

The Puerto Rico Chamber of Commerce
and its Health Committee present the



PUERTO RICO Health & Insurance CONFERENCE 2022

**Financing of Healthcare:
Importance of the Managed Care Model to Lower
Cost, Increase Quality and Provide Access to
Healthcare Services**

“The Hospital Perspective”

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Hospital Revenues Source estimates*

	<u>CMS</u>	<u>CMS</u>	<u>ASES</u>	<u>Companies + Individuals</u>	<u>Individuals</u>
Funding source	Federal Funding	Federal Funding	Federal & State Funding	Own Funds	Own Funds
Payor	Medicare	Medicare Advantage	Vital	Commercial	Individuals
Population	150,000	614,000	1,230,000	806,000	300,000
Avg. Monthly Premium per member		\$943	\$220	\$140	
Premium Funds (yr)		\$6.95B	\$3.25B	\$1.34B	
Hospital Cost pmpm		23% = \$217	20% = \$44	35% = \$49	
Hospital Cost (yr)		\$1.6B	\$650M	\$467M	
Hospital Service Mix	9%	34%	40%	15%	2%
	43%				

- ✓ 90% Health Plans + 5% Self Pay + 5% Other revenues
- ✓ 40% Medicaid + 43% Medicare & MA + 15% Commercial + 2% Uninsured
- ✓ Hospital participation is 20%-35% of the premium
- ✓ Payment models:
 - ✓ Fee for service (per instance, bundle, per case)
 - ✓ Shared savings, Risk Share, Capitation
- ✓ FFS is stil the predominant payment model ,where the Hospital financial sustainability is driven by contracted fees and the volume of services provided.
- ✓ Some Hospitals have adopted Capitation models. A variety of experiences has been reported.

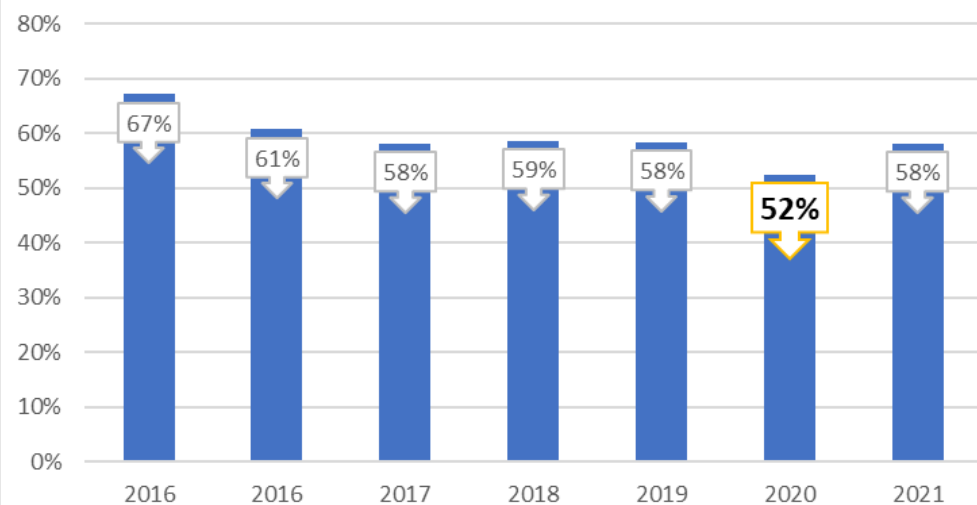
HOSPITALS FINANCIAL SITUATION

- ✓ **Hospital services utilization has decreased consistently since 2015 to the present.**
- ✓ **Highest fixed costs of all providers among the healthcare service line.**
- ✓ **Financially stressed Hospitals have been forced to differ maintenance and postpone equipment replacements and improvements.**
- ✓ **Unprecedented Operating costs increase (Inflation)**

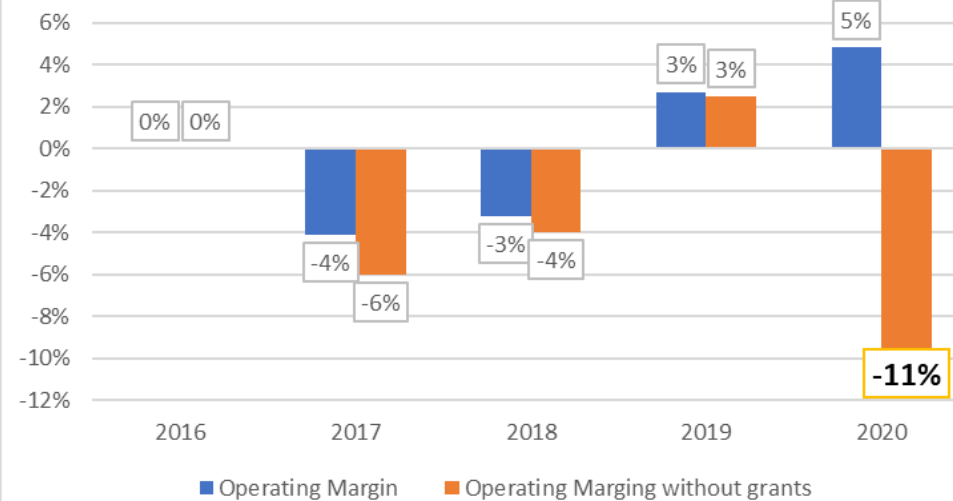
	% Increase Actual 2021	% Increase Projected 2023
Salaries & benefits	9%	12%
Medical, Surgical & RX Supplies	16%	24%
Utilities	9%	15%
Profesional Services	16%	27%
Insurance	13%	15%
Other	7%	13%
- ✓ **Lack of clinical hospital staff**
- ✓ **Deferred maintenance due to lack of financial resources**
- ✓ **Pandemic impact (safety requirements, additional supplies and equipment, supplies limitation)**

- ✓ **Costly quality programs & standards**
- ✓ **Lack of financing options for Improvements**
 - ✓ + increasing financing rates
- ✓ **Hospital losses derived from Vital services (reimbursements below costs)**
- ✓ **Reimbursement increases (if any) way under annual inflation**
- ✓ **Non recurrent money used to support operations: Insurance proceeds, Medical Health Record Incentive Proceeds, Grants, Stack payment**
- ✓ **Managed Care**
 - ✓ **Sicker patients**
 - ✓ **Underpaid fees schedules**
 - ✓ **Pressure on already low fees**
 - ✓ **Capitation**
 - ✓ **Hospitals that have adopted Capitation Models have been working with HP and PCPs with aligned initiatives, in most of the times in a financially sustained environment.**
 - ✓ **Issue: at the end of the contract period, volume of services is reduced and HP change the contract to take back the benefit prospectively.**
 - ✓ **Hospitals finds themselves working towards a temporary benefit that will eventually return to HP.**

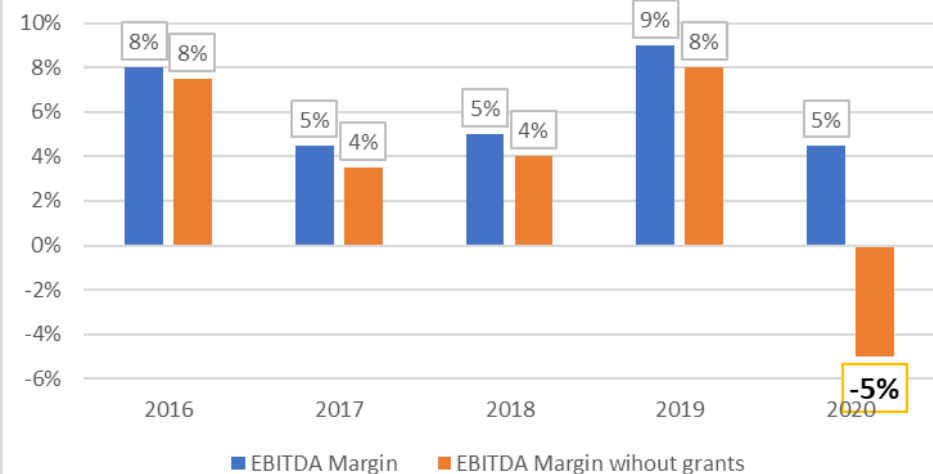
Occupancy Rates



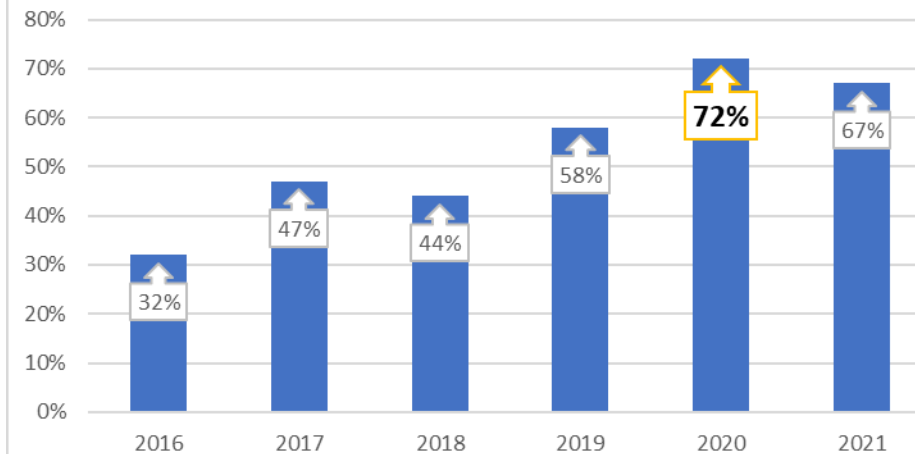
Operating Margin



EBITDA Margin



Hospitals in PR with Negative Net Income, WO Federal grants



MANAGED CARE HOSPITAL PERSPECTIVE

- ✓ **Under the right conditions, the Managed Care concept can work and may be the key to align the best for the patient with the Payor-Provider goals.**
- ✓ **Managed Care concept is based on cost reduction and quality improvement.**
- ✓ **Quality:** Hospitals have a long list of Quality Programs centered on patient safety and health.
 - ✓ Hospitals are quality driven and will participate in all projects that seek best interest for patients.
 - ✓ Hospitals adopt all quality metrics with or without incentives.
 - ✓ Since more than a decade ago, Hospitals work with quality programs in coordination of patient care with Health Plans and PCPs
- ✓ **Cost:** What are the ways of reducing healthcare costs in Hospitals under Managed Care?
 - ✓ Principally with reduction in fees and utilization
 - ✓ Keeping the patient healthier
 - ✓ Preferred providers based on discounted fees
- ✓ **Thoughts**
 - ✓ PCP authorization of services
 - ✓ Initiatives to direct patients across the service chain
 - ✓ Limited network
 - ✓ Capitulating Specialties
 - ✓ Health Plan cost reduction comes from the providers services. If the Hospital is not inserted in the equation, it will be negatively affected.
 - ✓ FFS providers suffer from many of the Cost Reduction Initiatives. You can't ask a hospital to participate in a program that goes against the nature of its business.
 - ✓ Average cost of service increased due to patients sicker than usual. Reimbursements have not increase accordingly.
 - ✓ Hospitals may withhold the economic benefit related to the loss volume of services. Shared savings should Transparency and Trust are key.

Hospitals face an unprecedented financial challenge that should be addressed.

Hospitals are the 1st health resource line needed at disasters events (Hurricanes, Earthquakes, Pandemic...)

Hospital reimbursements should be reasonably tempered to the inflationary costs, as premiums do.

Managed Care is here to stay; Health Plans, IPAs and Hospitals must find a feasible way to work together.

Hospitals sector may seek for alliances or mergers with Health Systems or face closures and bankruptcies, in particular those hospitals not members of health systems.

Mennonite Health System

- Non Profit Organization
- Reinvest 100% of its gains
- 78 years
- Directed by a Community Board that receive zero compensation
- Health System approach with the Objective of serve every patient in a integrated way (body, mind & soul)
- Solid Mission, Vision and Values
- Mission: Serve with the love of Christ, to provide quality Integrated health services with excellence in an environment full of Human Warmth, without discrimination.
- Vision: Innovate with unique healthcare experiences, services, technology, education programs and human capital that transform lives.

Integrated Health Services concentrated within the Center South-east region of Puerto Rico (1M)

- 6 Hospitals: 5 Acute Care + 1 Mental health
- 7 Freestanding CDTs or ERs
- 5 Sites with Mental Health Clinics or Partial Hospitalization
- Home Health: Home Care, Hospice, Homekeepers
- Other: Wound Care center, Women Specialized Center,
- 1 Health Plan: Commercial + Vital (210K lives)
- ~ 4,000 employees
- Only 1 Integrated Electronic Health Record System (EHR)
 - 1,500 physicians connected (faculty + Community)

Business Model

- Quality Oriented
 - Malcom Baldrige Award – Commitment Level
 - Joint Commission
 - CMS Quality Measures, HEIDIS,
 - Exceed Health Plans Quality Programs (MCS, MMM, SSS)
- Horizontal Integration (Clinically Integrated Network)
 - Acute Care, Mental Health, Ancillary Services, Specialists – all working in coordination
 - Quality standards, optimize processes, avoid duplicity of services
- Vertical Integration
 - Mennonite Integrated Health System:
 - Providers (Network) + Health Plans (Payer) + Care Management (Integrator)
 - Ongoing process
- Consolidated operating and financial goals
- One executive team – one consolidated strategy



Thank you

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