

The Kaufman Strategic Advisor

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## Healthcare Reform: The Government Has Outlined a Clear Direction

### **CMS Signals a Move Toward Phasing Out Fee for Service Payment System – Promoting Gainsharing and Competitive Bidding for “Bundled Services”**

In June of 2008, CMS published a 269 page Report to Congress entitled “*Reforming the Delivery System*.” In this report, they note that **the fee-for-service payment system has caused the Medicare program to be “fiscally unsustainable.”** Other recent reports confirm this fact. According to the OMB, in order to address the projected funding gap in Medicare, it will be necessary to increase taxes by 35.8%!

Universal coverage appears to further increase the cost burden. According to a Boston Globe article published on February 3, 2008:

“The subsidized insurance program at the heart of the state's [Massachusetts] healthcare initiative is expected to roughly double in size and expense over the next three years - an unexpected level of growth that could cost state taxpayers hundreds of millions of dollars or force the state to scale back its ambitions.”

CMS wants to move the Medicare payment system in a direction that “would pay for care that spans across provider types and time (encompassing multiple patient visits and procedures) and would hold providers accountable for the quality of care and the resources used to provide it.” The CMS proposal to reform the healthcare system includes the following:

#### **Promoting the Use of Primary Care Physicians**

In order to promote the use of primary care physicians, CMS recommends implementing a “budget-neutral” increase to the fee schedule for primary care physicians and pilot testing the medical home (aka gate-keeper) concept. The net financial impact of these recommendations would be lower fees for specialists. This will further escalate the demands for hospitals to stabilize the incomes of their affiliated specialists.

#### **Examine Hospital-Physician Collaborative Relationships**

CMS notes that “the common thread in most current hospital-physician collaboration strategies is that they enable, encourage or reward volume growth”. CMS appears to be favoring gainsharing and physician employment. The proposed 2009 Medicare Physician Fee Schedule Regulation creates an exception to the Stark Law specific to pay-for-performance and gainsharing programs. With respect to hospitals employing physicians, CMS writes:

“Hiring physicians as employees can bypass regulatory concerns that complicate financial arrangements between hospitals and community physicians.”

#### **A Path to Bundled Payment Around Hospitalization**

CMS notes that the current fee-for-service system does *not* encourage providers to cooperate. They believe that this contributes to the 18%-30 day readmission rate for Medicare patients costing \$15 billion annually. On May 15, 2008, CMS

sent out a letter to hospitals in Colorado, New Mexico and Texas announcing the ***Acute Care Episode (ACE) demonstration. This demonstration will select one qualified hospital per market that will be willing to accept a bundled [physician/hospital] payment for episodes of care relating to cardiac and orthopedic inpatient surgical services. CMS will market these programs to the Medicare beneficiaries and provide financial incentives to beneficiaries to encourage utilization of the designated providers.*** The critical success factors traditionally associated with capitated delivery systems e.g., standard protocols, IT, etc. will be essential for designated providers.

#### **What Does This Mean for You**

CMS has begun a gradual process of phasing out the fee-for-service method of payment. At the same time CMS is ***forcing physicians and hospitals into an arranged marriage!*** Managed care payers continue to be one of the few sources of incremental revenues that will be needed to reposition an organization to address these changes. While cost shifting will continue to be a highly effective strategy for the next three to five years, (rate increases that we have helped negotiate range from 8-20%), it will reach a point of diminishing returns. In the short term:

- 1) Reduce your cost structure – the new regulations regarding gainsharing may be helpful here, and
- 2) Maximize your managed care contracts and fine tune your revenue cycle.

#### **Then strategically invest in clinical integration and physician employment the two essential, sustainable physician collaboration strategies.**

Kaufman Strategic Advisors, LLC, has just completed a comprehensive presentation: "Preparing For the Inevitable Changes in Healthcare Delivery". If you are interested in learning more about our services, please contact me at [NathanKaufman@Kaufmansa.com](mailto:NathanKaufman@Kaufmansa.com) or call (858) 487-9771.

Kaufman Strategic Advisors, LLC. (KSA) is a San Diego-based consulting firm providing strategic and tactical advice to many of the nation's largest health systems and medical groups. KSA specializes in board and management retreats, managed care negotiations, all aspects of physician-hospital collaborations/employment, and fair market value assessments.

Look for our next newsletter: ***Successful Physician-Hospital Collaboration: Finding Happiness or At Least Mutual Respect in an Arranged Marriage***

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