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Hospital alliance sparks talks on insurance payment reform

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The fusion of three area hospital systems may result not only in more efficient care, but in lower health care premiums for local employers.

Northeast Health, St. Peter's Health Care Services and **Seton Health** late last month entered into negotiations with the goal of creating a single, regional health care system.

The new entity would operate five hospitals—Albany Memorial, Samaritan, St. Mary's, St. Peter's and Sunnyview Rehabilitation—plus several primary care centers, nursing homes and other specialty services. It would have nearly 12,000 employees in 125 locations.

“It's all about health care reform,” said Steven Boyle, CEO of Albany-based St. Peter's and the future CEO of the new organization. “We have a chance to make a difference here.”

Just how much of a difference, observers say, will depend on the cooperation of not only the three hospital groups, but of the area's health insurers and the business community. Consolidation can create a large group with the leverage to demand higher payments from insurers, as has happened in some markets.

But it also presents an opportunity to change the reimbursement system to benefit everyone, and that is what the parties involved hope to accomplish here.

“Not only do I think payment reform is possible under this model, I think it is absolutely essential,” said Dr. John Bennett, CEO of Capital District Physicians' Health Plan in Albany. “We have to be mindful of what has happened in other markets, and we have to use the relationships we have built over the years, and the closeness of the local business community, to do it right.”

Bending the curve

Bennett already has spoken with Boyle and James Reed, CEO of Troy-based Northeast Health, about including reimbursement reform in the new care system. It

is too early to say exactly what a new payment model would look like, but Bennett said it could do away with the traditional “fee for service” model.

“We can’t continue to pay providers merely for volume,” he said.

Reed, who will be president of the new organization, envisions a model in which providers are given incentive to do things in the most cost-effective way.

Putting five hospitals under one umbrella allows them to decide where services are best performed, and prevents them all from having to equip themselves for procedures they may not do very often.

“We may have one hospital that is more high-tech than the other,” Reed said. “St. Peter’s, for example, is geared up for heart surgery, which uses a lot of high-tech equipment.

“But then we have gall bladders and appendectomies, which do not require all that technology. So maybe those procedures could be done at another hospital. Then, if we have lower-cost and higher-cost facilities, is there a way to work that into the reimbursement system?”

Although the consolidation would facilitate the reimbursement reform, the change would not have to be limited to Northeast Health, St. Peter’s and Seton. James Barba, CEO of **Albany Medical Center**, said he also would welcome a dialogue.

“Any time you can get providers and payers to sit down and have a reasonable conversation about the costs of caring for patients, that’s a good thing,” he said.

No matter what form the new payment model takes, the goal is clear.

“What we are trying to do is ‘bend the curve’,” Reed said. “Say health care costs are going up 10 percent a year. If we can bend that to 6 or 7 percent, that can make a big difference.”

Community health plan

The extent to which costs can be lowered will depend on the success the new organization has in sharing services, purchasing in bulk, ending the “arms race” to purchase technology, and so on.

“There are so many hidden costs with fragmentation that we could eliminate,” Boyle said.

Ellis Hospital in Schenectady took over **Bellevue Woman’s Hospital** in late 2007 and added St. Clare’s last spring. Although the situation is different, that merger shows the efficiencies possible.

Donna Evans, spokeswoman for Ellis, said that at the end of 2007, the three hospitals had combined losses of \$8 million. In 2008, Ellis turned a small profit.

Martin Strosberg, professor of healthcare management in the MBA Program at **Union Graduate College** in Schenectady, said that while there are benefits to consolidation, there also are many challenges, including blending cultures, working out religious and technological differences, and dealing with personnel issues.

“Can it lower costs and premiums?” he said. “Theoretically that can happen. But it won’t happen overnight.”

Bennett, meanwhile, is calling on employers to seize the opportunity to have a voice in local health care reform.

“I would like to see some community health planning, and I think it needs to be driven by the business community,” he said. He said groups in other areas have examined technology purchases, building plans and other hospital projects to advise on their value.

“There is opportunity for debate,” he said. “The business community has been too quiet in Albany. It needs a seat at the table.”

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