Leadership and Governance TRENDS and their Meaning for BALL of CONFUSION

Jamie Orlikoff

President, Orlikoff & Associates, Inc.
4800 S. Chicago Beach Drive
Suite 307N
Chicago Il 60615-2054
773-268-8009
j.orlikoff@att.net

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RISING COSTS
DECLINING REVENUES
SHIFTING DEMOGRAPHICS
LIMITED ACCESS TO CAPITAL
NEW PAYOR STRATEGIES / PAYMENT REFORM
INCREASING DEMAND FOR QUALITY / COST PERFORMANCE

Healthcare: Facing the Perfect Storm?
Consistent Themes Nationally, Regionally, and Locally
Healthcare: Facing the Perfect Storm?
With a BIG Wild Card!!

Four Key Interrelated Themes

• Total Cost of Care - Affordability
• Consumer Engagement
• Physician Alignment and Performance
• Governance and Leadership
Benefit for the Cost?

Maternal-mortality rate, per 100,000 Live Births

Recent News: More of the Same

- US Health Spending Grew 5.8% in 2015

According to CMS, and reached $3.2 trillion. On a per person basis, spending on health care increased 5.0%, reaching $9,990. The share of gross domestic product devoted to health care spending was 17.8 percent in 2015, up from 17.4 percent in 2014.
Recent News: More of the Same

• **US life expectancy DECLINED in 2015!!!**

In 2015, rates for 8 of the 10 leading causes of death rose. An American born in 2015 is expected to live 78 years and 9½ months, on average, according to the Centers for Disease Control and Prevention. An American born in 2014 could expect to live about a month longer, and even an American born in 2012 would have been expected to live slightly longer. In 1950, life expectancy was just over 68 years.

The United States ranks below dozens of other high-income countries in life expectancy, according to the World Bank. It is highest in Japan, at nearly 84 years.

Associated Press December 8, 2016

Health Spending Largest Item in the FY 2017 Federal Budget
Two-thirds of people in human history who have reached the age of 65 are alive right now!

Dr. Robyn I. Stone, LeadingAge
Is This the Metaphor for Our Future?

What Will Happen to Healthcare Under Trump Administration??
Trump as Candidate Position on ACA

• Repeal and replace the ACA
• Permit insurers to sell health insurance across state lines
• Make all health insurance premium payments tax deductible, rather than just premiums for employer-sponsored plans; place limit on employer-sponsored plans.
• Silent on Medicare – except for allowing Medicare to negotiate drug prices

Future of ACA??

The loss of health insurance coverage under an ACA repeal would have a $399.8 billion negative net impact on hospital revenue over the next decade. This estimate assumes most of the coverage provisions under the ACA would be repealed and coverage would return to similar levels seen before the ACA was implemented.

IF Medicaid Disproportionate Share Hospital payments that were cut under the ACA were restored, Hospitals only lose $165.8 billion between 2018 and 2026.

Becker’s Hospital CFO. December 7, 2016.
Future of ACA??

• "Losses of this magnitude cannot be sustained and will adversely impact patients' access to care, decimate hospitals' and health systems' ability to provide services, weaken local economies that hospitals help sustain and grow and result in massive job losses.... Restoring these cuts for the future is absolutely essential to enable hospitals and health systems to provide the care that the patients and communities we serve both expect and deserve"

AHA President and CEO Rick Pollack and FAH President and CEO Chip Kahn said in a letter to President-elect Donald Trump.

Future of Medicare??

Medicare Vouchers? Transfer of Risk from Feds to Medicare Beneficiaries. Even CURRENT Medicare requires significant out-of-pocket cost.

“A 65-year-old couple retiring in 2016 will need an estimated $260,000 to cover health care costs in retirement, according to Fidelity's Retiree Health Care Cost Estimate. This is a six percent increase over last year's estimate of $245,000 and the highest estimate since calculations began in 2002.” - Fidelity

Health Care Costs for Couples in Retirement Rise to an Estimated $260,000, Fidelity Analysis Shows
Long-Term Care Insurance Could Add an Additional $130,000
Future of Medicaid??

Currently, the federal government pays an agreed-upon percentage of each state's Medicaid costs, no matter how much they rise in any given year.

Republicans have argued that states have little incentive to keep expenses under control, because no state pays more than half the total cost. Both House Speaker Paul Ryan and Trump's pick for secretary of health and human services, Georgia Rep. Tom Price, want to switch to block grants.


Future of Medicaid??

Medicaid Block Grants? Transfer of Risk From Feds to States.

“If this isn't done right, if the money doesn’t match what needs to be done, this is potentially the greatest intergovernmental transfer of financial risk in the Country’s history.” Matt Salo, Executive Director, National Association of Medicaid Directors.

And Hospitals and Systems…?

The Law of Supply and Demand?

<table>
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<tr>
<th>Inpatient Demand Side</th>
<th>1980</th>
<th>2013</th>
<th>% Change</th>
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<tbody>
<tr>
<td>Admissions</td>
<td>36.1 M</td>
<td>33.6 M</td>
<td>(7%)</td>
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<tr>
<td>Admissions per 1000 of Population</td>
<td>159.1</td>
<td>106.6</td>
<td>(33%)</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>7.6</td>
<td>5.4</td>
<td>(29%)</td>
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<tr>
<td>Average Daily Census</td>
<td>747 k</td>
<td>500 k</td>
<td>(33%)</td>
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<table>
<thead>
<tr>
<th>Inpatient Supply Side</th>
<th>1980</th>
<th>2013</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Staffed Beds</td>
<td>988 k</td>
<td>796 k</td>
<td>(19%)</td>
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<tr>
<td>Staffed Beds per 1000</td>
<td>4.3</td>
<td>2.5</td>
<td>(42%)</td>
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<tr>
<td>Number of Community Hospitals</td>
<td>5,830</td>
<td>4,974</td>
<td>(15%)</td>
</tr>
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</table>

AHA Guide and AHA Hospital Statistics
Ratings: Stable…for Now

Fitch Ratings' outlook: Stable. Healthcare faces a low risk of deteriorating fundamentals but high levels of event risk due to regulatory and political uncertainty.

"Healthcare providers, specifically acute care hospital companies, have the most to lose if the ACA insurance expansion is gutted because it has resulted in more paying customers in the sector," according to Fitch.


Ratings: Stable…for Now

S&P Global Ratings' outlook on the nonprofit healthcare sector is stable in 2017, despite the sector facing a likely repeal of the ACA.

But, S&P may change its outlook in the near future.

"…we see a growing potential for credit quality deterioration based on the latest results from some providers, and the possibility the outlook could turn negative after the new administration and Congress are sworn in, given their intention to drastically alter the ACA and many long-term legislative tenets of the overall healthcare delivery system."

Between January 2005 and December 2016, 122 rural hospitals have closed.

So...What is the Plan to Stop or Slow Down the (seemingly) Inexorable Growth in US Health Costs?
CONSUMERISM – The Great Risk Transfer

Consumer-directed health plan enrollment has risen from 18% in 2013 to 23% of all covered employees in 2014, with average family deductible of $5,000

The U.S. regained the 8.7 Million jobs lost in the Great Recession, BUT the average wage of those jobs has dropped 23%!

Source: U.S. Conference of Mayors August 12, 2014
Health Cost Growth “Slows” to 5.4% for Families in 2014; 9% in 2015

• Healthcare costs for a family of four increased 5.4% in 2014, an average bump of $1,185 per family and a total cost of $23,215, with employers paying $13,520 and employees paying $9,695.

• Ninth straight year annual costs have increased by at least $1,100. In 2013 growth was 6.3%, and in the past decade the cost of healthcare for that family of four as measured by MMI has increased by 107%, from $11,192 in 2004 to $23,215 in 2014.

• Employer health insurance cost increase averaged 4% in 2015; but employee cost increased 9%!

14th Annual Milliman Medical Index, May, 2014 Seattle, WA

Patient Cost Sharing Rose 6X Faster Than Wages from 2010 to 2015!

Deductibles Rising Much Faster Than Premiums, Wages, and Inflation

Price is only an issue when there is an absence of value!
Disruption is a predictable pattern across many industries in which fledgling companies use new technology to offer cheaper and inferior alternatives to products sold by established players (think Toyota taking on Detroit decades ago).

Disruptive Competitor??
Virtual Care

OSF OnCall
virtual urgent care, 24/7

No appointment needed.
Get treated without leaving home.
$35 cost; no hidden fees.

24/7 Access
OSF OnCall is a convenient virtual urgent care clinic that is available any time of the day or night.
Get a diagnosis and treatment without an appointment.

What We Treat
Consult with board-certified physicians and nurse practitioners.
Our physicians and nurse practitioners can also prescribe medications when clinically appropriate.

Quick Care
Patients are typically seen by a provider in 30 minutes or less.
Save the time and expense of a trip to the doctor’s office. With just a few clicks, you can get better and get back to business.

Orlikoff & Associates, Inc.

How you can find a cheaper MRI

HealthEngine enables people to shop by price for medical treatments

BY KRISTEN SCHORSCH

In a world where people can comparison-shop for everything from an apartment to toothpaste with a few taps on a screen, good luck finding how much a new MRI or CT scan will cost. But that’s exactly what the online portal HealthEngine has done, enabling patients to search by price for physicians and medical facilities.

The concept is simple. Patients use the site to book more than a dozen services, reducing their bills by $21,000, Village Manager Paul Grimm says. He estimates the savings will likely increase. “Now that it’s the employer’s money, they’ve got skin in the game,” he says.

Employers save an average $905 per brokering, or 50 percent of the rate their insurer had negotiated with a doctor or facility for the service, says HealthEngine’s president and CEO. Business focused on the small percentage of people with private insurance in the U.S. saved $9 million, saving customers and their employers money by having hospitals and other facilities compete for one fee for a bundle of services. A trimmed-down company in 2011 for an undisclosed amount to private-equity investors. Chicago-based HealthEngine, which is anticipating up to $9 million in revenue in 2016, has a number of inroads with 300 of
Disruptive Leadership Questions:

How Can You Save Money for Your Patients? Provide VALUE?
Give them Better Experience?
Give them safer care?
And,
Still Stay in Business???
About $165 million was saved in the 17 medical marijuana states in 2013. The rough estimated annual Medicare prescription savings would be nearly half a billion dollars if all 50 states were to implement similar programs.

Cybersecurity: A Critical Governance Issue

Andy Slavitts, MD, Administrator for CMS, describes health care as the "trifecta" of data because it includes personal, medical and financial information on millions of individuals. It's literally a treasure trove of information that could be mined for nefarious purposes. Importantly, the health care industry is ill-equipped to handle the challenge.
Cybersecurity/ERM: A Time to Worry. 3 Levels of Risk:

1. Data Breach and Theft.
2. Ransom Attack.
3. Terror Attack using “Internet of Things.” Or, targeted murder or assassination.

Cybersecurity/ERM: A Time to Worry. 3 Levels of Risk:

1. Data Breach and Theft. Has already happened to Hospitals, Systems, and Insurance Companies Many Times. Patient data sells for more money than any other kind of information on the black market. More than 100 million medical records were stolen in 2015 — some for sale on the black market or use in Medicare fraud, some by state actors, apparently for intelligence purposes.

2. Ransom Attack. At least 14 hospitals and systems attacked in 2016 as of October. Adding insult to injury, the healthcare industry is hit significantly harder by ransomware than in any other — 88 percent of attacks hit hospitals.


3. Terror Attack using “Internet of Things.”
Imagine: taking control of CT or other medical device to over-radiate patients, or alter Test results, or scramble EHRs, ....
Could be extreme or subtle. Undermine confidence in an individual hospital or system, or in the entire US healthcare system.
Cybersecurity/ERM: A Time for Boards to ACT.

“It’s only a matter of time before someone gets hurt,” Sen. Sheldon Whitehouse (D-R.I.) said during a hearing in July after well-publicized ransomware attacks hit hospitals in Kentucky, California and the nation’s capital.

Politico. “Cyber ransom attacks panic hospitals, alarm Congress”. July 18, 2016

U.S. warns of unusual cybersecurity flaw in heart devices

“WASHINGTON (AP) — The Homeland Security Department warned Tuesday about an unusual cybersecurity flaw for one manufacturer’s implantable heart devices that it said could allow hackers to remotely take control of a person’s defibrillator or pacemaker.”

U.S. warns of unusual cybersecurity flaw in heart devices

“The revelations about a hacker’s ability to potentially gain remote access and affect even the workings of a human heart shed light on the pressing problems of cybersecurity in an increasingly networked world.”

“Your average patient isn’t going to be targeted by assassins,” said Matthew Green, an assistant professor for computer science at Johns Hopkins University. “An attack on this level is low-probability but very high-impact.” He called it “probably the most impactful vulnerability I’ve ever seen.”

Seattle Times. Originally published January 10, 2017 at 3:02 pm Updated January 11, 2017 at 4:32 am

Cybersecurity/ERM: Why is Healthcare so Vulnerable?

The 35 Billion dollar federal incentive program, which started paying out cash in 2011, “thrust tens of thousands of health care providers into the digital age before they were ready,” says David Brailer, chief of health IT in the second Bush administration. “One area where they were woefully unprepared is security. It created thousands of vulnerabilities in hospitals and practices that lack the budget, staff or access to technical skills to deal with them.”

Politico. “Cyber ransom attacks panic hospitals, alarm Congress”. July 18, 2016
Cybersecurity/ERM: Why is Healthcare so Vulnerable?

- The targets of attack within health care are practically limitless. “It’s hard to imagine a more complex and diverse environment than a hospital,” said Dave Palmer of Darktrace, a company whose technology searches for unusual behavior within networks.

- “You have doctors and staff walking around with tablets, millions of dollars worth of scanners and sensitive machinery, all of it digitally integrated. You have visiting consultants there, maybe only a few days a week. Staff, porters, cleaning people.”

Politico. “Cyber ransom attacks panic hospitals, alarm Congress”. July 18, 2016

Cybersecurity/ERM: Questions for Boards to Face A New Governance Challenge

- Do you have a Cybersecurity Strategy? How and how often is your Cyber risk assessed integrity tested?
- How does the Board oversee it? Audit committee, other?
- Do you have IT/Cybersecurity expertise on the board?
- Do you have a CIO position? Is Cybersecurity emphasized in the position description, performance evaluation, compensation?
- Does your hospital/system have Cyber Insurance? What does it cover? What must you do to insure coverage? What does it NOT cover?
Wither the Soul of Healthcare Governance?

The Wall Street Journal

Dilemma for Nonprofit Hospitals

Some administrators' and board members' business ties can pose conflicts at facilities

By ALEXA PELL

Nonprofit hospitals have extensive business ties that can pose conflicts of interests. For their administrators and board members, a Wall Street Journal analysis of newly released Internal Revenue Service data showed.

While having relationships with companies other than their own is common among hospital leaders, some may be forced to choose between what's best for the hospital and what's best for their private interests.

Some hospitals have ties to U.S. companies and are incorporated in other states, which can create a conflict of interest. In one case, the chief executive of a hospital in California was found to have a business interest in a company that provides services to the hospital. The hospital's board was aware of these ties, and the chief executive was asked to recuse himself from certain decisions.

The Wall Street Journal

Conflict Risk

Hospitals, more than any other kind of nonprofit, have business transactions with vendors and board members.

Organization

Total

Hospitals
2,335
24%

Colleges and schools
16,504
18%

Medical research organizations
161
16%

Hospital affiliated clinics
1,317
12%

Other nonprofits
363,970
40%

Total nonprofits
383,022
100%

Note: For the first nine months of 2016, data is based on an average of 325 hospitals in each of 30 states with the highest revenue. Sources: IRS.
“In 2014, 46% of more than 2,300 nonprofit hospitals had at least one trustee or officer with business ties to the hospital—either directly or through a relative. That is compared with 7% of all nonprofits in the Journal’s analysis of tax-return data compiled by the IRS.

At more than 270 nonprofit hospitals, the arrangements topped $1 million each. Many of the largest transactions involve hospitals and medical companies that have common board members. But in other instances, hospitals have multimillion-dollar contracts with companies owned by trustees in areas such as advertising and construction.”

http://www.wsj.com/article_email/nonprofit-hospitals-business-relationships-can-present-conflicts-1471797105-lMyQjAxMTE2ODI2MThzMzE4Ml

“Hospitals frequently conduct business with their board members and officers—far more often than other nonprofits.”

Wall Street Journal August 22, 2016
Number of Days a Year Board Currently Spends on Issues

The Two Most Common Board Member Complaints I am Hearing:

1. We do not spend enough time as a Board in Strategic or Generative Discussions.

2. Governance is taking more and more of my time. I am a Volunteer and this is too much.
Just like the Population, Board Members are Getting Older...But FASTER!

![Image of board members]

**Figure 2.7 – Board Age**

<table>
<thead>
<tr>
<th>Age Group</th>
<th>2005</th>
<th>2011</th>
<th>2014</th>
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<tr>
<td>&lt;= 50</td>
<td>29%</td>
<td>24%</td>
<td>21%</td>
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<tr>
<td>51-70</td>
<td>62%</td>
<td>67%</td>
<td>68%</td>
</tr>
<tr>
<td>&gt;= 71</td>
<td>9%</td>
<td>9%</td>
<td>10%</td>
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</tbody>
</table>
Some Interesting Highlights from the Survey

- Board Members are Getting Older.
- Nearly 40% of Boards DID NOT use competencies in the selection process for new board members OR new Board Chairs.
- 80% of Boards reported that NO Board member has been replaced or not been re-nominated because of failure to demonstrate necessary competencies.
- Just over 50% of Boards did a self assessment in 2014; and hardly ANY did performance evaluation of individual trustees or of Board Chairs.
- Most boards did not use assessment results in determining if a board member should be reappointed.

American Hospital Association’s Center for Healthcare Governance. 2014 National Health Care Governance Survey
Some Interesting Highlights from the Survey

• 88% of Boards Do Not Compensate their Members (same as in 2011).
• Only 52% of Boards use Electronic Board Portals for Governance Information and Agenda Materials.

But, I Am An Older Board Member and I am HIP!

A Leadership Law

There Can Be No Leadership Success without Leadership Succession.

BOARDS AS TEAMS

“Real teams don’t emerge unless individuals on them take risks involving conflict, trust, interdependence & hard work.”

Katzenbach & Smith
GREAT TEAMS HAVE GOOD FIGHTS!

• The complete absence of conflict in a board or committee (team) is not harmony, it’s more likely apathy.

• Great teams have these characteristics:
  • they focus on the facts or the tasks
  • they generate and truly consider alternatives
  • they create common goals
  • they use humor
  • they balance the power structure
  • they seek consensus with qualification
“GENTLEMEN, I TAKE IT THAT WE ARE IN COMPLETE AGREEMENT ON THE DECISION HERE. THEN, I PROPOSE THAT WE POSTPONE FURTHER DISCUSSION TO GIVE OURSELVES TIME TO DEVELOP DISAGREEMENT AND PERHAPS GAIN SOME UNDERSTANDING OF WHAT THE DECISION IS ALL ABOUT”

Alfred Sloan: GM Chairman and CEO from 1923-1956
Quoted in New Yorker, March 8, 2004 p. 30
“To make more effective decisions, develop disagreement rather than consensus. Disagreement provides alternatives and makes you think more deeply about the issue.

In fact, if you don’t have disagreement, you are not ready to make a decision”

Peter Drucker

KEY DISRUPTIVE GOVERNANCE PRINCIPLES:

1. Competency-Based Board Composition.
2. Board Member Performance Evaluation.
3. Outside Members!
4. A Clear Leadership Focus. The purpose of Governance is to LEAD, NOT TO REPRESENT Constituencies and Stakeholders.
5. Diversity on the Board – Includes Age Diversity!!
Maternal-mortality rate, per 100,000 Live Births


Maternal Deaths

2009 – 5 deaths (18.5/100,000)
2010 – 4 deaths (16.4/100,000)
2011 – 1 death (4.3/100,000)
2012 – 3 deaths (12.8/100,000)
2013 – 0 deaths (0.0/100,000)
2014 – 0 deaths (0.0/100,000 plus the brain dead MVA patient)
Mandatory OB 22 hour CME training for both physicians (to maintain credentials) and nursing (to maintain job) with incentive for early completion

<table>
<thead>
<tr>
<th>Year</th>
<th>Maternal Deaths</th>
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<tr>
<td>2009</td>
<td>5 deaths (18.5/100,000)</td>
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<td>2010</td>
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<tr>
<td>2011</td>
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<tr>
<td>2012</td>
<td>3 deaths (12.8/100,000)</td>
</tr>
<tr>
<td>2013</td>
<td>0 deaths (0.0/100,000)</td>
</tr>
<tr>
<td>2014</td>
<td>0 deaths (0.0/100,000 plus the brain dead MVA patient)</td>
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Four Key Interrelated Themes

- Total Cost of Care - Affordability
- Consumer Engagement
- Physician Alignment and Performance
- Governance and Leadership
You Must Have CHAOS Within You to Give Birth to a Dancing Star –

Friedrich Nietzsche  1844-1900