
Lessons from the 1990s *Are There Any?*

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1990s Environment – Status of Overall Health/Hospital Economy

Key Hospital Indicators	1990	1997
Annual growth in national health care expenditures	10.9%	5.4%
Hospital share of health spending	35.5%	32.3%
Hospital use rates/1000	122	114

A declining share of a slowing sector

Sources: Centers for Medicare and Medicaid Services, Office of the Actuary;
CDC-NCHS Health Care in America, Trends in Utilization, 2003

Status of Key Hospital Payors

Insurance Payments as a Percent of Costs	1992	1997
Medicare	89.0%	103.7%
Commercial Insurance	131.8%	117.8%

- ◆ *Reversal from previous five years*
- ◆ *Medicare increase focused on urban/academic hospitals – significantly higher than NIH spending growth*

Interpreting the Data: Conventional Wisdom of the 1990s

- ◆ There will be extraordinary horizontal consolidation – “three to five national health systems”
- ◆ Many hospitals will go away; small non-aligned hospitals will cease to exist
- ◆ Substantial vertical integration will be necessary to sustain (fund) acute care – “must move up the food chain”

Hospital Response to the 1990s

- ◆ A “conservative” industry did everything at once!
 - By mid 1990s hospital merger activity was nine times higher than the start of the decade, with a significant number of for-profit conversions
 - By 1998, 58 percent of hospitals had relationships with one or more physician organization (e.g. PHOs, MSOs, IPAs, group practices)
 - One third of hospitals had at least one type of insurance product (PPOs)
 - Hospitals reduced nurse employment by 90,000 between 1993 and 1996
 - Academic health centers frequently reorganized, merged, or acquired to expand or protect their clinical care base

Sources: Robert Wood Johnson Foundation, The Synthesis Project, Policy Brief No. 9, 2006

Cuellar and Gertler, “Strategic Integration of Hospitals and Physicians”, 2001

AHA Trendwatch Chartbook. 2006

Schumacher “The Earnings and Employment of Nurses: Evidence from the 1990s.” Based on CPS ORG files

Why?

Real Issues x Lack of Core Beliefs = *! *!+!*!

Longer Term Impact – Was There Any?

- ◆ The number of community hospitals did decline by nine percent (5,384 to 4,919) between 1990 and 2004; consolidations increased
- ◆ However, the percent of hospitals with vertical integration products declined between 1995 and 2005
 - 42 percent decline in PHOs
 - 39 percent decline in PPOs
- ◆ While hospital spending continued its decline as a percent of national health expenditures (from 32.3 to 30.4 percent between 1997 and 2004), the rate of decline is abating and the health care sector overall has resumed robust growth

The Current State of Play

- ◆ **Hospitals** have settled on
 - Price leverage / cost shifting
 - Acute ambulatory care growth
 - Incremental improvement strategies (efficiency, outcomes, customer satisfaction)
 - Growing research (AHCs)

- ◆ **Health insurers** have consolidated and been able to be profitable with higher hospital pricing

- ◆ The **Public** has increased concern about who is looking out for them
 - Attorney general actions
 - Lawsuits
 - Congressional inquiries

Implications Going Forward

- ◆ Tough societal choices remain regarding sustainability of our health system

- ◆ If hospitals lack role clarity (and self-confidence) expect another maelstrom of action in search of margin protection (buying specialists, alternative medicine, niche service development, etc.)

- ◆ Alternatively, can hospitals define a sustainable role which helps soften the impact of those tough choices on at-risk populations?
 - Front end access/public health
 - Quality and efficacy
 - Chronic, palliative, end of life care

Policy Implications

Is the question of the hospital industry's beliefs and core values worth the time of policy makers?

- In many ways outside the norm
- But the alternative is an extraordinary belief in the ability of incentives

What Could be Done?

- ◆ Improve incentives (e.g. DRG realignment, disproportionate share)
- ◆ Strengthen public accountability
- ◆ Educate trustees to ensure the public focus of tax-exempt institutions
- ◆ Educate managers for tax-exempt, community-based roles