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10 concerns and trends facing hospitals right now

Written by Scott Becker, JD, CPA, and Molly Gamble | July 17, 2014 | [Print](#) | [Email](#)

Hospitals and health systems are facing a large assortment of pressures, challenges and threats. Depending on their size and market, some of these issues are highly concerning, whereas others are more promising.

This article briefly discusses 10 concerns and trends facing hospitals and health systems at the moment.

1. The growth of high-deductible plans. Between the movement of employer-sponsored plans to high deductible plans and the growth of healthcare exchanges, consumers have more and more responsibility for their healthcare costs. The number of people covered by an employer-sponsored high-deductible plan [skyrocketed](#) from just 4 percent in 2005 to 31 percent in 2011, according to the Kaiser Family Foundation. Seventeen percent of employers in a 2013 PwC [survey](#) offered a high deductible plan as the only option for employees, and more than 44 percent were considering making it the only option.

When consumers pay more for their healthcare, they often make more cost-conscious choices. This is leading patients to delay treatment and reduce procedures performed and hospital admissions. We have also reached the beginning of the point where patients price shop for care. High-deductible health plans, insurance shopping through the exchanges and price transparency are prompting patients to look for more low-cost alternatives than their traditional hospitals, such as urgent care centers and retail clinics.

2. Growth of accountable care organizations. The success of ACOs is not ubiquitous and their long-term effects are not yet clear, but this model is gaining traction after experiencing a slow start. A May 2014 [analysis](#) from Salt Lake City-based Leavitt Partners identified 626 ACOs around the country. The total number of ACO-covered lives is approximately 20.5 million. We expect to see the formation of more physician- and hospital-led ACOs for Medicare, Medicaid and commercial health plans.

3. Intensity of rivalries. While hospitals fight over patients, physicians and payer contracts, we are seeing rivalries grow in intensity from community to community. Some of these battles play out locally whereas others reach a national or even international scale, such as Rochester, Minn.-based Mayo Clinic and Cleveland Clinic. (For nine others, see [10 of the Biggest Rivalries in Healthcare](#) by Lindsey Dunn.) As healthcare grows nationally, the sprawling competition for market share, physicians and clout with payers remains intense.

4. Reduced inpatient procedures. Inpatient procedures have always been incredibly important to hospital revenues. An average inpatient procedure may generate 6 to 10 times as much as an outpatient procedure. Due to economics and advancements in technology, we are seeing a reduction in inpatient procedures in many markets. Researchers with Kaufman Hall [studied](#) inpatient and outpatient numbers from 2010-12 at 71 hospitals in seven-county area around Chicago. They found a 4.6 percent drop in inpatient utilization across all age groups in that timeframe, and almost all service lines experienced lower utilization rates. By analogy, this finding is relevant for many other regions in the country.

5. Layoffs. *Becker's Hospital Review* has [covered](#) approximately 100 hospital layoffs so far this year. The reasons for layoffs can vary, from reduced volume to reduced reimbursement to a closed department. Often the layoffs are occurring against the backdrop of recent terrific results and seem to be anticipatory for a reduction in revenues going forward. Also, a few hospital and health system leaders have blamed their states' nonparticipation in Medicaid expansion as a reason for workforce reductions.

6. Narrow networks. Some health insurers selling policies through the Patient Protection and Affordable Care Act health insurance exchanges have turned to narrow provider networks to appeal to consumers with lower premium prices. Narrow provider networks generally take one of two approaches: They either include only low-price providers in their limited networks, or they give incentive payments to providers that meet certain quality metrics and help the insurer achieve the federally required medical loss ratio threshold of 80 percent. [Moody's Investors Service](#) has said hospitals included in the networks face potentially decreased revenue by accepting lower payment rates than what they would receive from broader contracts. Further, those hospitals that are excluded risk losing market share.

7. Shift from fee-for-service to population health/managed care. The national healthcare economy is preparing for this shift. While the establishment has been long concerned about this transition, as the economics of traditional fee-for-service erode, more systems will happily embrace managed care models that are pay-for-performance and similar approaches. Last month, a [study](#) commissioned by McKesson found 90 percent of payers and 81 percent of hospitals currently offer or have signed onto a mix of fee-for-service and other reimbursement models. The study also found payers and hospitals anticipate two-thirds of payments will be based on complex reimbursement models with value measures by 2020.

8. Huge growth in health IT spending. The amounts spent on health IT, data analytics and similar efforts have exploded. In a 2014 [survey](#) from Premier, nearly half of hospital executives said their largest capital investment over the coming year will be in health IT. Throughout the country, health systems often budget at least 4 percent of revenues for health IT. While these capital investments can negatively affect organizations' financials in the short-term, there are long-term gains. This spring, [Moody's](#) said hospitals that invest dollars in information technology and outpatient services are most likely to survive challenging operating conditions. While there are constant complaints regarding satisfaction with electronic medical records and other health IT platforms, this is a cost trend we expect to continue for several more years.

9. Competition for physicians. The huge demand for physicians and the relatively small supply poses a great challenge for health systems, particularly those in rural areas that have a harder time recruiting. The Association of American Medical Colleges estimates the U.S. physician shortage will grow to more than 130,600 physicians by 2025. Another study published in [Health Affairs](#) found a distinct need for trained specialists to care for an aging population that is expected to nearly double from 2013 through 2025. Physicians and health IT staff seem to be the two relative untouchables in a challenging economic environment.

10. Staying independent. More than ever, the reasonably healthy standalone hospital has great concern over its ability to stay independent. Whether it is a hospital with annual revenue of \$100 million or \$300 million, there is huge concern as to whether the hospital will have enough clout with payers to maintain patient access and obtain reasonable rates, not to mention move toward pay-for-performance contracts and invest in health IT. The [decrease](#) of physicians who practice independently also affects the fate of these standalone hospitals. Of the 792,594 practicing physicians in 2013, 36 percent of them were independent, and 53 percent of those independent physicians were intent on staying that way.

To receive the latest hospital and health system business and legal news and analysis from *Becker's Hospital Review*, sign-up for the free *Becker's Hospital Review E-weekly* by [clicking here](#).

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1.800.417.2035

becker@beckershealthcare.com

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