

# Spotlight on Healthcare – A Special Industry Report (Seventh of a Series)

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We caught up recently with a banker friend – a veteran of the healthcare industry – to ask him for his thoughts on the state of the sector today:

“You’ve touched on a key trend in your series,” he told us: “the transition from fee-for-service to fee-for-value. Providers used to be reimbursed for costs incurred in delivering care, plus a profit margin. But expenses rose because providers weren’t incentivized to control them. Today each procedure or unit of care delivery has a pre-defined reimbursement level. That’s helped curb excesses of the “cost-plus” era.”

He went on. “But we continued to see double-digit growth in healthcare expenditures through the 2000’s. By 2010, Baby Boomers started to retire just as the ACA was enacted. That pressured the system to deliver care more effectively and efficiently. The emerging paradigm is “fee for value”, where reimbursement is about quality of outcomes, not just volume. While initially more of an ideal than a reimbursement method, it’s animating industry constituents to evolve and become a reality”

How exactly? “Besides designing reimbursement to reward providers for outcomes, payers are looking to partner or merge with providers. Providers are then trying to improve outcomes with better monitoring and metrics. In general, the system is thinking how to manage healthcare delivery for entire populations, not just individuals.”

Examples? “Increased partnerships between hospitals and their ‘post-acute’ counterparts, such as skilled nursing facilities and home health agencies. By banding together via JVs, service agreements or consolidation, these companies can more efficiently direct a patient to the most appropriate care. Consider that today, many patients lie in a hospital bed when they could easily be cared for in a lower-cost SNF.

“Likewise,” he said, “many patients in a SNF bed could be sent home with a visiting nurse. When providers operate in silos, they focus on delivering their discreet service even if it’s not the most appropriate setting of care. However, when they join affiliations across provider disciplines (and are rewarded for outcomes), they shift to the most efficient and best quality care for entire patient populations.

“Headline mergers such as CVS/Aetna, Walmart’s bid for Humana and Humana’s bid for Kindred are manifestations of this trend. In each of these cases, payers / providers are seeking to gain greater control of the patient, directing them to the most appropriate care setting. Instead of being passive players waiting for providers to bill them for services, payers are taking active roles in where and how patients are treated.

He concluded. “In many ways, home health care is emerging as the linchpin to the industry’s aim of delivering better care at a lower cost. Medicare and other payers are increasingly recognizing home health as the solution to, and not the cause of, our rising healthcare costs; notwithstanding concerns noted by some of your guests.

“Technological innovations in broadband and devices are transforming care at home. As healthcare investors, you have to be skating to where the puck is going. Avoiding home health is like retail investors wanting nothing

to do with on-line delivery.”