

Survival Moves for the Next Three to Five Years

“Do not count on a savior from Washington in the next three to five years,” J. Ian Morrison, president of the Institute for the Future in Menlo Park, CA, warned an audience of executives from religiously based healthcare organizations. Morrison analyzed the future of healthcare in the wake of the 103d U.S. Congress’s failure to pass healthcare reform legislation. A major challenge providers face is figuring out how they will meet community needs, especially in light of likely cuts in Medicare and Medicaid spending, he said, speaking in November at the National Interfaith Healthcare Leadership Conference in Phoenix.

HOSPITALS AND MANAGED COMPETITION

Morrison characterized the future as “big ugly buyers meet managed competition.” Health purchasing alliances of employers from both the public and private sectors will purchase employees’ care from health plans. But according to Morrison, hospitals are not good candidates for creating integrated systems and going directly to employers to sell health plans. Employers want to deal with smaller organizations than hospitals, and they want to be insulated from rationing decisions, Morrison said. In addition, he maintained, “hospitals are no good at sales and marketing, but insurance plans are.” He advised the audience to “get realistic about what you can and cannot do, or you will go over the edge.”

Morrison described two emerging models of vertical integration. In one, which is particularly successful in California, large primary care medical group practices contract with employers for managed care of their employees and then buy hospital and specialty services when they need them.

In the second model, hospitals form physician-hospital organizations (PHOs) and contract with employers. However, he said experts predict that PHOs will not last. It is possible for a hospital to manage a health network, Morrison said, but “the baggage of a large hospital is so enormous that the probability of financial success is low.”



Providers must figure out how they will meet community needs, especially in light of likely cuts in Medicare and Medicaid, said J. Ian Morrison.

Hospitals are still cost centers, he pointed out, and capitation poses conflicting incentives to both maximize and minimize hospital utilization.

MANAGED CARE GROWTH

The big development to watch for, Morrison told the audience, is capitated Medicare risk contracting. He noted that in Hawaii 30 percent of the Medicare population is enrolled in a prepaid contract and in California, 27 percent. Medicaid risk contracting will follow, he predicted.

The growth of managed care will lead to a large reduction in high-tech hospitals, Morrison said. “In the 1990s you’ll see many hospitals closing.” To “get out of the death spiral,” Morrison gave religious hospitals the following advice:

- Reduce capacity and integrate, doubling or tripling feeder networks to increase the number of covered lives.
- Invest in a system to risk adjust premiums as Medicare risk contracting develops. “As open-door providers with a mission, you are going to end up with the tough, difficult patients. You can say, ‘That’s our mission,’ but from a business perspective that puts you in a tight spot.” He insisted, “You have to invest in making sure you have a sensible system of risk adjustment and that that policy is put in place over the next five years.”

• Do not buy into “the myth of information.” “Don’t think that outcomes research will alter the fundamental cost structure,” he advised. What will, he said, is “investing in the social fabric. Amazing things happen to health status when you focus on jobs and education.”

• Provide excellent care. “If you don’t look after patients, whether they’re paying patients or not, you won’t have a business in the long run.”

In the future he sketched, Morrison believes religiously based organizations can succeed. “You have a wonderful opportunity to do the right thing,” he told the group. “It’s an exciting future. It’s a challenging future. It’s also a scary future. It will require tremendous leadership by you and all who work with you.” —Judy Cassidy