

Community Health Association of the Inland Southern Region
Annual Symposium

September 27, 2018

***The Future of Healthcare For Community
Health Centers***

Curt Degenfelder
curt@degenfelderhealth.com
310-740-0960
www.degenfelderhealth.com



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Thinking About the Future

Longer-term thinking, often associated with a strategic planning process, requires consideration of:

- What that we do today will we still do in 3 – 5 years?
What will not continue?
- How will market conditions change?
- How will current trends continue? Will they accelerate/decelerate/compound?
- What opportunities and threats exist?



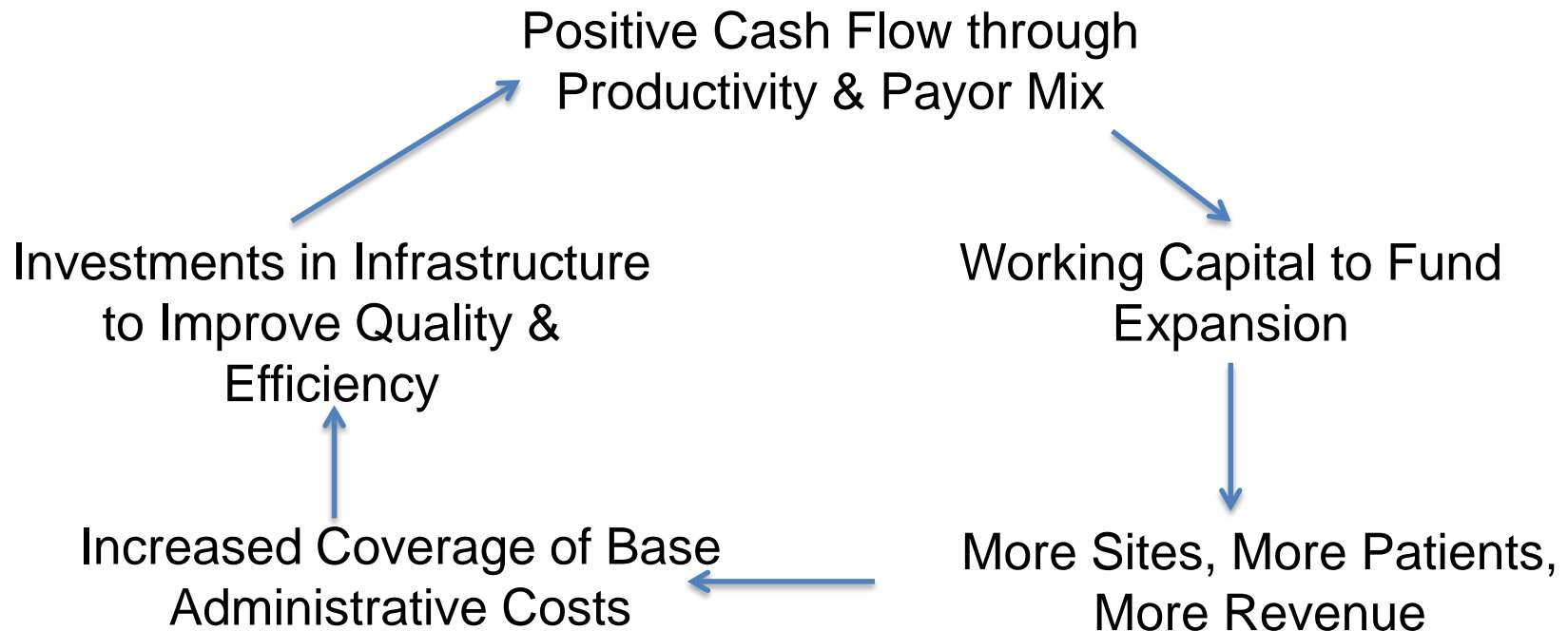
The Biggest Challenges Facing California Health Centers Over the Next Five Years

- Recruiting, Retaining, Keeping Productive, and Paying Providers
- Uncertain, and Overbearing, Regulatory Environment
- Marketplace Transformation Makes Operating More Difficult
- Stagnation/Reduction of Federal Support (330, 340b)
- The Closing of the California Frontier



Current CHC Financial Profile

The Virtuous Cycle



Margin Erosion

- MEI: 1% annually
- Physician compensation increases: 5 – 10% a year
- Staff compensation increases: 3 – 5% a year
- CPI: 2.1% annually

Over time, a constant revenue and expense base will experience declining margins



Fixes to Margin Erosion

- Growth/economies of scale/coverage of fixed cost
- Payor mix improvement
- PPS Change In Scope/Rate Increase
- Increases in provider productivity
- New Access Point 330 funding
- Expanded Service 330 funding
- 340b margin



Providers



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California Primary Care Provider Projections

- The number of primary care physicians in the State of California is projected to decrease 8 – 25% because not enough new providers are entering primary care residencies
- The number of NPs and PAs is projected to increase sharply; however, not enough to offset the physician decline
- Overall, the number of primary care providers is projected to *decrease* by 2030 (continuing current declines)
- The number of primary care providers required to serve the population is projected to increase
- A shortage of 4,800 primary care providers is projected by 2025

Source: Healthforce Center at UCSF



2018 Reality for CHCs: Visits Per Provider FTE from National UDS

	2010	2011	2012	2013	2014	2017
FP	3,606	3,492	3,424	3,346	3,238	2,958
Peds	3,770	3,681	3,541	3,448	3,451	3,192
NP	2,821	2,804	2,750	2,674	2,639	2,527
PA	3,108	3,047	3,025	2,968	2,937	2,820



PCMH Cost/Benefit Analysis

- Physician - \$180,000 – 230,000
- Nurse practitioner - \$120,000 – 160,000
- RN - \$70,000 – 80,000
- Medical assistant 1 - \$12/hr
- Medical assistant 2 - \$14/hr
- Medical assistant 3 - \$20/hr
- Care coordinator - \$20/hr
- Front desk - \$13/hr
- Scribe

Note: with lower physician ratios, need to consider issues of patient management and member assignment

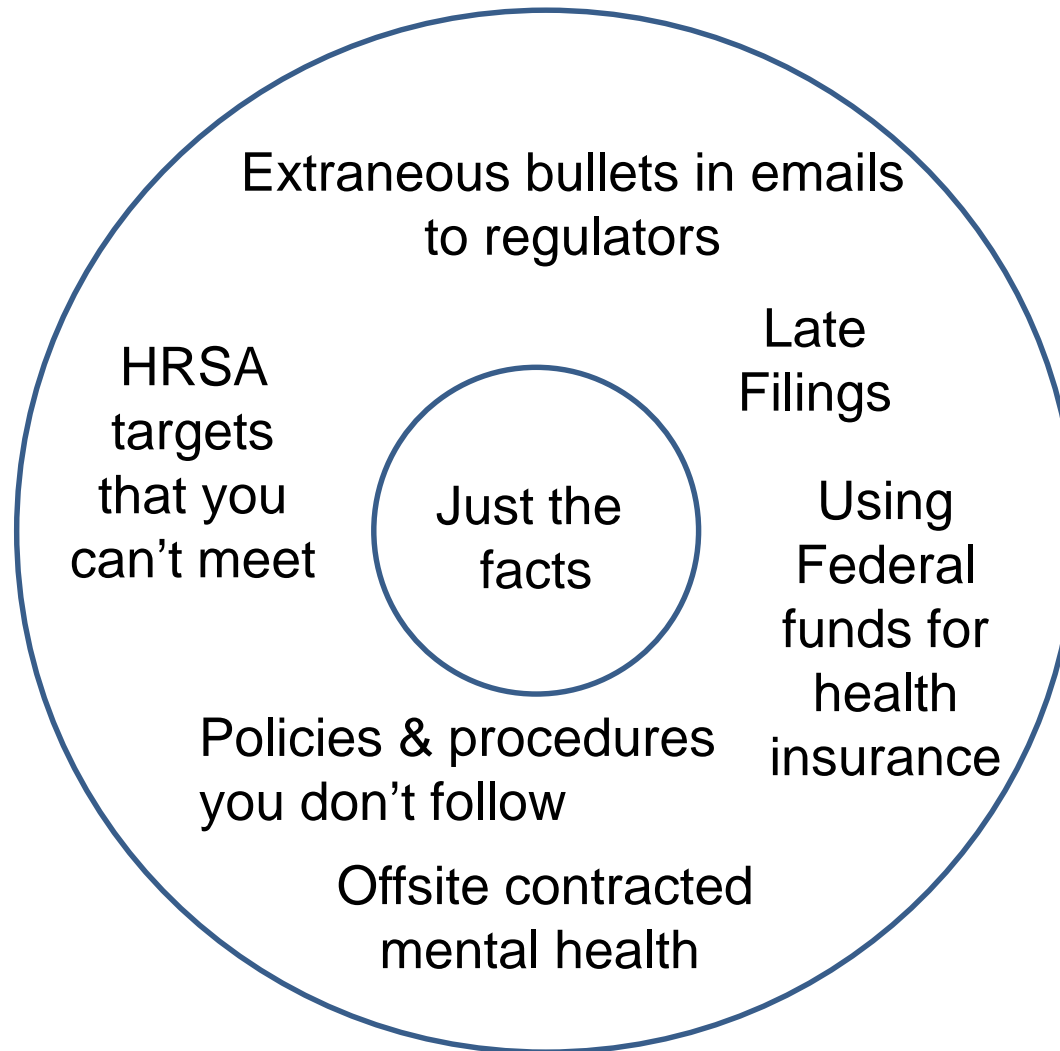


Regulatory Environment



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The Regulatory Small Target

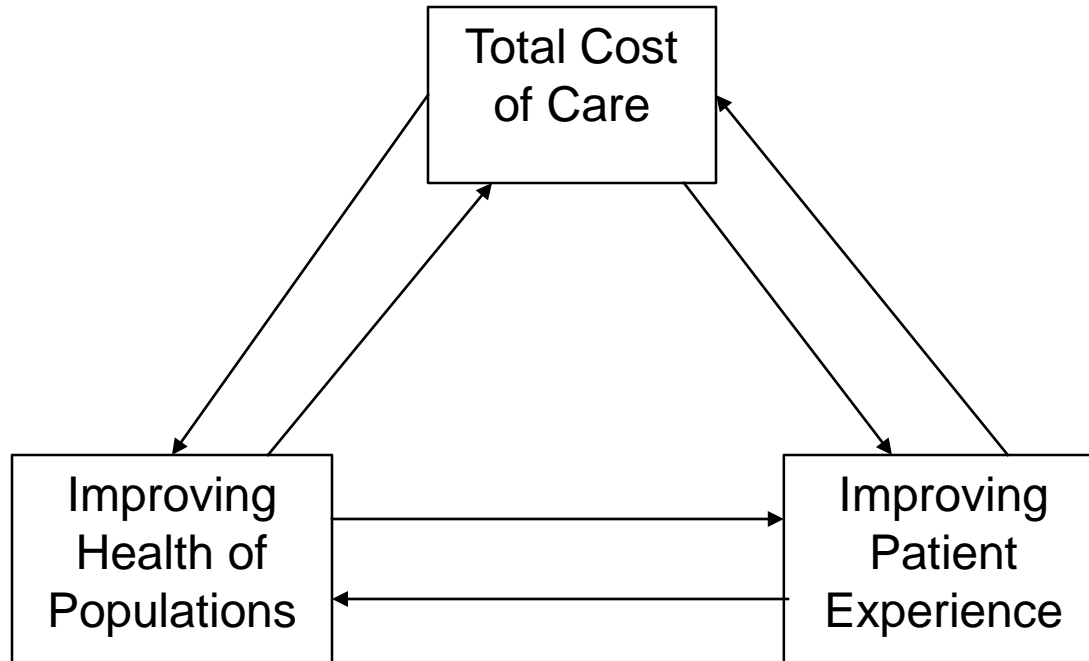


Market Changes



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The Triple Aim

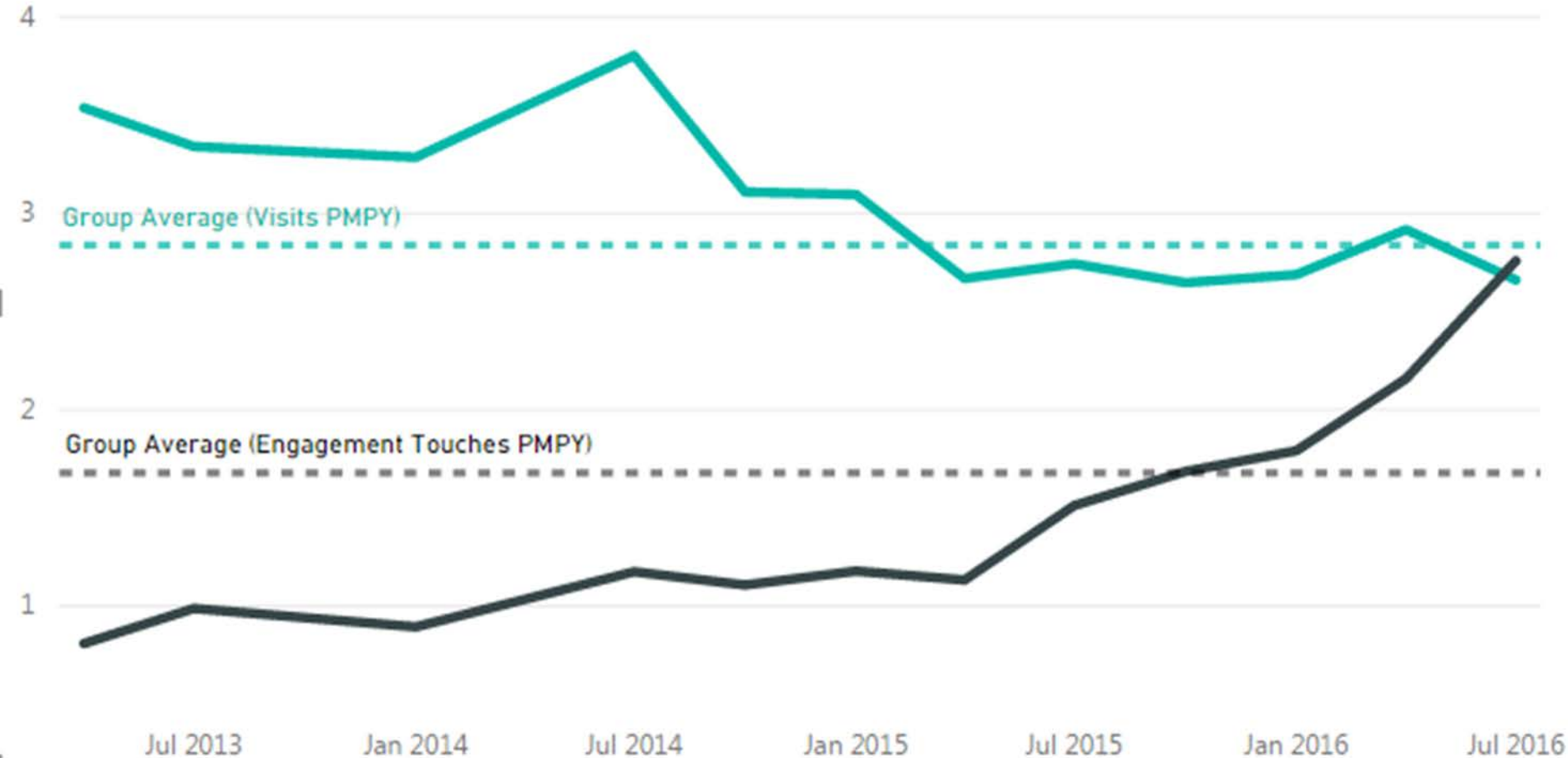


Key Elements of an APM

Reporting – Care Steps in Oregon APM

Average Visits PMPY and Average Engagement Touches PMPY

● Average of Visits PMPY ● Average of Engagement Touches PMPY



Market Concentration

		Health care provider market concentration				
		Unconcentrated	Moderately concentrated	Highly concentrated	Super concentrated	Total
Health insurer market concentration	Unconcentrated	0.0%	0.6%	1.1%	1.9%	3.6%
	Moderately concentrated	0.0%	5.5%	16.5%	14.9%	36.9%
	Highly concentrated	0.3%	3.3%	27.5%	23.4%	54.5%
	Super concentrated	0.0%	0.3%	1.9%	2.8%	5.0%
	Total	0.3%	9.6%	47.1%	43.0%	100.0%

Both the hospital and health insurance market are becoming more concentrated (in part to increase bargaining power with each other). In addition, health insurers are starting to merge with pharmacies and pharmacy benefit managers (PBMs)

Market concentration tends to disadvantage smaller market players. The level of M&A also threatens to disrupt current health center arrangements



Market Consolidation

- The percentage of CA primary care physicians in practices owned by hospitals increased from 26% in 2010 to 38% in 2016
- The percentage of CA specialist physicians in practices owned by hospitals increased from 20% in 2010 to 54% in 2016
- This change was associated with a 12% increase in insurance premiums, a 9% increase in specialist prices, and a 5% increase in primary care prices
- Sacramento is the most expensive metropolitan area in the country to deliver a baby (source: Kaiser Health News)

Source: Health Affairs



Federal Picture



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Macroeconomic Picture

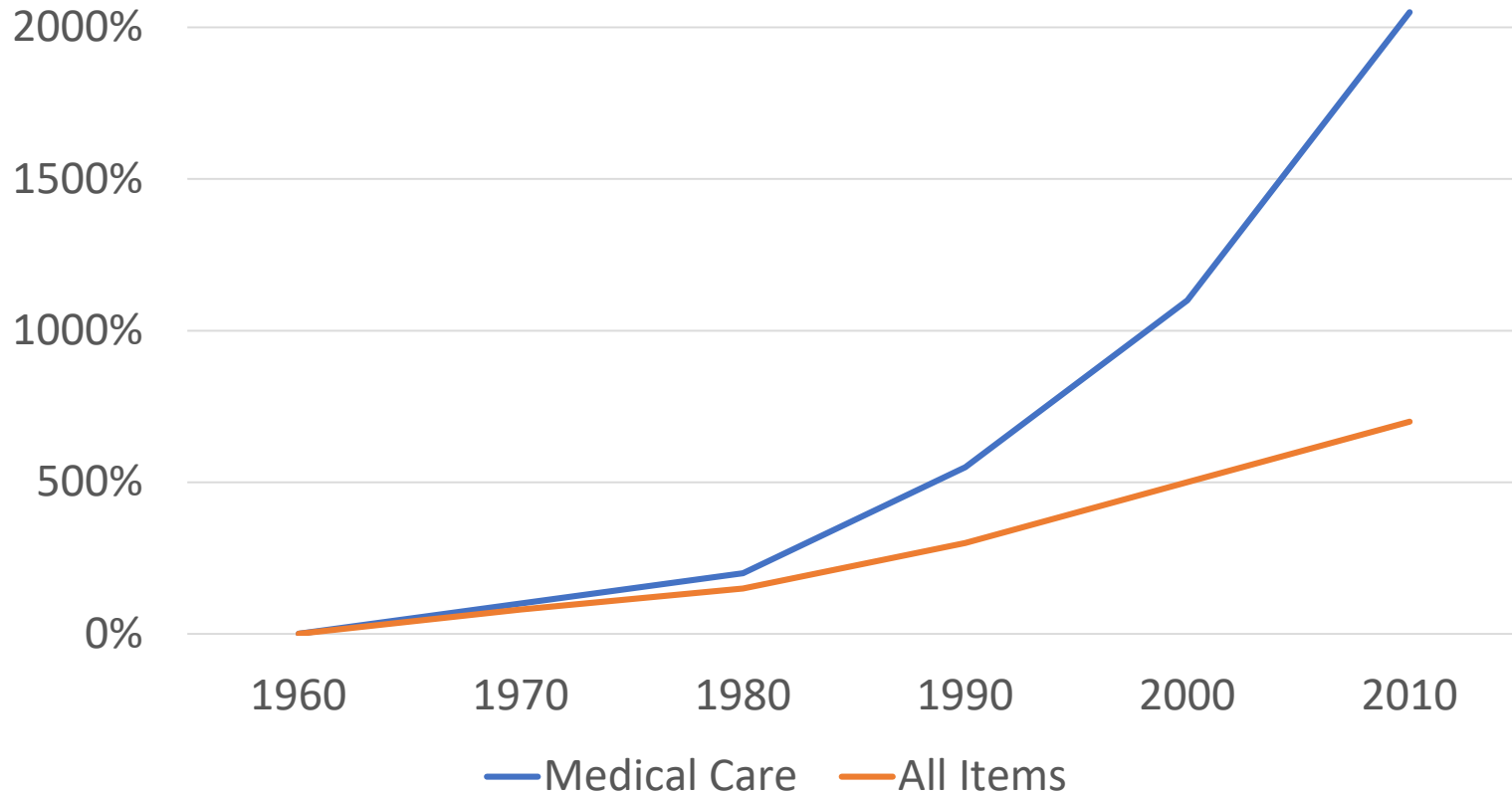
- Q2 2018 GDP growth: 4.1%
- 2010 – 2017 growth: 2 – 2.5%
- May 2018 unemployment rate: 3.8% (18 year low)
- S&P 500, August 7, 2018: 2,858.45 (all time record: 2,872.87)

- Projected federal budget deficit, FFY 2019, per White House budget office - \$1.1 trillion (4th largest of all time, #1 – 3 2009 – 2011)
- Total assets on Federal Reserve balance sheet, 9/1/08 - \$905 billion; 7/23/18 - \$4.28 trillion



Macroeconomic Picture

Cumulative CPI Since 1960



Source: Labor Department, WSJ 7/31/18



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Macroeconomic Picture

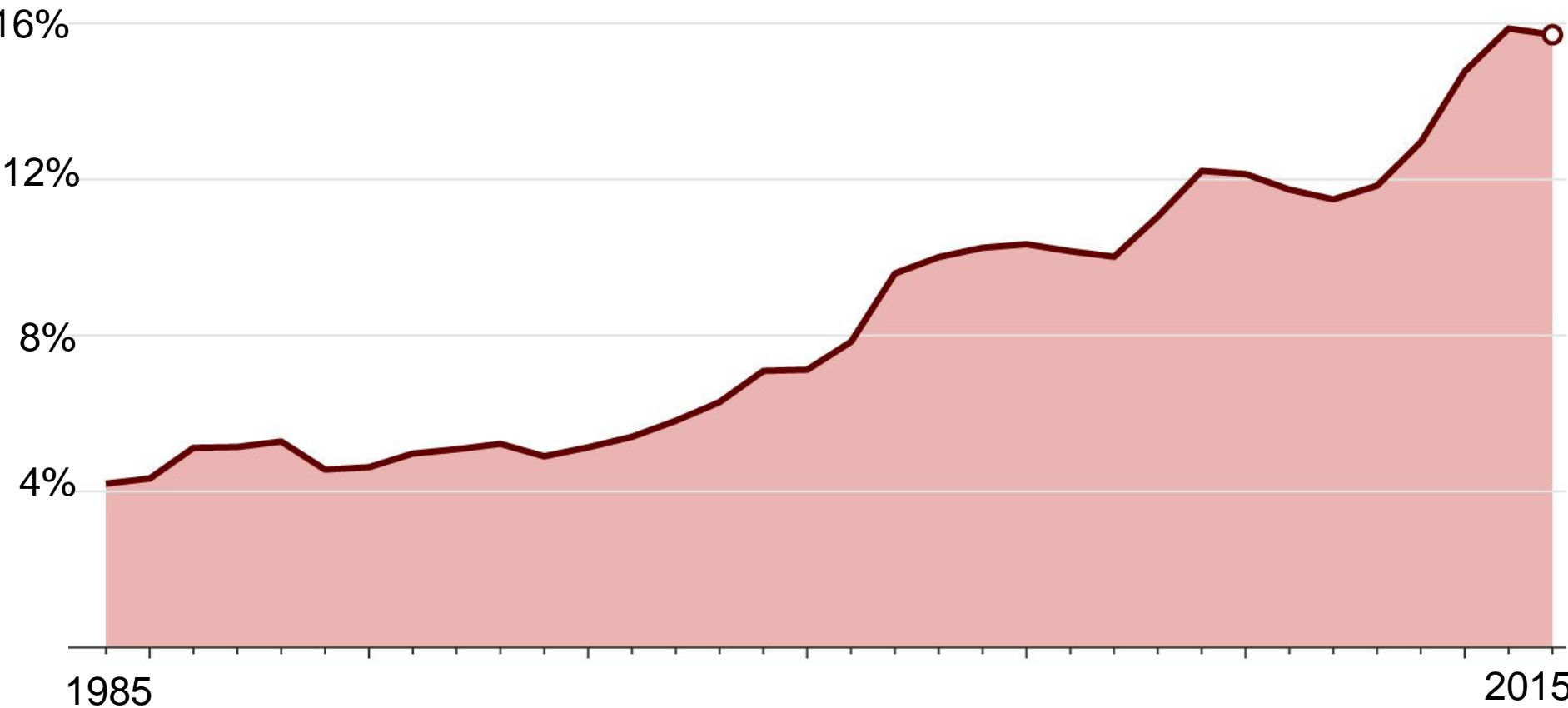
Price Growth Since 2000

Physician & Clinical Services	23%
Hospital Care	60%
Prescription Drugs	69%



Macroeconomic Picture

Health Care Companies % of S&P 500



Macroeconomic Picture

“Medical costs are the tapeworm of American economic competitiveness”
Warren Buffet, May 2017



The Closing of the California Frontier



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Closing of The California Frontier

As California CHCs get larger, serve a greater number and a greater percentage of the population, and cover more neighborhood, geographic areas, new characteristics may be required:

- Employee specialization (vs wearing many hats)
- Emphasis on infrastructure (vs growth)
- Developing new lines of business (with positive contribution margin, vs more of the same)
- Becoming corporate
- Flexible work schedules



Thoughts on CFO Competencies in Future

- Accounting & Finance Operations
- Grants Management
- Health Information Technology (including improving cost/benefit of EHR)
- Organizational Leadership & Effectiveness
- Professionalism, Personal Integrity & Effectiveness
- Quality Management/Improvement
- Reimbursement & Revenue Cycle
- Risk Management
- Stakeholder Advocacy & Collaboration
- Strategy & Innovation
- Team Growth, Development & Innovation

Source: CFO Competencies Domains, Skills/Tasks, Definitions: NACHC

