AAMC ADVISORY PANEL – Advancing the Academic Health Care System of the Future

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Executive Summary

A revolution underway in health care is changing fundamentally how every academic medical center (AMC) operates. Health care reform is challenging academic medicine to reinvent its approach to the triple mission. Changing economics, market consolidation, fiscal pressures, and payers’ new focus on higher quality and lower cost require a new operating model for academic medicine. Every aspect of AMCs will undergo transformation in the decades ahead: how care is delivered, how students and residents are educated and integrated into clinical care, how the research enterprise is organized and funded, and how the missions come together in a new and meaningful way.

For the past year, the AAMC Advisory Panel on Health Care has worked to develop guidelines and leadership principles to help AMCs create sustainable models for the future. This resulting Report, *Advancing the Academic Health System for the Future*, is organized around eight themes developed from interviews with 13 leading academic health systems Panel members believe represent the vanguard of academic medicine:

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<th>Advancing the Academic Health System for the Future</th>
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<td><strong>1.</strong> The AMC of the future will be system-based, with a broad regional presence and clinical services aligned across the continuum of care.</td>
<td><strong>2.</strong> Academic health systems require strong and aligned governance, organization, and management systems committed to a unified direction, transparency, and internal and external accountability for performance.</td>
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<td><strong>3.</strong> University relationships will be challenged to evolve as academic health systems grow and develop, requiring leadership and structure to support clinical expansion, community engagement, alignment on financial requirements, and implementation of productive industry relationships.</td>
<td><strong>4.</strong> Growth and complexity of academic health systems requires an enhanced profile and responsibilities for department chairs, new roles for physician leaders, and evolution of practice structures to focus on organizational leadership designed to lead clinicians into a new era.</td>
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<td><strong>5.</strong> Transparency in quality outcomes and financial performance across the academic health system is central to high achievement that is demonstrable to patients and purchasers.</td>
<td><strong>6.</strong> Competitive viability and long-term mission sustainability will require radically restructuring the operating model for cost and quality performance.</td>
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<td><strong>7.</strong> Academic health systems must begin the movement to population health now, as purchasers look to reward organizations that can demonstrate improved outcomes for attributed populations of patients, and as community leaders tackle the social determinants of health.</td>
<td><strong>8.</strong> Academic health systems must conduct candid assessments of strengths and weaknesses essential to achieve change; and must revamp organizational culture if necessary.</td>
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These themes represent a recognition in academic medicine that integrated health systems and improved health outcomes are crucial for success in the future. As institutions that conduct basic and translational research, identify new therapies for disease, study and compare models of care, concentrate the resources needed for highly specialized care, serve as anchor institutions in their home communities, and prepare the next generation of clinicians, academic health systems are uniquely positioned to effect disruptive change in health care. But they also must act forcefully to decrease the total cost of care, introduce innovative models of care, increase integration across the continuum of care, and right-size their missions to achieve strategic and fiscal sustainability. The generational shift toward a distributed model of care must be recognized and embraced as academic medicine continues its work in improving health and advancing medicine through discovery and innovation.

This Report is intended for use by the leaders of academic medical centers, medical schools, faculty group practices, and universities as they consider the many challenges ahead and wrestle with the tough decisions they must make. The Report also includes an assessment tool that will help leaders evaluate their progress in moving their organizations forward as systems of care. The Panel trusts that the Report will promote useful discussion within the leadership of academic medical centers and serve as a stimulus for undertaking the challenging work of meaningful change: toward a thriving academic health system for the future.

Institutional Profiles Available at: https://www.aamc.org/initiatives/patientcare/aphc/359476/profiledinstitutions.html

Note: Throughout this report, references to these institutions are contained in Bold Italics.

**The Case for an Academic Health System**

Academic medical centers have thrived for years; many have realized record operating margins that they have re-invested in facilities, programs, and their academic missions. This success has come despite the dire predictions of the late 1990s, when “managed competition” was first
Advancing the Academic Health System for the Future

discussed as a solution\textsuperscript{1} to the flaws in the health care system. Investment in sub-specialized services for which premium prices are charged has paid spectacular dividends. Over the past two decades, AMCs have significantly expanded their clinical faculty, marketed their expertise in complex clinical care, and improved customer service and patient care by building sophisticated inpatient facilities and ambulatory care centers. As a result of this growth, many AMCs have been able to leverage their size, unique services, and market prominence in contract negotiations with commercial and other payers.

However, tectonic forces are causing upheaval in health care; academic health centers must evolve rapidly or risk becoming high-priced, anachronistic institutions in a landscape of highly organized health systems. In coming years, academic health centers will operate in a competitive environment in which payers seek to keep their premium increases at or near consumer price index (CPI) levels, leading to hospital and physician rate increases at similar levels. The result will be limited networks and selected providers willing to meet this price point while satisfying the payer’s quality measures. The premium pricing that AMCs have been able to negotiate will not be maintained, at least not for services widely available in community settings. The continued pressure on Medicaid and Medicare reimbursement will drive all rates down. With labor and supply costs easily outpacing the consumer price index (CPI) by two to four percentage points, clinical margins will collapse, putting enormous tension on the component parts of the AMC to compete for scarce resources and limiting the ability of clinical services to cross-subsidize the academic missions. A “worst-case” scenario, and approaches to address it, were highlighted by UHC’s Endurance Project—a case study of a fictional AMC challenged to deliver all clinical services at Medicare rates.\textsuperscript{2}

As the Endurance Project so starkly illustrated, the diminishing ability to shift costs to commercial payers will force AMCs to re-examine how they function and to understand the critical need to restructure their operating models. In this dynamic and demanding health care environment, some AMCs will thrive. They will transform themselves, reduce their costs, and implement new operating models that can be sustained with sharply reduced clinical reimbursement. They will find new ways to support the vitality and integration of the clinical, educational, and research missions. These academic health centers of the future will have increased scale; nimble, more agile structures; restructured and radically reduced costs; achieved high degrees of alignment across their missions and with their affiliated or parent university; and will be capable of managing risk and caring for patients and assigned beneficiaries across the continuum. They will be academic health systems that are focused on improving health as well as delivering health care. The prototypes of these next-generation systems are emerging today and are the focus of this Report.

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\textsuperscript{1} Enthoven, Alain C., “The History and Principles of Managed Competition,” \textit{Health Affairs}, 12, no supply 1 (1993): 24-48

\textsuperscript{2} Robertson, Tom et. al., “UHC Endurance Project: Readying the AMC for a Decade of Change,” University Health System Consortium, 2012
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Far-sighted leaders know that they must prepare for a radically different future and brave these challenges today. They recognize that every aspect of AMCs will be transformed in the next decade and are undertaking that work today. As one recent AAMC Chair said, “While our core values and purpose as academic medical centers are immutable, all else in academic medicine is changeable—in fact, needs to be changed—to accommodate a changing world. Everything about how we are structured and organized must be in play. Everything about our academic culture, with regents, provosts, deanery, and the academic senate (what one legislator told me sounds like a cross between the Vatican and the British Monarchy), is in play. Everything about how we educate students and residents, how we deliver care, how we organize ourselves for research, is in play.”

How to Use This Report

This Report is intended for use by the leaders of AMCs, medical schools, faculty group practices, and universities as they wrestle with the tough choices ahead. Companion appendices to the Report include:

- profiles of 13 leading AMCs forming systems of care, organized around critical dimensions relevant to this project
- a self-assessment tool for the candid reflection the Panel recommends that leaders of every AMC undertake
- a set of discussion questions linked to this Report to assist leaders in engaging in structured dialogue.

An additional resource are the profiles conducted by the AAMC in its “Readiness for Reform” series, which address individual dimensions of transformative change.

Although the themes we have identified are broadly applicable across academic medicine, AMCs are diverse and heterogeneous, with a variety of ownership structures, distinct clinical markets, and diverse academic priorities. The purpose of this Report is not to present one “right” way forward; but rather to understand the requirements for future success as a system, which precursor models are instructive examples, and characteristics new models will have. The Panel hopes that this Report promotes useful discussion among the leaders of academic medical centers and inspires them to begin the challenging work of meaningful change: toward an academic health system for the future.

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3 Laret, Mark R., AAMC Chair’s Address, “Thinking Differently about Academic Medicine,” AAMC 123rd annual meeting, San Francisco, California, November 4, 2012
4 AAMC Readiness for Reform. https://www.aamc.org/initiatives/r4r/