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7 Healthcare Leaders Share Thoughts on Sequestration

Written by Jim McLaughlin | March 01, 2013

Unless Congress passes a replacement budget bill tonight to save the federal government $1.2 trillion over the next 10 years, $85 billion in spending cuts known as sequestration will be struck from the federal budget automatically, including a 2 percent reduction in Medicare funding and a drying up of discretionary spending such as medical research grants. Here are healthcare leaders' predictions on the effect sequestration would have on the healthcare industry.

David Borenstein, MD, FACP, FACR, Clinical Professor of Medicine at The George Washington University Medical Center and Former President of the American College of Rheumatology: The sequester will have an immediate and long-term effect.

Although Medicare [beneficiaries are] not affected, physician fees will be reduced by 2 percent across the board. This amount can have a detrimental effect on medical practices that have a significant proportion of Medicare patients. [This] limits the ability of physicians to obtain the expansion of staff and infrastructure to take care of patients.

The long-term detrimental effect is decreasing U.S. Food and Drug Administration (food and drug safety) and [National Institutes of Health] (medical research) funding. As usual, the government is penny wise and pound foolish. NIH has sponsored research that has advanced medicine and has developed products that are sold around the world.

FDA observes manufacturing practices to maintain appropriate standards. How quickly the public forgets. Just a few months ago a number of patients died related to tainted compounded medicines manufactured in Massachusetts. How much better will the system be once the sequester hits this agency?

Craig Garner, JD, Healthcare Attorney and Former CEO of Coast Plaza Hospital in Norwalk, Calif.: When investigating the overall strength of our nation's healthcare system under the Affordable Care Act, lessons learned from the "debt ceiling" and "fiscal cliff" debacles provide ample insight in predicting that the sequestration story will end with a resounding "to be continued." Although this message may be overlooked if a purported last-minute compromise wins the day, regardless of any healthcare related casualties incurred, the fact remains that there are not many ways to reduce the level of domestic healthcare spending other than by reducing the level of spending overall.

To an industry already in the depths of economic instability, it is difficult to identify any meaningful benefits resulting from lost revenue. At the same time, this remains a fundamental tenet within the [Patient Protection and Affordable Care Act], as providers shift from cost-based to performance-based reimbursement. Whether as a result of value-based purchasing, penalties due to readmissions, denials for hospital-acquired conditions or the anticipated 2 percent reduction from sequestration, today's providers must find ways to accomplish more in exchange for less.

On the surface, healthcare providers should be able to survive a nip here and tuck there. With a lag time similar to the children's fable "The Tortoise and the Hare," everyone knows that revenue reductions (the newly awoken hare) will never overcome the provider (the slow but steady tortoise) as long as the latter continues to advance at its normal pace. However, Aesop never contemplated that the tortoise might collapse under the continuous strain.

With so many factors to consider, it is difficult to predict how many percentage points it will take before a hospital collapses. It is just as challenging to calculate the net effect of the debt ceiling compromise on the cost of the Community Living Assistance Services and Supports program or the loss of funding for the Consumer Operated and Oriented Plans to stop a free fall from the fiscal cliff.

The role of innovation in the ACA is almost as important as a hospital's dedication to maintaining public health. Yet the healthcare industry finds itself once again stuck in the middle of a political cross fire. By all accounts providers will find a way to triage any injuries inflicted by sequestration, but to date there is no meaningful diagnostic method to ascertain the long-term impact of the injury on our healthcare system.

Kristin Hutchins, President & CEO of GuideStar Clinical Trials Management: A number of community hospitals conduct clinical trials. Actually, most community hospitals with a healthy patient volume, good mix of specialties and engaged physicians can engage in this type of cutting-edge clinical research.

Yes, sequestration will have an impact on the conduct of such research, as the NIH is poised to lose just over 5 percent of its budget.

This could result in: (a) fewer federally funded research projects, (b) reductions in staff and/or (c) delays in clinical discovery.

Nevertheless, hospitals doing this research certainly can take steps to mitigate the financial impact a reduction in federally funded trials may cause. They can achieve that by ensuring their portfolio of clinical research also contains a good mix of trials funded by pharmaceutical and devices companies, as well. (Pharmaceutical and device trials funding is not tied to NIH grants.)

Having a clinical trial portfolio balanced with both federally funded and industry-funded trials is a smart strategy for the continued viability of any research program.

So the message is: Don't panic — there are revenue-enhancing ways to deal with the effects sequestration will have on community hospitals.

Darrell Kirch, MD, President and CEO of the Association of American Medical Colleges: Sequestration will have a serious effect on medical schools and teaching hospitals and the patients they serve. If they remain in place, these devastating cuts to medical research funding and support for doctor training to be implemented under sequestration will not just have an impact this year, they will have consequences for many years to come.

For instance, NIH spending decreases — on top of a decade of erosion in funding — will not only contribute to the loss of the next generation of scientists, they will delay medical progress that could help millions of patients and their families. Sequestration also will have a significant impact on institutions' ability to invest in training the next generation of health professionals. Cutting federal funding that supports doctor training at teaching hospitals will exacerbate looming shortages of physicians and other healthcare providers and jeopardize the life-saving care and critical services that teaching hospitals provide in their communities.

Along with threatening the health of patients, sequestration would harm the economic well-being of communities across the country. Cuts to medical schools and teaching hospitals would result in more than 50,000 lost jobs, either those directly employed by institutions — such as doctors, nurses, other health professionals, scientists or administrators — or others supported by the purchases of healthcare organizations and their employees.

To continue to improve our nation's health and economic well-being, America needs more investment in medical research and the healthcare workforce, not less. Congress and the Obama administration must work together on a realistic solution that avoids the destructive consequences of continued cuts to programs that benefit all Americans.

Diane Omdahl, RN, MS, President and Co-founder of 65 Incorporated: According to research conducted by Tripp Umbach following the Budget Control Act of 2011, the sequester would result in the loss of nearly 500,000 jobs, which includes healthcare workers and other jobs supported by the purchases of healthcare organizations and their employees. And that's just after the first year of cuts. The total impact would be 766,000 fewer jobs by 2021, according to the analysis. Also, the sequester cuts would slash the budgets of both the NIH and the FDA by 8.2 percent, reduce Medicare payments to physicians by 2 percent and shrink the Medicare Part D Prescription Drug Account by $691 million.

Overall, the cuts could have a detrimental effect on beneficiaries, even though they aren't intended to do so. Patients may have trouble getting appointments; they may face longer waits in physician's offices and at hospitals; and they may incur potentially higher premiums and out-of-pocket expenses. Cancer research and new drug approval would suffer. All of this wouldn't be positive for the healthcare industry or consumers as a whole.

Adam Powell, PhD, President of Payer + Provider Syndicate: As the government has cried wolf on changes in Medicare reimbursements multiple times, I doubt that the sequester will have an immediate and instant impact. The games of brinksmanship posed by the government are perhaps more dangerous than any of the particular changes proposed, as they add an element of uncertainty to the equation and hamper long-term planning. Given the thin margins that many healthcare institutions have, a long-term decrease in Medicare payments may push many providers to seek new ways to reduce costs that would previously not have been considered acceptable. While substantial changes are unlikely to occur within the next week or two, providers may certainly reconsider their cost structures if and when cuts look permanent.

Although the sequester-related cuts have the potential to stretch budgets even thinner, many providers are even more worried about the extent to which budgets may be cut through the normal negotiation process that will happen if a budget agreement is reached. Providers are feeling pressure to improve their costs from both commercial and government payers as a result of the trend towards value-based payment. These pressures have made a number of organizations insolvent, and have set off a wave of hospital mergers and acquisitions. Further decreases in reimbursement are likely to continue this trend.

Julie Simer, JD, Shareholder at Buchalter Nemer: As the hours tick away, hospital executives face a sleepless night, wondering what sequestration will mean for them in the morning. The Budget Control Act of 2011 set in motion a federal deficit reduction measure known as "sequestration." If Congress fails to act by March 1, the sequestration process will automatically cut Medicare reimbursement by two percent. While Medicaid reimbursement rates are not directly affected, some states' Medicaid reimbursement and some commercial reimbursement rates can be impacted because they are indexed to Medicare. The Medicare cut is delayed for a month, so hospitals and other Medicare providers will see a significant

revenue drop in April.

Sequestration can lead to drastic consequences for hospitals. Most hospitals already operate on reed-thin profit margins, and Medicare payments make up a significant portion of hospital revenue. Reduced Medicare reimbursement may force hospitals to delay planned projects, close hospital departments, cut spending on supplies, reduce employee benefits, delay hiring and eliminate workforce positions. Some hospitals and community health centers will be forced to close.

These cost-saving measures will have a ripple effect on other businesses that provide services and supplies to hospitals. Just when the economy is showing signs of recovery, local and state governments will experience declining sales tax revenue and an increase in the number of unemployed drawing government benefits. An unemployed (and uninsured) hospital patient formerly covered under an employer's policy may now become covered by Medicaid, resulting in reimbursement to the hospital at the much lower Medicaid rate.

Although the specific programs that will be affected are not yet known, reductions in federal support of public health programs will likely slash immunization and preventive health programs. Research labs funded by the National Institutes of Health and mental health services funded by the Mental Health Block Grant are expected to be affected.

More and more physicians are currently moving to "concierge" practices that will not accept Medicare payments. Lowered Medicare reimbursement rates may increase this trend.

Sequestration will undoubtedly affect the implementation of the [PPACA]. Federal agencies including HHS and IRS charged with implementing [PPACA] programs will be forced to reduce administrative costs. Many [PPACA] programs and demonstration projects intended to reduce healthcare costs may never be funded, and fewer administrative resources will be available to implement those programs that are funded. This will make [an already] confusing situation for providers even more opaque.

Unfortunately, this game of political "chicken" is likely to leave hospitals in a world of costly uncertainty and potential chaos. It looks like sequestration may be just another reason why hospital executives have trouble sleeping at night.

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