“Healthcare Reform and Economic Growth”

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<Keynote Speech>

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"Integrated Health Networks and Healthcare Reform in the U.S."

Today I will speak about "Integrated Health Networks and Healthcare Reform in the US." Today, integrated healthcare networks are a global trend in the reform of healthcare delivery systems. There are many points in common regarding issues in healthcare reform faced by various countries. Cost effectiveness must be improved and patient satisfaction increased amidst rising healthcare costs, the aging of society, technological advances, and shortages of medical personnel. I will therefore report on the current structure of healthcare delivery in the US, Sentara Healthcare's integration history, Sentara's regional cancer network formed with local medical facilities outside its own group and the Integrated Cancer Program, the main points of Obama's reform and the future direction of US healthcare delivery under reform, and Sentara's strategy for the future.

IHNs appeared in the US because of economic pressure and intensified competition in the consumer market. Today's IHNs are responding to this pressure and at the same time implementing strategies to realize the potential of IHNs. Previous speakers mentioned Kaiser Permanente and other examples of successful IHNs, but it is only recently that the information technology that enables what IHNs can be has become available. It remains to be seen whether most IHNs can reach their potential.

During the 1990s, rising healthcare costs and the growth of managed care were drivers for vertical integration into IHN. Rising healthcare costs led to increasing demand for lower cost and higher quality. As managed care in which insurance companies managed utilization of healthcare expanded, smaller hospitals came to have low negotiating leverage with insurance companies. The result of increased healthcare costs and the growth of managed care was a striking drop in hospitals' net margins. Over the five years from 1985 through 1990, the net margins of community hospitals fell by 36 percent. Other drivers towards integration into IHNs were a decrease in inpatient care due to the advent of new drugs and technologies. This led to a shift from inpatients to outpatients.

The rationales for integration into IHNs in the 1990s were clear. They were improved cost efficiencies, the ability to coordinate care across provider type, and diversification of risk. The aim of diversification of risk through integration is to use sectors that show a profit to cover for sectors that show losses and thus achieve an overall profit. The most important rationale is that integration into IHNs increases overall ability to create innovation.

Of the many IHNs that appeared during the 1990s, some succeeded and some failed. Whether a healthcare provider can reach its potential through integration depends on its management. Conversion from management of a stand-alone hospital to management of an IHN requires

coordination among previously competing healthcare entities. Leadership is the key to success. Integration into an IHN enables a larger vision for improving health, one that transcends the boundaries of managing a stand-alone facility. As a healthcare provider, our focus shifts from providing acute care to non-acute care across the continuum of care. Physician cooperation becomes very important. In failed IHNs, the creation of mechanisms for doctors to participate in decision-making did not go well. In addition, EMR technology at the time was inadequate to support IHNs. The ability to evaluate healthcare and to grasp the clinical picture in real time was insufficient.

Sentara is non-profit healthcare provider. Non-profit means that profits do not belong to specific individuals and that the organization is exempt from taxes. There are eight hospitals. More than 3,000 independently practicing physicians contract to use Sentara facilities, while 386 are directly employed. Four hundred forty thousand people are enrolled in our health insurance plan. We have a college for training medical personnel. For physicians, we have a medical school located on the same campus as our core hospital, Norfolk General Hospital. For the term ending in December 2009, total operating revenue was 3 billion dollars, with an operating profit margin of about 5 percent. We have about 20,000 employees.

Next, I will describe Sentara Cancer Services, Virginia's only cancer treatment services network. From 2005 through 2009 while we created Sentara Cancer Services, we concentrated on building cancer treatment infrastructure. Our policy now is to shift our focus to cancer research. We therefore established the Cancer Research Institute in partnership with Virginia Cancer Associates, which comprises 38 cancer specialists, and Eastern Virginia Medical School. In order to respond to diverse cancer treatment needs, it is necessary to integrate cancer treatment delivery systems and attempt to optimize the distribution of resources. The cancer treatment delivery system is pressured by market forces, namely, a physician shortage, reduced payments for treatment, savings from economies of scale, and increased investment needs accompanying technological progress. Consumers, on the other hand, are increasingly demanding ease of access to cancer treatment. Sentara's policy is therefore to decentralize or concentrate cancer treatment resources depending on the type of treatment.

Finally, I would like to discuss American healthcare reform. The goals of healthcare reform are to expand access to healthcare, control cost increases, and transform the healthcare delivery system. The law was passed in March 2010. As of July, it was still unclear how it would be implemented. Currently there are about 50 million uninsured people in the US. About 32 million of them will reportedly obtain health insurance under the new law. Regulation of insurance companies will also be strengthened. The goals include prohibiting denial of coverage to people with preexisting conditions and controlling premium increases. According to the Congressional Budget Office, the new law will cost 940 billion dollars over 10 years. There is concern that actual costs will greatly exceed this. The main ways of financing the reforms will be reducing healthcare payments and raising taxes. Forty-nine percent of the financing is to come from reducing payments to healthcare

providers. Twenty-one percent is to come from tax increases. These include new taxes on high-premium insurance plans (Cadillac plans), higher Medicare taxes on high income people, and annual fees on the pharmaceutical, medical device, clinical laboratory, and health insurance industries.

In response to healthcare reform, Sentara has developed a three-year plan it calls "Transformation of Care." The goal is to maximize patient satisfaction. Numerical goals are to be in the top 10 percent in the US in quality, to be the best in the region and in the top 10 percent nationally in customer service, and to reduce expenses by 30 percent. Elements of transformation are the care delivery system, alignment and accountability to consumers and government, and knowledge management. In terms of IT investment, we will build mechanisms to support real time clinical decision-making.