



THE ALLIANCE BULLETIN

January 2012

Special Congratulations to an Alliance Member

I am pleased to report that the Henry Ford Health System is one of the four winners, among 69 applicants, of the 2011 Malcolm Baldrige National Quality Award. Nancy Schlicting, President and CEO, tells me she is beyond excited with this award, and she deserves to be. I hope you will join me, if you get the chance, in congratulating her and her team.

My Six Predictions for Nonprofit Health Care in 2012

Because we are starting the New Year, I thought it would be fitting to present to you in this first issue my predictions on key developments involving or affecting nonprofit health care in 2012. My crystal

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ball has a checkered past, however, so I welcome your feedback on any or all of these predictions! And please add your own.

#1: The Outlook for the Accountable Care Act (ACA), Medicare and Medicaid

On a 5-4 vote, the U.S. Supreme Court will find that the individual mandate to purchase health insurance coverage in the federal health care reform law is unconstitutional, rendering untenable the requirement that health insurers “take all comers,” regardless of health status.

At the same time, however, the Court will not rule the entire law to be unconstitutional. The 2012 election campaigns, particularly for the Presidency and Senate, will include much debate about the future of ACA in light of the Court’s decision, as well as about the magnitude and direction of further changes in Medicare and Medicaid to make those programs more affordable; however, 2012, like 2011, will be essentially “all talk and no action,” other than continued temporary “doc fixes” under Medicare.

2: Improving Health Care Value and Bending the Cost Curve

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This objective will continue to be a top priority for both government and the private sector; however, it will continue to be the latter--especially the nonprofit health care sector--that will lead health care delivery and payment reforms—collaborating among themselves and with other key stakeholders at the local level. As impressive as initial collaborations have been in various parts of the country, expect the pace to accelerate in 2012 as resources become even tighter and success stories are shared. Recent stories on proven or promising programs involving nonprofit health plans and/or providers include the following:

- [January 5, “Collaborative Efforts Can Save Money”](#)
- [January 5, “Population Health Pays Off”](#)
- [December 27, “ACOs: Tailoring Your Own Solution”](#)
- [December 23, “Blues Plans Pilot New Wellness Tool with Personalized Web Platform”](#)
- [December 22, “Health IT Tools Reduce Readmissions at Philadelphia Hospital”](#)
(Note: the Board will recall our Discussion Forum on this program at our meeting last November)
- [December 22, “Texas: Healthier Transitions”](#)
- [December 6, “Two Blues Plans Find Success with Medical Homes, Look to Expansion”](#)

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- [December 5, “CFOs: Collaborate with the Competition to Save Millions”](#)

It is also noteworthy that of the 32 Medicare ACO Pioneer Programs which HHS recently approved, all but one of those that were sponsored by hospitals or systems (rather than by physician groups) are nonprofit ([December 19, “HHS Announces 32 Participants in Medicare ACO Pioneer Program”](#)).

3: Public Scrutiny of Hospital Tax Exemption and Nonprofit Health Care Executive Compensation

The Internal Revenue Service (IRS) will release the results of analyses of hospital filings of Form 990 Schedule H for tax year 2009 and/or 2010. The results, which will show significant variations in hospital community benefits (using alternative definitions) in relation to revenues, costs and operating margins, will stimulate one or more members of the Congress to call for legislation to establish a clearer definition or “bright line” test for hospital tax exemption. *Note: Modern Healthcare* recently released some findings of its own analyses of Schedule H data for 1800 nonprofit hospitals for tax year 2009 provided on the GuideStar web site. Its analyses show significant variations in various types of community benefits ([December 19 “Out in the Open”](#)).

Initial discussions in 2012 on this issue could lead to specific legislative proposals, and even

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legislative action, in 2013--depending on the outcome of the 2012 elections and federal budget deficit considerations thereafter.

Meanwhile, expect the pace of tax exemption challenges to pick up at both the state and local levels, fueled by both the availability of the Schedule H data and by government officials' desires to find whatever new revenues they can to help balance their budgets.

In addition, expect even more government, media and even employee scrutiny of nonprofit hospital, nursing home and health plan executive compensation, as both executive compensation and community benefit data become more readily available, as high unemployment continues, and in organizations where employees are being laid off or earnings are increasing. While much of this scrutiny will be unavoidable, egregious executive compensation practices by even a relatively few boards will tend to create image problems for the rest.

4: Directions for Nonprofit Health Care Governance

Unfortunately, in a challenging environment where nonprofit health plans and providers need to upgrade their governance practices and the caliber of their directors, I don't see much if any improvement this year. My sense is that many if not most boards and management are feeling so overwhelmed by immediate fiscal and operational performance issues that they aren't setting aside the time they need to improve their governance.

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What leads me to this conclusion? First, as you know, the Alliance disseminated this fall its Great Governance Guide, created with the advice of many governance experts in our field, to the CEOs of all nonprofit health systems and to the CEOs of all major nonprofit health plans. Since that release, neither our Board Chair nor I have received any feedback, written or verbal, good or bad, on the Guide from any of these organizations.

Secondly, the Governance Institute recently released findings of its 2011 biennial governance survey. While its survey involved only nonprofit hospitals and systems, and did not entail a scientifically constructed sample, it is likely that those who took the time to respond tended to be from organizations that are ahead of the curve in terms of their governance practices. Between 2009 and 2011, the Governance Institute found either no change or a slight decline in 93 of 95 practices surveyed (including strategy, quality, and management) The two exceptions were in financial oversight and disclosure of possible conflicts of interest ([December 5, "Few Gains, Some Slips"](#)). The Boards scored slightly poorer on self-assessment and, perhaps most disturbing of all, most reported that they do not have formal processes for managing director turnover.

5: Organizational Turmoil

I don't foresee any let up in 2012 in for-profit acquisitions of nonprofit hospitals, nonprofit hospital mergers involving different types of

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faith-based and/or non-faith-based institutions; joint for-profit/nonprofit ventures, and political debates surrounding the fate of specific public and other safety-net hospitals. In Pennsylvania we are even seeing a nonprofit health plan acquiring a struggling nonprofit hospital system while fighting in court with a nonprofit health system that has its own health plan and discontinue contracting with the other one. Recent examples of this continued turmoil include:

- [January 6, “Jewish Hospital, Saint Joseph Health Form Kentucky System Sans University Hospital”](#)
- [January 4, “State Commission Recommends Major Changes in Florida Public Hospitals”](#)
- [December 5, “Saint Thomas, Capella Healthcare Forming Hospital Partnership”](#)
- [November 29, “Economy Challenges Catholic Health Ministry”](#)

The fundamental question is whether all of these recent and anticipated ownership changes are in the public interest. I hope they are, but my fear is that for-profit acquisitions of nonprofits or joint ventures between the two will not sustain the original nonprofit missions and values over time--irrespective of any up-front assurances to the contrary. Moreover, whether involving for-profits, nonprofits or a combination of the two, will mergers improve quality and efficiency, yielding

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lower overall costs—or merely increase market concentration yielding higher overall costs?

(Note: The Alliance, in co-sponsorship with the health care journal *Inquiry*, conducted and published the proceedings of an important roundtable discussion on this important issue in 2011. This report is available on our web site.)

The 2012 elections could have a significant impact on how vigorously the federal government scrutinizes mergers and acquisitions in 2013 and beyond.

If you have any questions or comments on these stories or other nonprofit health care matters, please contact me at mcphersonbruce@aol.com or 877-299-6497.



Bruce McPherson
Alliance President & CEO

HAVE YOU MARKED ON YOUR CALENDARS?

- ◆ Alliance Board Of Directors Meeting
Washington, DC
Washington Court Hotel
April 25-26, 2012 (Noon to Noon)
- ◆ Alliance Board Of Directors Conference
Call Meeting
August 7, 2012, 3:00 p.m. EDT
- ◆ Alliance Board Of Directors Meeting
Embassy Suites O'Hare, Rosemont, IL
November 12-13, 2012 (Noon to Noon)