

Estimate of the Situation

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The American Health Care Future

Recently we've been asked by several hospitals to share our observations of current conditions in the field and to project a likely trajectory of events going forward. We'll give it our best shot in this issue, but first let's provide a little context.

In 1965, health care spending accounted for 6% of an inflation-adjusted national GDP of \$4.10 trillion. Today, it exceeds 18% of a 2013 national GDP officially estimated at \$15.93 trillion. Thus changes in health care are likely to have an even greater effect on the rest of the nation than did Medicare.

In an almost perfect storm, the Affordable Care Act, general economic conditions, the expansion of medical knowledge, advances in technology, demographic changes, social and political change and, importantly, unanticipated elasticity in primary care demand are simultaneously driving change in unprecedented directions.

Here's what we see as likely over the short to intermediate term

- Larger hospitals and health systems will continue to buy smaller hospitals and health systems and acquire physician practices. Increasing numbers of hospitals will become members of networks of one sort or another. Many will experience financial pressures as a result of unanticipated primary care demand fluctuations and declining reimbursement.
- A significant percentage of small rural hospitals will go out of business as a result of bankruptcy or acquisition by larger hospitals and/or systems. Only those that develop efficient, cost-effective, and high quality care delivery methods accompanied by transparent competitive pricing will survive. As a result, many small rural communities will find themselves without local access to primary care with potentially significant adverse consequences to local economies.
- Primary care physicians in private practice will retire or sell their practices to hospitals at an accelerating pace. Increasing numbers of those that remain will move to concierge medicine and other "pay as you go" systems, withdrawing from participation in Medicare, Medicaid, and insurance programs as a result of declining reimbursement and increasing regulation and red tape. The average number of patients seen per primary care physician will decrease.
- Outcomes based payments and "pay for performance" schemes which incentivize physicians and hospitals to avoid higher risk patients will result in under-treatment of those most in need of care. Similarly, re-admission penalties will result in denial of treatment for elderly and chronically ill patients.
- The development of alternative primary care walk-in outpatient service centers staffed by nurse practitioners and physician assistants will accelerate in both commercial and hospital-owned settings.
- A number of large health care insurance companies will experience financial problems. Some will go out of business as people drop insurance coverage in favor of "pay as you go" systems.

Regrettably, the above scenario isn't particularly appealing but we believe it to be accurate. On the plus side, we do believe a much brighter future is possible down the road and will have more on this in the weeks ahead.



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