivery of health care from the provider being the customer to the consumer becoming the customer.

"For every \$1 spent on health care, about 10 cents comes from consumers, but their decisions drive the other 90 cents," said Fiona Greig, executive director and director of consumer research, JP Morgan Chase Institute.

Drawing on aggregated data from the financial institution's customers, Greig said there are geographic, income, age and gender differences in health care spending burdens. "We have also identified a spike in health care spending in March when consumers are getting their tax refunds," she said. "That tells us cash flow dynamics influence when consumers utilize and pay for their health care. From a provider perspective, it means you should try to collect that revenue in March."

Wireless service providers also have consumer data that could help improve health care delivery, Mulder said. "No one understands the customer better than the cell phone company. Tapping that data would offer a huge opportunity for behavioral intervention and change."

Some retailers are already using their insights into consumers to enter the health care sector, added Alston. He noted this trend is one of the reasons there is growing competition in the delivery of health care services.

Tax reform

Looking at the Tax Reform and Jobs Creation Act passed by Congress in December 2017, Clarke said one of the implications of a lower corporate tax rate is that an exemption for 501(c)3 non-profits may not be as important in the future.

Mulder agreed that the tax reform will direct more capital to the for-profit sector, while not-for-profit organizations facing financial pressures might find it more difficult to access capital and need to sell assets to preserve liquidity.

Alston said that the value of bonds issued by non-profit healthcare systems has fallen. "If they had \$1 billion in debt that was tax exempt, that cost went up 30 basis points," he said. "That increased interest expense is probably not in the budget. However, the public markets are active today, so those organizations can reamortize and issue new tax-exempt bonds."

But there will be unintended consequences from pushing up U.S. government debt due to the tax reform act, said Breier. There is already a push to take money from Medicaid and Medicare, for example.

Addressing cost pressures

Seniors already account for a large percentage of the nation's health care costs, said Breier. In 10 years, there will be more than 70 million Medicare beneficiaries compared with 55 million today.

"What should we demand for the money we spend on their care?" he added. "What services do we provide for seniors? How do we drive waste out of the system? How do we deliver a better patient experience? Are we putting our dollars in the right place? In the next few years, we need to figure out those answers as a society."

Integrated technology platforms offer an opportunity to reduce cost pressures, while improving care, Mulder said. "Having the data – including information from consumer devices like Fitbits – is huge from a clinical quality perspective, as practitioners can engage patients before they show up at the ER."

Greig noted that six of 10 health care jobs are now administrative, adding that a "bureaucracy-busting strategy" could pay off in reducing costs.

Reflecting on the need to improve health care delivery, Mulder said that health care business leaders have been focused on costs, rather than dealing with clinical risks. “We need to reduce the variation in patient outcomes, and decide how to value those outcomes in M&A discussions,” he said. “Ideally, providers should strive to create an experience where patients want to engage with them. Clearly, our work is ahead of us – not behind us.”

At the end of the session, Judy Schaechter, M.D., professor and chair, Department of Pediatrics; Chief of Service, Holtz Children's Hospital, Jackson Health Systems; and The George E. Batchelor Endowed Chair in Child Health, returned to one of the conference opening themes.

“Where does academic medicine fit into the business picture?” she said. “We provide charity care, conduct discovery science and educate future health care professionals. Are we dinosaurs or can make this transition to the future?”

Alston said one strategy for universities is building strategic alliances that can supplement costly academic services. Mulder emphasized the importance of maintaining the research, educational and service missions of academic medical centers. “Deep expertise will still be the realm where academic medicine will provide the best benefit to the system,” he said. “However, you do need to train the next generation of physicians in different ways of delivering care.”