

# HEALTH CARE PREDICTIONS

## What Does the Future Hold for Healthcare in this Country?



Ron Howrigan  
President  
Fulcrum Strategies



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As I write this article I can say with 100% confidence that I can accurately predict the winner of the Super Bowl that happened a few weeks ago. Right before the game started I thought I knew who the winner would be, but I wasn't 100% sure. At the beginning of the season I was even less sure. Three years ago it would have been even harder to predict the winner of this year's Super Bowl. Predictions by nature are only valuable if they are accurate, and the further in the future that you can accurately predict what is going to happen the more valuable the prediction becomes.

In light of this, I would like to make some predictions about the future of healthcare. Before I do though, I want to establish my credibility for making these predictions by referencing some of my previous predictions. What follows are several quotes that came directly from me and were published in previous Fulcrum Strategies newsletters. All of these newsletters are housed on our website, so it's easy for those fact checkers out there to verify this information. Let's take a look at several of my previous predictions and see how close I actually got.

### **First Quarter 2010:**

*(From an article predicting the failure of the proposed Affordable Care Act)*

“So, where does this leave us? What we have before us is a proposal that the President believes will give him the best chance of getting something, anything passed into law. It expands coverage, taxes the rich, beats up the evil insurance companies, gets rid of fraud and abuse in the Medicare arena, and provides tax credits for individuals and small businesses. These are all things that will sound great on the evening news, and the proposal is strategically designed to corner the Republicans and force them to support this new version of health care reform. The problem is that this proposal won't really solve anything because it won't control healthcare costs. It won't fix the huge unfunded liability that is known as Medicare, and in my opinion, it will have some very serious negative side effects, which include driving insurance companies out of the insurance market. It will eliminate choice and competition.”

### **Third Quarter 2011:**

“While we all try to figure out what the healthcare reform law will do and what it won't do, I believe we also need to be very aware of the negative side effects. As all physicians know, sometimes the side effects are worse than the actual problem. My fear is that this could be one of those times.”

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## First Quarter 2013:

“As health insurance gets more and more price competitive and we have a marketplace where consumers can easily make price decisions on their coverage, it will put enormous pressure on the cost of care delivery, and that means extra pressures on things like physician incomes. Some physician groups won’t be able to withstand this pressure and will either cease to exist or sell to a hospital. Others will merge and consolidate to try and survive these changes.”

## Fourth Quarter of 2013:

“We now have enough information about the healthcare exchanges to know that there is something much worse than website malfunctions to be afraid of. I’m talking about the very real possibility of what insurance companies are referring to as the “death spiral.”

## Fourth Quarter of 2013:

“So what happens if these insurance companies end up being right? First, they will pull out of the few states they’re currently in. For most people in the exchanges, that will mean that Blue Cross Blue Shield will be their only option for health insurance. BCBS isn’t going to lose money in these exchanges, so they will raise premiums to a level that will cover any added costs they will incur. We could quickly see an environment where there is no choice and no competition, with coverage that is unaffordable. This could easily happen by 2015.”

**These predictions were made between four and seven years ago, and I think we can agree that they all have either come true or are in the process of coming true.**

So while I am on a winning streak, I thought I would take a shot at what the next five years are going to look like. At this point, I feel that I should display some kind of warning label like the ones that appear on the screen right before you watch an R-rated movie:



**WARNING: THE ARTICLE YOU ARE ABOUT TO READ IS INTENDED FOR MATURE AUDIENCES ONLY. SOME OF THE DESCRIPTIONS CONTAINED HEREIN ARE DISTURBING. CHILDREN AND THOSE WITH SERIOUS HEART CONDITIONS SHOULD NOT READ ANY FURTHER!**

Now that we have that out of the way, let’s grab some popcorn and watch this horror movie unfold.

As we start 2017 with a new Administration and Republican control of both the house and senate, healthcare sits in a precarious position. We know that the Affordable Care Act exchanges are deep in the throes of the death spiral. The national carriers have left most of the markets due to significant financial losses. The Blue Cross Blue Shield plans are starting to make noise that they too will have to leave if something significant isn’t done soon. We know that a Federal judge has blocked the proposed mergers of Aetna with Humana and Anthem with Cigna. We know that the Republicans are not at all interested in propping up the Affordable Care Act exchanges. We also know that the new President is willing to use any executive power he has to piece-by-piece dismantle large sections of the Affordable Care Act, including both the individual and employer mandates among other things. What we don’t know is what repeal and replace or repair plan will come out of the Republican congress and what it will do to or for healthcare in this country. This is where I would like to begin my next round of predictions.

2017 is going to be a year of holding our breath and waiting to see what comes out of Washington. I believe that in the end, the Republicans will pass something that gets rid of major sections of the things they don’t like about the Affordable Care Act. The individual and employer mandates are dead. Mandated benefit levels are dead. Federal exchange premium subsidies are dead. IPAB is dead. Some of the taxes on insurance companies are dead. They will keep

much of the popular insurance reforms like no-pre-existing condition exclusions, student coverage to age 26, and no lifetime maximums. I believe that they will eliminate the whole exchange market place either in 2018 or 2019. To be honest, they really don't have to do this because it's terminal and would eventually die on its own if they do nothing.

**Once all of these changes are made, the Republicans will replace or repair by passing the following things.**

- ✓ Expanded use of HSAs
- ✓ Refundable Tax Credits rather than Premium Subsidies
- ✓ The ability to sell insurance across state lines
- ✓ A collection of other additions designed to play well in a sound bite on TV but that won't really impact the industry much. Things like small amounts of money for high risk pooling, FDA changes designed to fast track drugs for terminal illness, etc.

There will be some other features to their new law, but these items listed above are the high points. The big question everyone should be asking is: what will all of this do? The short answer is not much. But given the fact that healthcare is very quickly headed for a major collapse, the "do nothing" approach isn't a good one. Let me explain.

The fundamental problem with healthcare in this country is related to cost. Things like subsidies versus refundable tax credits, mandated benefits versus high deductible plans, and federal control versus state run plans don't do anything measurable around the true cost of healthcare. Yes, if you reduce the benefit levels and offer high deductible plans it will reduce the "price" of insurance, but it doesn't really change the cost. Rather, it transfers part of the cost from insurance premium rates and pushes them onto the consumers of care. Now, if you are a young healthy individual who doesn't use the healthcare delivery system, this will look like a real cost reduction for you. However, if you are an individual who has a chronic disease like MS or a serious illness like cancer, this cost shift will actually significantly increase your costs. In total, we are just pushing money around and not doing anything to bend the actual cost curve. To do that we would need to deal with much more difficult issues of rationing and deciding what services will be covered and when. Until we do that we are just putting Band-Aids on bullet wounds.

The facts are these. Healthcare has been inflating faster than general inflation for over 60 years. It has increased from being just 5% of the U.S. economy to over 17%. That trend cannot continue because if it does, I will see healthcare consume over 50% of the U.S. economy in my lifetime. All economists agree that the entire U.S. economy will fail long before healthcare reaches those levels.

There are truisms in this world: Things like death and taxes; things like all planes land and all bleeding stops. Eventually. Well, ladies and gentlemen, it is a truism that we cannot continue on this pathway forever. Something will happen. And one of the biggest decisions of our lifetime just may be: do we want to help craft what happens, how it happens and when it happens? Or do we want to just sit back and watch the show?



Ron Howrigan  
President, Fulcrum Strategies



# PREPARING FOR HEALTHCARE REFORM IN 2017

How you can  
take control of  
your practice's  
future.



Cindy Nyberg

CFO & Strategic Planning Consultant  
Fulcrum Strategies

  
**Fulcrum Strategies**  
Superior Provider Advocates

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As a former CFO/COO of a large independent medical practice, I've walked in your shoes. I've faced the daily demands of operating in healthcare such as managing capacity, addressing staffing, developing strategies for answering the phones, managing EMR implementation and the demands of technology, meeting payroll, billing and collecting, jumping the ever-changing payer hoops, managing cash and planning for the next year while making sure that the patients', physicians' and staff's needs are all met. Sound familiar?

I believe most would agree that the only constant in the healthcare industry is change and that the current trajectory of healthcare costs is unsustainable. Whether it's the SGR, MIPS, APMs, Shared Savings, Value-Based Payments, Capitation, or High Deductible Health Plans, your business is expected to be nimble enough to adapt quickly while still employing qualified people and maintaining the facilities and equipment necessary to provide high quality patient care. (I'm referring to your practice as a business because it is).

In the past, we had applied hope as a strategy. We hoped for overall growth, for the next contract adjustment, for an increase in the number of patients seen per day, for new ancillary revenue, for meaningful use payments or some other windfall. Unfortunately, hope is not a good strategy, and with each version of healthcare reform those tactics are becoming less reliable.

A good strategy involves employing basic business tactics, preparing for the future and operating efficiently to meet your customers' needs while actively managing for profitability. You can be proactive by taking control and preparing for healthcare reform instead of just waiting to be the victim of the next change.

**The following are some basic business tactics to help you take control:**

### **Analyze Profitability by Service by Unit**

*Does your practice prepare a cost analysis so that you know the true cost of providing each service, such as an office visit?*

As the demand to reduce the cost of healthcare increases, you must be able to evaluate each service line or department's profitability in order to justify offering it, and to operate more efficiently within the needs of your business.

- Expand cost reporting to all departments including specific profitability centers such as labs and radiology and cost centers such as nursing and billing.
- Define who provides services to each profitability center.
- Report on units of service by payer.

In a recent analysis, we found that a practice made less than \$25.00 per Medicare MRI. That was before applying any indirect costs such as the EMR, billing or administration. Some businesses call that a loss leader. How many of those can you afford?

### **Prepare for Increased Patient Financial Responsibility**

*Do you know what percentage of your current revenue is paid directly from your patients compared to what it was five years ago?*

Estimates are that a minimum of 25% of your revenue will come directly from your patients. All current plans of reform want to increase the patient's

financial responsibility for decisions in their care. From directly purchasing their health insurance plans, to deciding on their benefits, to utilizing health savings accounts, to transparency about the cost of care, the ultimate goal is to make the patient the purchaser of care. Are you ready for this?

- ✓ Review, update and receive owner approval for your patient financial responsibility policy.
- ✓ Prepare for cost estimates and transparency in cost of care.
- ✓ Communicate and train your staff.
- ✓ Be prepared to measure and hold employees accountable for following your payment policies.

It has always been said the “patients pay your paycheck.” If you evaluate support staff compensation and benefits as a percentage of revenues, you most likely will find that with 25% of your revenue coming directly from patients, that the patients are literally paying your staff’s paychecks.

### **Develop a Five-Year Forecasting Model with Cash Management Strategies**

*Can you evaluate the financial effects of the upcoming healthcare reform on your business (both net income and cash) in a timely manner? Is your cash management strategy based on the hope of a big remittance each day, or do you have a Plan A/Plan B?*

- ✓ Develop a summary income statement by category include revenue by payer.
- ✓ Know your current contracts reimbursements and effective dates.
- ✓ Evaluate your physician’s compensation effect on cash.
- ✓ Evaluate your outstanding debt.
- ✓ Prepare a forecast of necessary expenditures for equipment and facilities.

Remember the days of the Medicare hold when Congress was debating the SGR? Are you in the cash position to sustain and operate for six weeks without reimbursements from one of your largest payers?

You can choose to regularly evaluate your current business position and plan for the future, or sit back and hope for the best. By planning, actively managing and operating efficiently, you are maximizing your profits, your time and your paycheck. By only hoping for the best strategy, you are putting both your business and your paycheck at risk.

To say that all of this is a challenge would be an understatement, but we believe your business, patients, staff and livelihood are worth it.



Cindy Nyberg  
CFO & Strategic Planning Consultant, Fulcrum Strategies

## **Is your practice prepared for the future?**

At Fulcrum Strategies, we have the knowledge, expertise, and vision to support your practice in this ever-changing healthcare environment.

**CONTACT US TODAY** about our Financial and Strategic Planning Services.



Amy Sink, VP, Sales & Marketing  
919-436-3371 or a.sink@fsdoc.com

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- ✓ Assist with overall management consultation.
- ✓ Develop ongoing management reports including: calculation, tracking and communication of key performance indicators.
- ✓ Perform comprehensive analysis of your group’s financial data.
- ✓ Assist with cash management and debt reduction strategies.
- ✓ Review physician's compensation and make recommendations.
- ✓ Assist with operational reviews and project management.
- ✓ Prepare a formal five year projection report for your business.