

## Health Care Trends and Issues for 2016

By Nicholas E. Smith, Director

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2016 is sure to be exciting, as the pressure to cut costs will bring about newly emerging reimbursement methods, technological advances, and more efficient and value-driven health care service delivery. While change can be exciting, it can also create anxiety, especially among smaller rural and independent hospital organizations. These organizations are often less able to withstand the continued pressure on costs and less able to deploy the capital necessary to keep up with advances in technology and other more enduring changes in the health care landscape. In these uncertain times, it is more important than ever to remain focused on core business fundamentals.

- Prepare for greater price transparency and the potential price competition in some markets by understanding the organization's cost structures.
- Focus on understanding and excelling in core service lines, and explore new ambulatory/retail-focused service lines as a way to enhance the revenue streams available to the organization. Ensure that the organization has the right complement of clinical and non-clinical staff to drive these emerging shifts in health care delivery.
- Allow the reimbursement landscape to evolve before deploying significant resources into changing the health care delivery model.
- Cautiously evaluate new and emerging technology and its usefulness to the organization and its patients.
- Explore opportunities to collaborate with larger regional tertiary referral partners. Strategic partnerships can be formed in many ways. Partnerships should be developed around the organization's strategy and structured around the specific needs of its respective organizations.

### Health Insurance, Cost Containment, and the Rise of New Payment Methodologies

Of the many trends we saw in 2015, the one with the greatest uncertainty, and the largest impact to the health care industry ecosystem as we know it, was the rise of government Health Insurance Exchanges. While political pundits continue to debate whether to repeal or improve, we are seeing the marketplace placing its bets solidly on entrenchment and proliferation of health care exchanges in the coming years. As predicted, the influx of newly insured onto the insurance rolls has been associated with a rise in health insurance premiums across the country. This has naturally triggered a need to continue containing costs at the health care provider level.

To that end, 2016 will be marked by more thoughtful efforts to reduce spending on health care services and more focused efforts to pilot new methods of payment and reimbursement that promote greater value for every health care dollar spent.

The leading indicator of the need to generate higher value at a lower cost is the rise of high deductible insurance plans in the marketplace. These less expensive plans have proven to be the natural choice for cost-conscious employers and individual consumers. With a higher out-of-pocket requirement, consumers will be utilizing all of the tools at their disposal to shop for the lowest cost option for health care services. As a result, the industry will continue to incur pressure for greater price transparency. The pressure will be greatest in urban areas, where the commercially insured population is highest and competition allows for price shopping.

While pressure for price transparency and price competitiveness will not be quite as fierce in rural areas, some rural hospitals are already starting to feel the impact and are responding to this trend accordingly. Rural hospitals will need to ensure their chargemasters are updated to maintain competitiveness with their tertiary referral counterparts. They will also need to continue exploring retail-oriented health care service alternatives, such as more ambulatory-focused surgery and imaging options, as well as low-cost, unscheduled primary care options to meet the changing needs of consumers. Provider recruitment will continue to emphasize advanced clinical practitioners to meet these changing patient behaviors and continued shortages expected in physician supply in 2016.

With all the dialogue about pay-for-performance and potential reductions in reimbursement, the likely negative impact of these types of arrangements on hospital providers, especially rural providers, will be relatively small in 2016. With such an established fee-for-service infrastructure in our country, the shift to new reimbursement models will continue to be slow, with many fits and starts in the form of pilot and selected-market models. Many will fail, one or some will endure, but the prevailing alternative to the fee-for-service reimbursement model has not yet been identified. Therefore, it is most prudent for rural hospitals to let the larger, capital-rich organizations invest in the research and development of these pilot programs, such as Accountable Care Organizations, which if not well-organized and carefully deployed could have a seriously negative impact on an organization's bottom line.

One alternative reimbursement model that is gathering steam and will continue to in 2016 is the bundled payment arrangements. Under these arrangements, a payer gives one payment for all services related to an episode of care. Rather than the daunting task of managing an entire population such as under an accountable care arrangement, under a bundled payment arrangement, an organization or group of organizations is able to focus by only being responsible for containing the cost of that one episode of care.

The emerging pilot programs are offering incentives for saving money, with no penalty for lack of savings, which is an enticing model to organizations. While an organization may not be prepared to enter into these new pilot programs yet, the importance of post-acute care in the continuum creates an opportunity for an organization to continue pursuing relationships with other providers in its region with the goal of improving care and patient transitions and reducing the overall cost on a per-episode basis.

*Regardless of which alternative reimbursement methodology ultimately prevails, one thing has become clear in the health care industry: in order to drive down costs, the technology and analytical capabilities of organizations must be enhanced.*

### Technology, Analytics, and Investment

The trend that is perhaps the most exciting, certainly the most expensive, and potentially most wrought with risk that will captivate the health care industry in 2016 is the rise of technology. 2016 technology trends in the health care industry will take on many forms. The most prevalent among them, and likely most applicable to all organizations regardless of size, are health care analytics and telemedicine. Other technology enhancements will be deployed more selectively to support organizational programs such as population health management tools or technology to track the patient across the care continuum. These more selective technologies, especially those that are designed to support programs that are still in the pilot stage nationally, should be viewed more skeptically, and investment into these areas should be done cautiously, if not avoided altogether.

The concept of health care analytics is using health care data to inform decision making or to predictively anticipate patient needs or interventions at the organizational level. With the flood of health care technology on the marketplace, it can be difficult to make heads or tails of which health care technology or analytics organizations may need. Therefore, it is best to look at the more fundamental drivers of change in the health care ecosystem and let those inform technology investment, such as the need to contain costs, understand pricing in order to promote transparency, and meet the local health care needs of the population. Investment in technology, especially in rural and independent hospital organizations where capital is limited, should focus only on tools that are adaptable and focus on promoting and advancing the data needs of the organization. Investment should be done cautiously and geared toward tools and technology that have a strong track record and are being utilized by organizations within the region, especially by tertiary referral partners.

The use of telemedicine in 2016 will continue to proliferate. The shortage of providers in rural areas and the need to generate more efficient and consumer-friendly methods of health care delivery by utilizing technology to replace physical infrastructure and expensive health care staffing will drive growth in telemedicine technology in both rural and urban settings alike.

*For rural and independent hospitals, it will be important to collaborate with regional tertiary referral partners on telemedicine and other initiatives. This will allow for better scalability of technology and ensure more seamless care transitions for patients who want to receive care locally.*

### Consolidation Continues

With the unending rise in physical and technological infrastructure requirements for health care organizations, coupled with declining reimbursement, organizations continue to face financial pressure. The trend in consolidation is therefore expected to continue into 2016 as organizations seek out partnerships with larger health systems to access capital and other benefits such as technology leverage, recruitment assistance, and back office support. Consolidation is not just occurring among health care providers, however, as 2015 has also seen a rise in insurance consolidation.

*Even for rural or independent hospital providers, it is important to collaborate with larger systems in a way that adds value to patients and the provider community.*

### Summary

2016 promises to usher in its share of challenges and opportunities, stemming from emerging trends in the health care industry. Arguably, the most daunting task for health care leaders in 2016 will be accurately anticipating the veritable “shelf life” of these emerging trends.

Success will be defined not only by the ability to predict and respond to the more enduring changes in our industry, but also by the ability to exercise restraint in the face of trends that while fashionable may ultimately prove short-lived.

### About the Author

#### Nicholas E. Smith, Director

Nicholas has over a decade of proven leadership experience with Wipfli's national healthcare consulting practice. In this role he has the opportunity to serve a broad array of healthcare organizations including health systems, integrated delivery systems, county and district hospitals, critical access hospitals as well as physician specialty groups, behavioral health centers, and healthcare networks. Nicholas leads consulting engagements with energy, enthusiasm and an analytical problem-solving approach to effectively respond to the facility, operational and strategic challenges facing his clients. He believes in proactive communication, strong collaboration with stakeholders and creating practical, effective, and affordable solutions to assist leadership in undertaking important strategic decisions.

Typical market planning engagements for Nicholas include new service line planning, market share projections, community health needs assessments, physician demand assessments, and volume and demographic projections in support of financial feasibility studies and facility growth. His facility planning engagements include all aspects of planning new and replacement hospitals and other health care facilities, planning major renovations and additions, and all other aspects of planning for future growth. Nicholas can be reached at [nsmith@wipfli.com](mailto:nsmith@wipfli.com).

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