Our Leadership Roundtable

Highlights

The Evolving Role of Academic Medical Centers
These are very volatile times in the health care industry. Employers, the government and consumers are all demanding greater access, more consistent quality and lower costs. The Affordable Care Act has reinforced these pressures, using the federal government’s regulatory and purchasing power to impose new performance standards and financial incentives. Every player in the health care system is now assessing their relevance and role, including Academic Medical Centers (AMCs).

Proskauer and Citibank recently convened AMC leaders for a roundtable discussion on “Breakthrough Strategies for Academic Medical Centers.” We discussed financial, legal, and implementation challenges AMCs now face, as well as creative strategies used to meet these challenges.

Our speakers included:

- Nancy Howell Agee
  President and CEO, Carilion Clinic

- Michael Burke
  Chief Financial Officer, NYU Langone Medical Center

- Beth Essig
  Executive Vice President and General Counsel, Mount Sinai Health System

- Dr. Laura L. Forese
  President, New York-Presbyterian Healthcare System

- Lisa Goldstein
  Associate Managing Director, Moody’s Investors Service

- Michael Irwin
  Managing Director, Citi

- John Kastanis
  President and CEO, Temple University

- James Knickman
  President & CEO, New York State Health Foundation

- Edward Kornreich
  Partner, Proskauer

- James Molloy
  Managing Director, Citi

- Christopher M. O’Connor
  EVP and Chief Operating Officer, Yale New Haven Health System

- David Rowan
  Chief Legal Officer, Chief Governance Officer and Secretary, Cleveland Clinic

- Michael Young
  President and CEO, Pinnacle Health System

- Richard Zall
  Partner and Chair of Proskauer’s Health Care Department

Luncheon Speaker:

- Peter Orszag
  Vice Chairman of Corporate and Investment Bank and Chairman of the Financial Strategy Group, Citigroup

Special Closing Remarks:

- David Feinberg
  President and CEO, Geisinger Health System
#1: AMCs Need New Ways to Deliver Value.

Richard Zall kicked off the discussion by noting the special role of AMCs in the U.S. health care system. AMCs continue to be where breakthrough research occurs, where the doctors of tomorrow are trained, and where medical miracles occur every day. However, AMCs function in a high-cost, complex environment, and they must adapt their business model and culture in this dynamic era of health reform and transformation.

Education, research and specialized clinical care are still important, but funding is no longer assured for these functions.

Many AMCs are on solid footing because of their endowments, relationships with universities, sophisticated fundraising techniques, quaternary clinical reputations and size. These strengths have generally translated into better credit quality than nonprofit hospitals. Indeed, Lisa Goldstein noted that “the average or median rating for the academic medical centers is an A1 versus the rest of the portfolio, which is an A3. Many of the financial numbers of the academic medical centers do not necessarily scream A1 or scream even higher AA levels. So, the rating agencies take a lot of the intangibles into consideration in those ratings.”

The solid footing of many AMCs is a big advantage, but in the current landscape, brand will not be enough for these AMCs to sustain their role in the health system without refocusing their strategies and navigating many of the same obstacles as other institutions.

James Knickman remarked that the unstable health care environment can be especially challenging for AMCs, as they work with small profit margins, and have to deal with state expenditure caps, consolidation pressures, FTC attention, research funding cuts, and pressure to improve population health measures.

Government funding of Graduate Medical Education and research is declining, so AMCs need to be more selective and collaborative, demonstrate value beyond advancement of knowledge, and be more cost-effective clinically.

There is not enough revenue to fund every AMC activity. Entities need to evaluate whether projects are adding value, and change or curtail their allocations accordingly. Echoing this sentiment, Nancy Howell Agee and John Kastanis spoke about the need for stronger value propositions that funding sources could embrace. Dr. Laura Forese remarked that it simply isn’t feasible to have all faculty doing some teaching, some research, and some clinical work any longer.

Clinical services need to demonstrably improve quality and outcomes since Value Based Payment methodologies require it.

Christopher O’Connor stressed that, “We have to do a better job communicating the cost reduction initiatives and the synergies that we have accomplished and explaining where that value has been created and what the successes are.”
AMCs continue to be where breakthrough research occurs, where the doctors of tomorrow are trained, and where medical miracles occur every day.
Population health movement

Nancy Howell Agee confirmed that at Carilion they are “banking on population health management,” and have a completely redesigned approach with primary care practices organized into medical homes that include care managers and social workers. These partnerships are key for population health management, as is developing internal capacities.

Integration of primary care and specialists, community hospitals and ancillary services

The push is on to integrate primary care providers to services within the community to achieve better long-term patient outcomes and cost savings. David Rowan: “I think that clinical integration is something that is doable. You just have to be very careful about how you put it together.”

Scale is important, but antitrust can be a challenge

Expansion of AMC-affiliated networks can add value, as well as increase efficiency by establishing new relationships with other players in the health care sector. Christopher O’Connor listed scaling up as one of their three main strategies, yet John Kastanis confirmed that his institution and others are all “very worried about the FTC” and “walking a very fine line” when they add hospitals to their networks.

As Edward Kornreich and David Rowan both agreed, lawyers say “no” to proposed transactions less often than they used to, but lawyers should know what is going on very early, so they can help create the proper pathway. Lawyers play an especially important role in steering integration attempts and performing advance planning to avoid FTC compliance issues.

AMCs need to have plans for how to deal with FTC investigation and antitrust laws. Detailed data collection and analysis can be used to show value of integration and scale.
“Clinical integration is something doable. You just have to be very careful about how you put it together.”

David Rowan
**#3: AMCs Need to Focus on Patient Satisfaction in a Consumer-Centric World.**

For AMCs to be successful, they must put an emphasis on customer service, which is increasingly being valued over cutting-edge techniques or positive health outcomes. While patients are probably not selecting a medical center based entirely upon a Yelp rating, positive measures of patient satisfaction are important for today’s Web-savvy consumer. As Dr. David Feinberg stated: “The industry continues to move to where patients have some say in where they go. I think we’re going to be judged, above all else, on how well we connect to you in a very human way during a very vulnerable time.”

Nancy Howell Agee explained how Carilion already factors patient satisfaction, patient outcomes, and cost of care into physician compensation. That trend is only growing. Michael Young asserted “everything we do is measured on value.” Value is not only about cost, but also includes quality of care.

**#4: AMCs Need to be more Frugal, Cost-efficient.**

Like any company, AMCs should be open to technology improvements and streamlined administrative processes. Christopher O’Connor reported $180 million had been removed from their cost structure with supply chain efficiency changes. Michael Young also reported recovering $50 million a year since implementing EPIC.

The per person spending in Medicare in 2014 was lower than in 2013, and $1,000 lower than what it was predicted to be as recently as 2010. Peter Orszag attributes this to the benefits of a digitalized system, the shift towards value-based payments, and the increasing role for customer choice in the health care market. If per-person health care continues to decline it will have a positive benefit on the long-term fiscal gap, so AMCs should strive to strengthen programs that are contributing to such savings.

**#5: AMCs Need to be more Nimble with Governance.**

Governance becomes an issue as AMCs grow and expand to include community health providers. AMCs need to integrate the governance of their growing network. Having decision-making capabilities under a single enterprise can reduce friction.

Beth Essig spoke on the importance of having a unified governance and management structure: “Our school board, our hospital board, our health system board, they overlap. We have the same CEO for all of our entities, and we really make integrated decisions. So for me, it’s not a question of documenting that appropriate governance has taken place. We really have a structure that ensures that all those decisions are made in an aligned way.”
“I think we’re going to be judged, above all else, on how well we connect to you in a very human way during a very vulnerable time.”

Dr. David Feinberg
Contacts

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Thank you
We want to thank everyone involved.