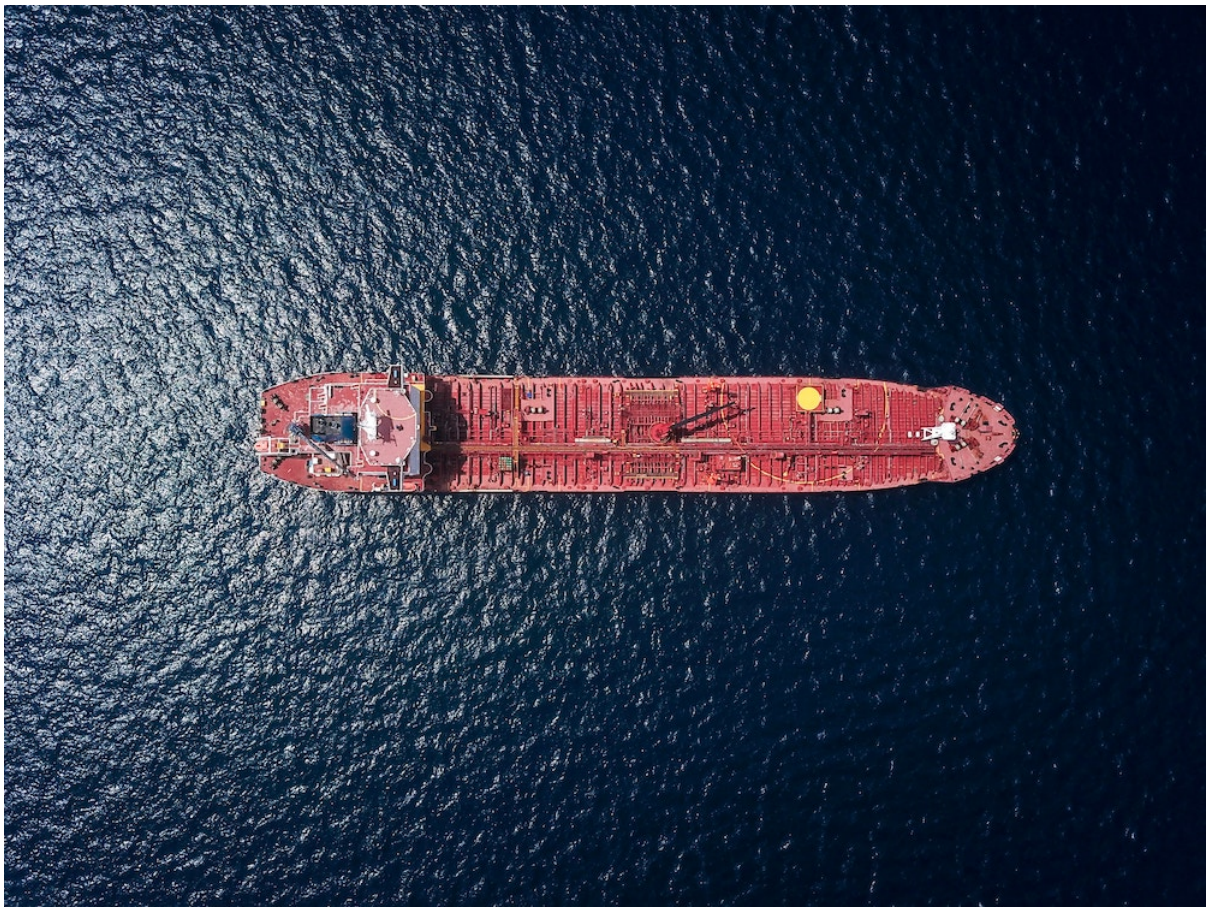
Can Hospitals Still Lead Health Care Under Risk?

written by Theresa Hush | January 23, 2020



As the millennium’s third decade begins, Risk has taken hold as THE strategy for tackling health care costs. Virtually

overnight (in health care years) the industry has moved—albeit not uniformly—to accept Risk. This transition is already beginning to impact hospitals and hospital-based systems, and raises serious questions about the viability of their role as the primary financial engine bankrolling health care operations, reforms and modernization.

Just one year ago, the concept of provider risk in Accountable Care Organizations (ACOs) was anathema to most participants. Despite initial misgivings, however, most ACOs remained in the system after CMS pushed forward with its final rules,. To top it off, some large physician groups applauded last May's Medicare announcement of a direct contracting method that involved a once-reviled risk-based payment mechanism—partial or global capitation. The RFP for that program has just been released for physician groups to apply by submitting letters of intent. The response is unlikely to disappoint.

As Risk gains momentum, the health care industry is undergoing a profound transformation. Even as Value-Based Care models, like Direct Contracting, hold physician groups accountable for costs, they will have ramifications for other providers that represent "downstream" costs from the capitation model, such as hospitals. Let's take a closer look at the impact on hospitals and how they can continue as stewards and financial engines, even as their roles with respect to other Risk program participants may vary.

Disruption in Health Care Has Become the Norm

One reason that Risk became more acceptable is that changes are occurring so fast that it's hard to keep track. Health care is hot, and now it's big business. Consider these trends in 2019:

(Still) more mergers and acquisitions among health care providers;
Equity-backed startups that will compete with those traditional providers' interests, such as practices and facilities. In some specialties, the majority of practices are equity-owned;
Employer-owned health care operations, or exclusive provider contracts, to reduce employer costs of coverage;
Risk-based Medicare payment options to ultimately replace Fee-for-Service;
Artificial Intelligence (AI) in clinical medicine, altering the dependence on traditional diagnostic techniques and manpower;
New benefit plans that further increase consumers' share of costs;
Hospitals (now the owners of a majority of physician practices) replacing physician staffing with nurse practitioners.
Telemedicine and more on-demand access points for consumers.

In short, business and employers have breached the boundaries of the traditional health care system, while the underpinnings of health care finance are changing. What does this mean for hospitals and hospital-based health systems? There is more than enough competition willing to take on the challenge of creating systems that will deliver consumer-valued services at lower cost.

Risk Changes Power Relationship of Hospitals

The bricks and mortar of health care, hospitals have occupied an essential role in health care delivery, defining not only the primary location for medical services but also how the

system of care has evolved. Blue Cross's predecessor developed the first health care insurance policy in 1929 to provide pre-paid hospital care.

By growing other related facilities as technology and needs changed—outpatient services, emergency rooms, and radiology and diagnostic centers—hospitals were able to increase capital as well as physical presence. As a result, hospitals became the focal point of residency training, research, and medical schools.

Hospitals are the engine for organizing much of the health care delivery system and, particularly in recent years, for capitalizing the enormous technology investment required for electronic medical records, state-of-the art diagnostic equipment, and high intensive services.

Since the inception of Managed Care, hospitals have taken on an even greater role in defining how health care is delivered. Once employer-negotiated contracts with health plans became the norm, there was an obvious need for hospitals to gain leverage in negotiations to secure patient volume. That led to the consolidation of hospitals and practices into larger health systems, and the acquisition of physician practices themselves.

Now these same Managed Care market forces will lead to hospitals becoming cost centers under Risk. For provider-led ACOs and group practices whose expenses are tied to their own patient costs, participating hospitals may have bankrolled the entity; but these hospitals also operate as a drain on ACO savings potential.

This will affect physicians' willingness to participate in risk-based arrangements when their incomes are at stake, and serve as a deterrent to independent physicians who might otherwise be interested in joining hospital-led ACOs or Risk arrangements. Hospitals will need to demonstrate to constituents and fellow participants that they can be counted on to be accountable for the shared mission. In hospitals and systems where physicians are employed, a culture of collegiality and common goals must be carefully orchestrated for success under Risk.

Positive Change Strategies for Hospitals in Risk

The transition to Risk is happening quickly, and hospital margins are falling significantly. But hospital-based health systems still have perhaps five years to implement a Risk strategy that not only avoids depleting reserves, but also creates growth. How? The key is to embrace Risk more rapidly through changes that alter the culture and approach to key stakeholders—physicians and consumers.

A collaborative leadership style is an essential component for hospital and health system leaders to keep physician and other provider networks intact under Risk. Creating or purchasing the infrastructure for managing Risk and then measuring costs against Medicare cost targets are key steps for helping hospitals maintain their leadership role for implementing Risk strategies. But those efforts won't succeed without laying a supportive foundation with physicians and with their patients.

Here are a few important internal strategies that should be considered by hospitals and hospital-based health systems, all

of which speak to issues that are deeply connected to culture—and to the costs of care:

1. Revise physician compensation to reward Value contribution, such as building long-term engagement with patients and their support members, guiding patients through Value-based medical decision-making, and collaborating to benefit the health care enterprise. Measurements of those criteria can include:

- Measured patient outcomes improvement over time;
- Best patient-reported outcomes;
- Patient panel retention (primary care) or stability (specialists);
- Costs within risk-adjusted cost targets; and
- Participation or success in specific Value-Based programs.

2. Improve physician understanding of Value-Based Health Care, their data, and their skills for guiding patients under Risk. Rather than simply scoring physician behavior, give physicians the opportunity to learn through data and skill-building courses that help them contribute positively to a shared mission.

3. Create a consumer strategy that responds to the changed attitudes, cost responsibility, and needs of health care consumers. Transparent pricing, access and communication methods, and medical decision-making processes are critical consumer issues that must be resolved if providers are to ensure a sustainable population of patients.

As Risk begins to penetrate the payment arrangements, hospitals that better align operations with their future vision will have

the ability to move forward with the specific initiatives to improve outcomes and cut costs. There are no shortcuts around culture in a change process. While hospitals still have the margins that can finance change—and maintain their competitive advantages—it's time to start turning the ship.

Founded in 2002, Roji Health Intelligence guides health care systems, providers and patients on the path to better health through Solutions that help providers improve their value and succeed in Risk.

Image: Shaah Shahidh