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Westchester offers case study of consolidation

Around the country, health care markets are changing and experts are debating where it will end.

Right at home, Westchester County's market transformed dramatically and rapidly. In just 18 months, Westchester County's hospital market went from locally run entities to domination by three large systems from outside the county. Of 11 acute care hospitals, only two remain even partially independent. Understanding the dynamics of these changes will be critical to appreciating where the regional market north of New York City will go.

More broadly, Westchester County offers a valuable case study for foretelling the health care system's evolution – with its significant consolidation, regionalization and new focus on "value," defined as outcomes relative to costs. This notion of value has the potential for driving structural change in the organization and delivery of health care in the near future.

The impact of population health management and risk sharing has become critical since Medicare's 2015 announcement of its plan to move 50 percent of enrollees (from 14 percent today) into accountable care organizations or ACOs. Where Medicare leads, commercial insurers generally follow. Westchester provides a laboratory for new, potentially cost-effective approaches and relationships between community hospitals and tertiary hospital systems, as well as physicians.

As an affluent suburban market, Westchester may foretell the future for similar markets nationwide. Here, hospitals led the change, which carries implications for insurers, physicians and communities. Community hospitals lose autonomy as consolidation results in regionalization of strategy. Network decision-making will have an uncertain impact on local care. Caveat emptor – let the buyer beware – and buyers include individuals, health care market players, and governments.

The drivers for the dramatic shift in the hospital market include weakening hospital financials, regional systems' network expansion goals and need for scale in hospitals, doctors and investments to support risk sharing, an economic approach to paying providers more or less, based on the overall cost of care. The speed of change is remarkable. Since this article's original publication, yet another hospital affiliation occurred (this one clinical only), a system partnership developed, Anthem announced its intention of acquiring Cigna and Aetna is purchasing Humana. These patterns are not restricted to Westchester.

As insurers, governments and large employers push risk sharing, utilization falls, driving down hospital revenues. Physician networks expand to retain or grow market share. For insurers, hospital rates may increase given the negotiating power of hospital parents, further driving movement into risk-sharing models and consolidation.

Even large medical groups face difficulty bending hospitals to their will, as their local dominance is not felt in distant executive suites. Their likely reaction is to continue growing and developing costly infrastructure for risk sharing. Small groups will likely merge, join hospitals or join networks as insurers push down traditional fee-for-service rates. Community access will therefore change.

Westchester experience: hospitals

Westchester's hospital market swiftly went from locally run independent hospitals to domination by large systems outside the county. NewYork-Presbyterian now owns two hospitals plus medical groups. Montefiore owns two hospitals, has a board-level relationship with another and clinical affiliations with two more. North Shore-LIJ controls two hospitals and their employed physician groups.

Thus, only two acute care players remain independent. St. Joseph's in Yonkers and Montefiore now have a "clinical affiliation," although not a stronger ownership relationship, perhaps due to the former's unfavorable payer mix and Federal Trade Commission monopoly concerns. Westchester Medical Center, the region's sole academic center, creatively adapted by partnering with the three Bon Secours hospitals in adjacent counties and expanding their referral network. Finally, Manhattan's Memorial Sloan-Kettering Cancer Center (MSKCC) opened its second major outpatient facility in Westchester. At the behest of North Shore-LIJ, the new owner of Phelps, MSKCC will be ending its 20-year presence there in 2016, indicating the power of regional dynamics to shape the contours of care delivery locally.

Hospital financial challenges helped drive the consolidation – making Westchester far from unique. Hospitals face utilization declines and reimbursement cuts. High-deductible health plans reduced utilization while driving up unpaid balances. Hospital bankruptcies and imminent financial distress drove several to seek partners. Furthermore, cost pressures are significant, as workforce shortages, increased recruitment costs and salaries and re-admission management also take a toll. Finally, the need to upgrade facilities and establish community-based presence puts further demand on limited resources.

Going forward, hospitals will behave differently, having joined larger regional networks with greater financial resources.

Hospitals, page 28

Hospitals –

From page 22

Strategy and network decisions will be made outside the county. Regional systems will create the infrastructure for ACOs and risk sharing. Network development will continue with greater resources and a larger regional view.

Initial plans do not appear focused on driving most cases to university hubs. Only time will tell, however, whether the new idea of strong, lower-cost community hospitals will flourish or if the old strategy of hub-and-spoke focus on the academic centers returns.

Westchester experience: Insurers and ACOs

Historically, four plans dominated the commercial market, but consolidation has effectively reduced that number to three, making the New York region among the most concentrated in the U.S. Medicaid moved aggressively into managed care, with 75 percent of eligible residents enrolled. Medicare Advantage plans have growth potential, with only 24 percent of Westchester's eligible recipients enrolled versus 37 percent statewide and 32 percent nationally. New York's Accountable Care Organization market is strong, with 27 ACOs operating, more than any states except California and Texas, and 10 new plans approved. Although enrollment is modest, it will grow as in other states.

Going forward, risk- and value-based contracting look poised for growth. Therefore, hospitals, physicians and integrated networks need to demonstrate cost and quality performance. Hospital revenues fall as cost-reduction efforts focus on emergency room and inpatient use. Physicians seek larger partners to provide risk management infrastructure and reduce overhead. Collaboration between hospitals and physicians will become increasingly important in care management. Again, the recent changes in Westchester will drive strategy and infrastructure development decisions toward the regional networks and likely accelerate risk sharing with payers and ACOs.

Westchester experience: Physicians and medical groups

Westchester reflects a market in transition, from solo and small practices to large groups. Hospital and payer consolidations will accelerate this process. Only 19 percent of physician practices report being open to new patients. The county's primary care physician base will further erode as doctors retire because the high cost of living impedes recruitment and fewer resident physicians enter primary care.

Even before recent events, Westchester physicians increasingly joined larger groups. Statewide, physician employment by hospitals grew 75 percent since 2000. Local hospitals established captive physician groups. Even before acquiring hospitals, NewYork-Presbyterian had bought practices in Westchester and Montefiore had established a satellite office network.

Westchester's two largest multispecialty groups are moving aggressively. Mount Kisco Medical Group with 450 physicians, and WestMed, with 280 physicians, are investing in community access like urgent care and infrastructure. Medium-sized players are expanding or considering joining another entity. Westchester Health Associates expanded into neighboring Connecticut and recently signed a letter of intent to join North Shore-LIJ. Finally, given Westchester's affluence, some physicians may shift to concierge medicine, worsening the primary care physician shortage and making networks and groups even more critical.

Conclusions and Implications

The events in Westchester will help shape the region's health care network going forward and should be of great interest to other suburban markets, especially those near tertiary health care hubs. The Westchester case demonstrates that even apparently stable markets can change dramatically and swiftly.

Community hospitals will not likely drive health care delivery, but rather form components of larger networks. Physicians will seek leverage in the market through consolidation and development of risk-sharing infrastructure. Insurers will continue to consolidate and control costs while seeking better clinical outcomes.

Many key points remain to be evaluated, so the story continues to unfold as does the impact on the Westchester community. Following Westchester will prove valuable as an indicator of future trends across the region and nation. The tension between regional systems seeking volume for their tertiary hubs versus the imperative of local services, often at lower cost, will prove important. Hospitals and physicians need to consider when and how to affiliate. Those who delay will lose choices.

To demonstrate "value," physicians will become either network leaders or network employees. Increasingly, regional networks will drive changes to which payers will respond with consolidation and greater focus on value. In parallel, experts will be watching trend lines about how well risk sharing works to improve access and reduce costs. And consumers will choose to look for value, including customer responsiveness, in an ever-consolidating marketplace.

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This is an updated version of their article first published in "Becker's Hospital CFO" in September.