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PEAKS & PLUNGES Report Delves into Hospitals' Fiscal Rollercoaster

*Five Minutes with
Bill Kennedy*

A New Challenge Before Us

New Jersey hospitals have a proven track record of confronting challenges and changing for the better. We've seen it in our lengths of stay, with New Jersey hospitals working hard to reduce stays and become more efficient. And we've seen it with our quality data — New Jersey, ranked near the bottom of Medicare's first quality report several years ago, has made steady and dramatic improvement in the years since.



GARY S. CARTER
President

So now, we have another challenge before us. A new report commissioned by NJHA reveals a number of issues that contribute to the consistently lackluster financial performance of New Jersey hospitals. Some of them are largely outside our control. While we can try to influence things like adequate charity care reimbursement and better regulation of ambulatory care centers, realistically it's our leaders in Trenton who need to make that happen.

One area where we can take charge is utilization practice patterns in our facilities. It was surprising to read the report's findings that New Jersey ranks inappropriately high on several not-so-desirable utilization measures. We spend more time and more money than other states with intensive treatments for patients in the final days of their lives.

Many times, that's not the right thing for our patients, nor is it the right thing for our healthcare system.

We need to perform some meaningful self-assessment of our practices and policies, not only in end-of-life care but in all other phases of our important work. And when we find problems, we must act to correct them. This is one problem where hospitals and physicians can partner together in a leading role to improve healthcare in New Jersey. ■HCNJ



Bill Kennedy

By Kerry McKean Kelly

Bill Kennedy is senior vice president of NJHA Corporate Services, NJHA's for-profit affiliate. NJHA Corporate Services provides an array of business solutions for New Jersey hospitals, and its revenues support NJHA's activities. Here, Kennedy shares a "year-in-review" look at the business of healthcare.

AS YOU CLOSE THE BOOKS ON 2006, WHAT TYPE OF REVENUES DID NJHA CORPORATE SERVICES REALIZE?

In all, we've had a very successful year. In addition to the up-front savings our programs have brought to our members, we'll be returning about \$2.8 million in direct credits against NJHA member dues and in revenue share payments to our primary group purchasing members. Plus, our revenues will help underwrite almost \$2 million in NJHA campus-wide financial support that otherwise would have to come from members' dues. It's important we do everything we can to keep dues down while still delivering the level of support our members have come to expect from NJHA.

TELL US MORE ABOUT THE NEW REVENUE SHARE PROGRAM.

We began the program in 2006 to strengthen the partnership we have with our primary group purchasing customers. It's helped us to grow our business while enhancing the value we bring to our partners. The formula is about as straightforward as you can get — we return 50 cents out of every dollar we earn on purchases made by eligible participating customers, payable quarterly. We expect that several members will receive \$150,000 or more for 2006.

WHAT MAKES CORPORATE SERVICES' PROGRAMS DIFFERENT FROM OTHER ALTERNATIVES?



It may sound trite, but I really do believe it's the level of service we provide. Take our group purchasing program. We're pleased to have access to the negotiating power of the industry's largest group purchasing organization and the great pricing it brings, but it takes continual involvement and oversight of purchasing practices to ensure that a customer is able to take full advantage of all the available savings opportunities. Our hands-on combination of detailed front-end savings analyses and ongoing audit programs help make sure this happens.

Our life insurance and long term disability programs are set up so that we can change insurance carriers as necessary to capture better rates with an absolute minimum of administrative impact on our customers and their employees. Whether it's group purchasing, employee benefits, coding and data quality services, unemployment compensation claims management or our nurse registry, each one of our businesses is dedicated to providing a level of service second to none.

IF YOU HAD ONE BIT OF BUSINESS ADVICE FOR HOSPITALS IN 2007, WHAT WOULD IT BE?

Give our programs a look. We may not always have what you're looking for, and we won't always have the lowest price. But you can trust us for a fair and thorough analysis of what we can and can't do, plus our commitment to be your advocate to the greatest extent possible. And remember — all our profits go to benefit the membership. Either directly, or through support to NJHA and its programs on your behalf.

AND IF PEOPLE WANT TO LEARN MORE ABOUT NJHA CORPORATE SERVICES?

You can call me at 609-936-2196, or through e-mail at wkennedy@njha.com. We'd be happy to come meet with you to see how we might be able to help. ■HCNJ



MEMBER NEWS

Promotions & Appointments

- Eugene Greenan has been appointed president and CEO of Bayonne Medical Center. He previously served as Bayonne's executive vice president for corporate affairs.
- Underwood Memorial Hospital has named Eileen Cardile, MS, RN, CAN, president and CEO. Cardile joined Underwood in 1975 as a critical care nurse. The hospital also promoted John W. Graham, CHE, to executive vice president and COO. Graham had served previously as vice president of administration. Paul M. Lambrecht, MJ, CHE, EMT-P, was promoted to vice president of clinical and support services. Previously, Lambrecht was director of emergency and respiratory care services.
- AtlantiCare has promoted Joan Brennan, RN, MSN, to the position of vice president of quality and performance excellence. Charisse Fizer, RN, MSN, was named vice president and administrator of AtlantiCare Regional Medical Center Mainland campus. Fizer was most recently director of cardiovascular services at Atlantic Health. In addition, AtlantiCare has appointed Terri Schieder vice president for clinical development and integration.

Awards & Honors

- Underwood Memorial Hospital was honored with an outstanding achievement award in economic development in the healthcare category at the Tri-County Economic Development Summit. The summit was hosted by the board of freeholders from Burlington, Camden and Gloucester counties. In 2004, the hospital launched a \$47 million campus redevelopment and enlargement initiative that is slated for completion next year.

- The Society of Critical Care Medicine has awarded the prestigious Grenvik Family Award for Ethics to Anne C. Mosenthal, MD, chief of surgical critical care, surgical palliative care at UMDNJ's New Jersey Medical School. Mosenthal was recognized for her work in end-of-life care.
- Virtua Health was named the best place to work in the Delaware Valley in the 1,000-plus-employees category, according to a survey by the *Philadelphia Business Journal*. This is the third year in a row that Virtua has been honored by the publication and the first year the organization captured the number one spot.
- The Mental Health Unit at Saint James Hospital, an affiliate of Cathedral Healthcare System, received a \$296,400 grant from the N.J. Division of Mental Health Services. The grant funds a pilot initiative that enables the unit to provide patients with inpatient psychiatric hospitalization for up to 30 days.
- Kennedy Health System received the N.J. League for Nursing's 2006 Corporate Award. The award is presented annually to a New Jersey-based health-related organization recognized as a leader in healthcare by maintaining successful collaborations and offering mentoring and professional enhancement programs for employees.
- Recognized for outstanding outcomes in adult cardiac care, the Saint Barnabas Heart Center at Newark Beth Israel Medical Center has been named among the nation's 100 top hospitals for cardiovascular performance by Solucient, a national source of healthcare information products. ■HCNJ

COVER STORY

PEAKS & PLUNGES Report Delves into Hospitals' Fiscal Rollercoaster

By Kerry McKean Kelly

The nation's hospitals have endured their share of rollercoaster financial data. Their margins have peaked and plunged amid government program cuts, the rise of managed care, the growing number of uninsured and an array of other variables.

But for New Jersey hospitals, the rollercoaster has been a monotonous ride; it's been a decade or more of flat financials that remain mired just above — and sometimes below — break-even.

The list of reasons is long — rate deregulation in 1993; the growing gap in charity care funding; uninsured numbers that have surpassed 1 million. But can these factors alone explain New Jersey's continued weak numbers while hospitals nationwide are rebounding?

That's the question that drove NJHA to seek an independent outsider's view on the fiscal state of New Jersey's hospitals. It hired the respected consulting firm Accenture to put the state's hospitals and the overall healthcare system under a microscope. Accenture's analysts gathered data, reviewed research and conducted in-depth interviews with healthcare experts representing hospitals, physicians, insurers, business and

government. The resulting report, completed this fall, for the first time provides a comprehensive look on the confluence of factors that have held New Jersey hospitals to their dismal bottom lines. And the findings are unflinching.

"The fiscal health of New Jersey's hospitals significantly lags behind national averages and, if not addressed quickly, may compromise the ability of the current system to meet the healthcare needs of the citizens of New Jersey," the report states.

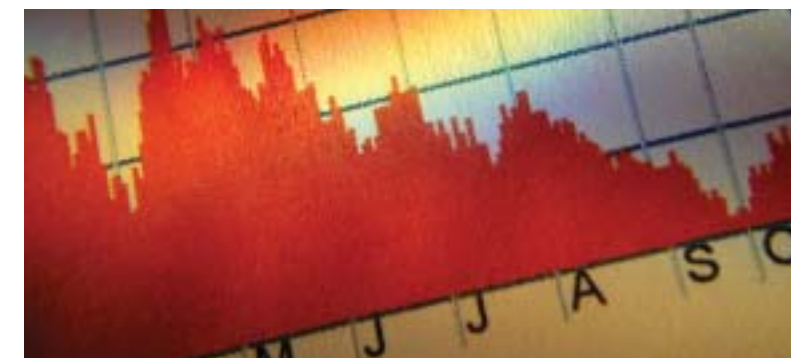
It goes on to discuss a number of factors that contribute to hospitals' poor fiscal health including the charity care reimbursement gap, shortfalls of other government payers such as Medicare and Medicaid, the nation's highest insurance

premiums, competition posed by new niche facilities and physician practice patterns that reveal much more intense levels of medical care than other parts of the country.

"For the sake of our healthcare system, we needed answers," explains NJHA President and CEO Gary Carter. "What was it about New Jersey that left our hospitals struggling while operating margins nationwide have improved for the last five years? Nothing was immune to the scrutiny, and I think that's what makes this report so important."

Sean Hopkins, NJHA's senior vice president of health economics, agrees.

"This report takes an honest look at our healthcare system, warts and all," says Hopkins. "It identified some problems



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we're well aware of, but also reveals some others that haven't been as prominent. It gives us a starting point to begin tackling the issues that are strangling our healthcare system in New Jersey."

The report has attracted earnest interest from leading policymakers, including New Jersey Gov. Jon Corzine. Corzine asked NJHA for a personal briefing on the report after state Health Commissioner Dr. Fred Jacobs shared some of its findings. NJHA has also shared the report with key legislative leaders in Trenton. Work is already under way at NJHA to provide education programs to help hospitals address some of the issues identified in the report.

Report Highlights

ON ITS OVERALL FINDINGS: More than 40 percent of New Jersey's hospitals are losing money, a rate that is more than double the national average, the report states. And while hospitals in other states saw their operating margins rise from 2000 to 2005, New Jersey's operating margin continued their persistent slide downward. Addressing this troubling trend poses a significant challenge and "likely relies on the intervention of the state, the federal government, the business community and providers themselves — both hospitals and physicians," the report states.

ON CHARITY CARE: "There is no doubt that the level of funding for the current system is inadequate," the report states. Accenture's interviews with healthcare, insurance and business experts gleaned a number of reform options, including: linking funding more directly to

the actual amount of care delivered; increasing government's role, for example, taking control of certain safety net institutions; creating a form of universal healthcare coverage, similar to the Massachusetts plan; reinstating rate regulation under which the cost of uncompensated care — both bad debt and charity care — is borne by all payers; and developing a charity care program for physicians' services.

"These are issues in need of immediate attention," the report states. "Unless the state of New Jersey wants to be in the business of the direct provision of healthcare, there needs to be recognition of the cost of providing care to the indigent, and a reimbursement system that provides adequate payments for both hospitals and physicians."

ON MEDICARE: The report notes that Medicare reimbursement, for both New Jersey and the nation, has failed to keep pace with healthcare costs since passage of the Balanced Budget Act of 1997. "Based on several different data sources it is clear that Medicare reimbursement does not cover the cost to treat this population. More significantly, the gap between cost to care for Medicare beneficiaries and Medicare payment levels is growing."

ON MEDICAID: Accenture repeats a longstanding NJHA concern: Medicaid rates in New Jersey cover just 73 percent of hospitals' costs of providing care. Physician reimbursement levels are even lower, leaving many physicians to reconsider whether to treat Medicaid patients. "Physicians are often unwilling to accept the level

of payment Medicaid provides, resulting in Medicaid patients turning to hospital emergency departments as their source of primary care," the report states.

Paying for Medicaid is a challenge for virtually all the states, but Accenture's consultants say the situation is even worse in the Garden State. "New Jersey's acute care program is particularly hard hit by: a broad benefit package that allocates fixed resources over an expansive menu of services; a comparatively lower level of funding for the acute care sector; a federal match of funds at the lowest possible level. Awareness is the first step toward much-needed change in New Jersey Medicaid."

ON THE COMMERCIAL INSURANCE MARKET: New Jersey has a dubious distinction: the highest health insurance premiums in the nation. But, as the Accenture report states, "Even as healthcare providers are experiencing operating losses, health insurers in the state are enjoying some of their best financial returns in years. A relatively high concentration of market share by a small number of major health insurers has tilted the balance of power in negotiating fair market rates."

The report also notes the longstanding problem of cost-shifting: Government payers fail to cover the costs of their programs, shifting the burden to commercial insurance companies. Ultimately, the report states, "Businesses bear the cost of these shortfalls unknowingly, tending to place the blame of the high cost of health insurance on providers."

ON PRACTICE OF MEDICINE: Accenture's experts took an in-depth look at practice of medicine issues in the Garden State, based largely on the Dartmouth Atlas study. Compared with other states, New Jersey has a high number of physicians, a high percentage of specialists and high percentage of foreign-trained physicians. Delving deeper, Accenture zeroed in on one particular area: healthcare services in the final six months of life. It found that New Jersey ranked near the top in several areas such as number of days spent in the ICU, the number of specialist visits and the number of patients seeing 10 or more physicians; all are categories that reveal high levels of utilization. Meanwhile, New Jersey ranked a disappointing 33rd in the percent of patients enrolled in hospice care.

The report discusses the importance of physician and hospital collaboration in addressing these concerns. "Most hospitals in New Jersey operate with a voluntary medical staff. These physicians operate under guidelines and protocols established by the hospital, but in the end make independent treatment decisions for their patients... Given the data in the Dartmouth (Atlas) study hospitals need to begin to address this issue. While physicians must retain ultimate authority over the care of their patients, hospitals have a responsibility to establish treatment protocols that provide efficient quality care."

ON THE REGULATORY ENVIRONMENT: State government began deregulating its Certificate of Need process in the late 1980s, allowing the free market to bring competition to healthcare. One result of that change has been an explosion of niche facilities in New Jersey, including freestanding ambulatory surgical centers. The Accenture report states that New Jersey's number of such "surgi-centers" per 100,000 population is markedly greater than that of surrounding states, all of which retain some form of Certificate of Need requirements. The unanticipated result? "While the intent of deregulation was to create competition to hold down costs, the result has been higher prices due to economic triaging, a process which is diverting profitable procedures away for hospitals."

The Accenture report echoes NJHA's call to "level the playing field" between acute care hospitals and these freestanding centers. Among the suggestions: include in the state's regulatory process some consideration for hospitals' social requirement to maintain a 24/7 safety net infrastructure that treats all patients regardless of their ability to pay and require freestanding facilities to comply with the same reporting requirements as hospitals.

ON CAPACITY: The report says there is "general agreement

that New Jersey has too many hospitals" but notes there is "little to no consensus" on what facilities should close. Accenture's experts also point out that a number of questions remain unanswered, including who will absorb the "stranded costs" of closing a facility, such as unpaid debt; how can an orderly transition be assured; and what will be the economic impact on individual communities and the state as a whole? "As New Jersey state government begins an evaluation of the healthcare industry system, a better understanding of the regional use rates needs to be developed." ■HCNJ



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New Year's Resolution: How One N.J. Hospital Got 'Lean'

By Kimberly Brook

How do you turn roadblocks into results? By using "Kaizens" and "Trystorms." Neither has anything to do with installing new software, hiring more people or even buying new equipment. They are integral parts of a program called Lean, and one New Jersey health system is seeing tremendous positive changes as a result of its implementation.

Voorhees-based Virtua Health is working with GE Healthcare Performance Solutions to implement the philosophy of Lean, which is the pursuit of the perfect process through elimination of waste. Lean drives efficiency and speed through employee empowerment and change at the grassroots level.

First, GE and key Virtua employees do preliminary work, which involves an overview of the participating departments and how they do things, stakeholder analysis, observations and then planning how to best address weaknesses. Several Virtua departments went through the process for the first time in March and the results were impressive:

- 96 percent reduction in caregiver travel in the Emergency Department;
- 70 percent reduction in wait time for processing lab specimens;
- More efficient use of clinician workspace;
- Noticeably higher staff morale.

During a second Lean "sweep" in October, the Pathology Lab was one of the departments that went under the microscope, so to speak, by taking part in a Kaizen event. A Kaizen is a no-holds-barred, three-day event where weaknesses are identified and targeted for trystorm solutions. A trystorm is a brainstorm, but with immediate action and results. There is intense focus on action and speed.

A Kaizen is not a meeting or a lecture. It is applying hands-on changes for immediate effect. For example, previously it took up to 14 hours to process tissue for a biopsy, followed by additional time for slide preparation, resulting in an overnight 24-hour delay before a pathologist could "read" a prepared slide on a microscope. Virtua had purchased new technology to decrease processing time, but the lab had not reaped the full benefit of the reduced processing time because its workflows were not fully accommodated to the new technology. Now, due to changes made through Lean, slides now are ready within a four-hour target. This was achieved by changing the lab's physical configuration and staffing assignments.

Tejas Gandhi, director of management engagement, is Virtua's Lean champion. He is responsible for the successful deployment of Lean in the organization and functions as an internal advisor.

"Some of the staff gets into it right away, and then there are others who are skeptical of the whole process. But usually after a couple of days, when they start to see the positive results, they buy in to the exercise quickly," says Gandhi.

Charles DeBusk, Lean Kaizen leader, is one of the many GE employees on site during the entire Lean process. "Some of the simplest changes or adjustments can make a huge difference in efficiency and quality. The changes made are owned by the department staff. They have to buy into it in order to achieve our ultimate goal of improving patient safety and the quality of the care patients receive during their stay."

The Lean philosophy can also be used to plan for the future. Virtua is in the process of planning two new regional medical centers. Virtua is using Lean to design these new facilities so that efficiency and patient safety are built into the design from the very beginning. ■HCNJ



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