

The Regents of the University of California

COMMITTEE ON HEALTH SERVICES

July 15, 2010

The Committee on Health Services met on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Regents De La Peña, Island, Johnson, Lansing, Ruiz, Schilling, and Zettel; Ex officio members Gould and Yudof; Advisory member Powell

In attendance: Regents Blum, Cheng, DeFreece, Hime, Kieffer, Lozano, Makarechian, Maldonado, Marcus, Reiss, Varner, and Wachter, Regents-designate Hallett, Mireles, and Pelliccioni, Faculty Representative Simmons, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Provost Pitts, Executive Vice Presidents Brostrom and Taylor, Senior Vice President Stobo, Vice Presidents Beckwith, Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Drake, Fox, Kang, Katehi, White, and Yang, and Recording Secretary Johns

The meeting convened at 10:35 a.m. with Committee Chair Lansing presiding.

1. APPROVAL OF MINUTES OF PREVIOUS MEETING

Upon motion duly made and seconded, the minutes of the meeting of May 20, 2010 were approved.

2. UPDATE ON RE-OPENING OF MARTIN LUTHER KING, JR. HOSPITAL

Senior Vice President, Health Sciences and Services Stobo announced that *U.S. News and World Report* just released its rankings of the 152 best United States hospitals out of 5,000 examined. Ronald Reagan UCLA Medical Center was ranked number five, behind Johns Hopkins, the Mayo Clinic, Massachusetts General, and the Cleveland Clinic. UCSF was ranked seventh, behind sixth-ranked New York-Presbyterian University Hospital of Columbia and Cornell. Ronald Reagan UCLA Medical Center was ranked first and UCSF second in the West. Dr. Stobo commented that these excellent rankings attest to the leadership at these medical centers.

Committee Chair Lansing called these new rankings outstanding and complimented Dr. Stobo, Associate Vice President Muñoz, the chancellors, the respective deans, and the heads of the hospitals for their leadership. Committee Chair Lansing commented that she is particularly proud of this accomplishment, since she recalls when the University struggled to keep these hospitals afloat.

Dr. Stobo announced that work on the re-opening of Martin Luther King, Jr. Hospital is proceeding on schedule. Dr. Stobo and Bill Fujioka, CEO of Los Angeles County, have met with candidates for the hospital board and will likely complete the selection process by the end of July, a few weeks behind schedule. The Coordination Agreement specified that UC and LA County would each select two members of this board, with three members being selected jointly. However, given the importance of this first board, the two entities have decided to select all seven members jointly. Dr. Stobo was pleased that the quality of candidates is excellent, especially with regard to their experience in health care and in their connection to the community. He anticipated that the announcement of the board would be made in two weeks.

Committee Chair Lansing solicited questions regarding the re-opening, emphasizing the importance of the project. She inquired as to the project's financial status; Dr. Stobo replied that there has been no change in the finances. Dr. Stobo reported that he spoke with Dr. Patrick Soon-Shiong the previous week; Dr. Soon-Shiong is firm in his commitment to provide back-up financing behind financing provided by Los Angeles County, which remains firm in its financial commitment. The planned opening is still in the last quarter of 2012, with acceptance of patients in the first quarter of 2013. Committee Chair Lansing reiterated the importance of this project to the mission of the Committee and thanked Dr. Stobo for his leadership. Dr. Stobo thanked the Regents for their crucial support.

3. **UPDATE ON FEDERAL PATIENT PROTECTION AND AFFORDABLE HEALTH CARE ACT**

Senior Vice President, Health Sciences and Services Stobo reported that the Patient Protection and Affordable Care Act was signed in March 2010 and represents the most important health care legislation since the enactment of Medicare legislation in the 1960s. He noted that while the legislation is complex and more developments will emerge during the next few years, an update is appropriate at this time.

Dr. Stobo discussed influences that led to this legislation. The United States has the most costly health care in the world, representing approximately 16 percent of Gross Domestic Product, twice that of the second-ranked nation, and costing just slightly less than \$10,000 per individual annually. In spite of this high cost, the United States is ranked in the middle to last in quality of health care. The Commonwealth Fund ranked the United States 19th out of 19 nations in prevention of deaths amenable to medical intervention; more disturbingly, the U.S. ranking in this category has slipped since the 2006 ranking. In addition to cost and quality issues, there are still 51 million uninsured Americans. Dr. Stobo reported that the United States is the only developed country in the world without health insurance for all its citizens. Most importantly, annual and lifetime limits of coverage, as well as denial of coverage for pre-existing conditions, were major concerns leading to the passage of this legislation.

Dr. Stobo introduced Associate Vice President Muñoz who reported on details of the legislation. Mr. Muñoz observed that since the Patient Protection and Affordable Care Act is 2,600 pages long, there may be detailed questions that he would need to research and answer later. Mr. Muñoz emphasized that it is appropriate at this stage to familiarize the Board with preliminary observations and analysis regarding aspects of the legislation relating to UC Health, particularly concerning clinical delivery and payment-related components. Mr. Muñoz stated that there are also follow-up activities that have been identified.

Mr. Muñoz reinforced Dr. Stobo's comments regarding the state of health care absent passage of the Patient Protection and Affordable Care Act. Significant reductions in Medicare and Medicaid payments occurred in the fall of 2009 and early 2010, and further substantial reductions had been anticipated for this year. There had been no reinvestment in the health care workforce and no nationally funded quality or quality measurement initiatives. Most significantly, there had been no center of innovation, which Mr. Muñoz saw as one of the most exciting aspects of the new legislation. Mr. Muñoz commented that the mission of UC Health is well-aligned with the provisions of the Patient Protection and Affordable Care Act and that this alignment will be rewarded. Mr. Muñoz stated that the fundamental purpose of the Act is to ensure that all Americans receive timely, appropriate health care. Mr. Muñoz saw this legislation as a fundamental restructuring of the provision of medical care. Rather than using the historic focus at the physician/patient/hospital level, the new legislation has a systemic focus. The Patient Protection and Affordable Care Act represents a historic opportunity to improve the nation's health care system. The major components of the legislation are a significant expansion in coverage for individuals, individual mandates, employer responsibilities, and delivery reforms, leading to the coverage of 32 million additional Americans by 2019.

Mr. Muñoz reported that UC has started working on interim goals. Coverage expansion around the commercial markets is critically important for UC Health. A major component of coverage expansion is under Medicaid. It is anticipated that half of the 32 million newly covered individuals will be covered by Medicaid, which will result in the positive benefit that many more patients seeking treatment at UC Health will have coverage. Nevertheless, Mr. Muñoz stated that there will still be substantial numbers of uninsured for which UC will continue to optimize its funding sources such as Disproportionate Share Hospital funding and the Medicaid waiver.

Mr. Muñoz emphasized that the Patient Protection and Affordable Care Act is a time-limited opportunity to advance UC Health's tri-partite mission of improving clinical care, advancing its educational mission, and increasing research capacity, with the goal of improving the health of all Americans. Since the legislation requires California to expand Medicaid significantly by 2014, implementation of critical transition provisions must begin now. Mr. Muñoz reported that this work was begun months ago. One crucial area of the transition is the renewal of UC's Medicaid hospital waiver, which is set to expire this fall. UC and other critical California providers must receive sufficient Medicaid funding through 2014 and beyond. Mr. Muñoz reported that California still faces

significant financial challenges, since many provisions of the American Recovery and Reinvestment Act are due to expire at the end of 2010, including advantageous provisions for California under Medicaid and additional funding to the National Institutes of Health.

Mr. Muñoz expected that there would be some changes to the Patient Protection and Affordable Care Act before full implementation. He recalled that UC Health was extremely active in the late 1990s and earlier in the current decade in advocating for restoration of federal budget cuts to State funding after the passage of the Balanced Budget Act. He anticipated that similar advocacy would be necessary between now and 2014 to restore funding related to some provisions of the Patient Protection and Affordable Care Act that were not favorable to UC Health.

Mr. Muñoz reported that there will be significant changes in health care delivery under the Act. It creates regional commercial exchanges, which are “one stop shopping” centers for commercial coverage for employers and individuals. Major provisions of the Act also promote local and regional collaboratives, and UC Health is currently discussing ways to reach out to the community to improve the health care of Californians under these provisions.

Mr. Muñoz emphasized that the Act will reduce subsidies that the medical centers and practice groups currently receive to help cover the costs of the uninsured. Mr. Muñoz reported that initial analysis showed that these reductions would be overtaken by the increase in coverage of the currently uninsured. Further analysis will be ongoing, but Mr. Muñoz believed that the overall effect of changes in commercial coverage coupled with the expansion in Medicaid would be positive for large systems such as UC Health. These positive changes should outweigh cuts in coverage for the remaining uninsured.

Mr. Muñoz reported that a highly politicized discussion occurred during debate of the Act regarding potential variations in Medicare payments. It is very positive for the UC Health System that the bill does not include a wholesale redistribution of Medicare payments, a result for which UC Health advocated strongly under Dr. Stobo’s leadership. Mr. Muñoz stated that UC Health’s advocacy affected the national discussion regarding Medicare payments.

Mr. Muñoz believed that the clear goal of the health care reform act is to improve the coordination of health care, to ensure the provision of the “right care, at the right time, at the right place, with the right resources.” Achieving the goals of the legislation will require an evolution in methods of providing care and will reward better coordination of care across the spectrum of care providers. The Patient Protection and Affordable Care Act’s payment provisions include incentives to establish patient-centered medical homes, particularly for the chronically ill and other high-cost users, including those seen at the academic medical centers. The Act will eliminate payments for some other outcomes; Mr. Muñoz anticipated that mistakes such as operating on the wrong patient will not be compensated. Mr. Muñoz also reported that, under the Patient Protection and Affordable Care Act, workforce innovations will be rewarded and he expressed his view that UC Health will benefit from its traditional strength in this area.

Mr. Muñoz stated that UC Health is focusing on care coordination, efficiency and accountability, changes in how UC Health is paid, increased use of and reliance on technology, and changes in workforce demands.

Mr. Muñoz then addressed one of the most highly debated coverage components of the Patient Protection and Affordable Care Act. As of January 1, 2014, all U.S. citizens will be legally obligated to obtain health coverage or incur a tax penalty although it is debatable whether the tax penalty is sufficient to compel an individual to purchase coverage. Individuals will be able to retain their current employer-provided coverage; employers can continue to provide their current coverage or purchase coverage through the regional health exchanges. Subsidies to assist with the purchase of coverage will be available for low-income individuals, although it is debatable whether these subsidies will be sufficient. Mr. Muñoz reported that current national analysis shows that changes in commercial markets could reduce the rising cost of premiums at a level consistent with the premium support provided by subsidies.

Mr. Muñoz discussed the mechanisms for purchase of coverage under the Act. The Act creates regional centers where individuals and small businesses can purchase coverage from a wide choice of qualified private providers. In addition, federal assistance will be offered to create new plans. Mr. Muñoz emphasized that these insurance exchanges should be viewed in the context of the underlying changes to commercial coverage. Health care will become much more portable under the new legislation. Changes in the interstate commerce provisions related to commercial coverage will allow individuals to obtain covered services if they are out of their home area. Mr. Muñoz believed that UC Health tertiary and quaternary care would be made more widely available under the new legislation, since UC Health will be able to compete for patients nationwide, beyond those who have the resources to self-pay.

Regarding changes to Medicaid under the new legislation, California can now expand Medicaid coverage to all medically indigent Californians, which will now include childless adults with incomes at or below 133 percent of the federal poverty level. California currently has chosen not to cover these individuals since the State does not have the resources for its share of the contribution. However, by January 1, 2014, the new legislation mandates that California provide this coverage and at that time all of California's poor, currently uninsured, childless adults will be covered by Medicaid, with a robust guaranteed benefit package. From 2014 to 2019, most of the cost of this Medicaid coverage will be paid for by the federal government. Mr. Muñoz emphasized that this represents a significant expansion of Medicaid coverage in California. The positive benefit of this expansion in Medicaid coverage will be partially offset by a reduction in the special Disproportionate Share Hospital payments. UC Health will aggressively advocate for the reversal of this reduction.

Mr. Muñoz reported that there were no wholesale changes to Medicare benefits under the Patient Protection and Affordable Care Act. The legislation authorizes the Secretary of Health and Human Services to convene two commissions to study payment variations in Medicare practice patterns. UC Health will follow these developments closely and will be

part of the evolution of this agenda. Mr. Muñoz was pleased to report that there are no changes to the hospital medical education payments under the Medicare program. Although these payments are currently inadequate, at least they were not cut. There will be penalties for certain outcomes, such as hospital-acquired infections, and there will be Medicare incentive payments for hospitals achieving certain quality thresholds. Mr. Muñoz stated that data and metrics support the conclusion that the quality at UC Health hospitals is improving.

Mr. Muñoz pointed out that UC Health employs 50,000 physicians, second in the state only to Kaiser. The Patient Protection and Affordable Care Act did not address current challenges regarding physician payment under Medicare, although it did provide improvements in payments narrowly focused on primary care physicians. UC Health will aggressively advocate for improvements to physician payment under the Medicare program.

Regarding medical education, Mr. Muñoz noted that, under the new legislation, for the first time nationwide, federally-funded health centers providing mainly primary care to low-income individuals, including Medicaid patients, will now receive medical education payments from the federal government. Mr. Muñoz saw this as an illustration of the rewards that this legislation provides for primary care preventive medicine and better care coordination.

Based on current analysis, Mr. Muñoz saw the provisions of the Patient Protection and Affordable Care Act as advancing the interests of UC Health's patients and allowing UC Health to advance its tri-partite mission. Of utmost importance to UC Health is that changes in coverage and the commercial market are largely positive. For large organizations such as UC Health, these positive aspects of the new legislation should outweigh the cuts imposed by the Act as well as the problem of the remaining uninsured.

Dr. Stobo reinforced Mr. Muñoz's remarks by stating that UC Health intends to be proactive in assuming a leadership role by addressing quality and cost transparency. Dr. Stobo elaborated that in the discussions around the re-opening of the Martin Luther King, Jr. Hospital there was concern about the effect of the Patient Protection and Affordable Care Act. In fact, Dr. Stobo said that Martin Luther King, Jr. Hospital will probably benefit greatly from some of the provisions of the new legislation.

Committee Chair Lansing expressed appreciation that the report helped to clarify issues around the new legislation. She emphasized that the Act offers an opportunity for UC Health to demonstrate leadership, for instance in the area of reducing hospital infections.

Committee Chair Lansing asked if there are any provisions in the new legislation regarding care of long-term illnesses of the aging population, particularly regarding the quality and high cost of nursing home care. Dr. Stobo replied that there are provisions in the bill which address the quality in post-hospital settings. He also emphasized that policy makers are very concerned about the capacity and quality of care. Dr. Stobo stated that a

major concern of UC Health is having the capacity to treat the population of newly insured and that this issue has not been sufficiently addressed.

Committee Chair Lansing asked that Dr. Stobo educate the Committee as to how UC Health can show leadership in the area of elder care, given that people are living longer and will need more nursing care facilities. Committee Chair Lansing pointed out that as hospitals become better at prolonging life, the need for adequate care for elders increases. She stated that she would like UC Health to be a leader in this important area of national concern. Dr. Stobo pointed out that the Patient Protection and Affordable Care Act forces providers to focus on episodes of care rather than of illness. Providers will be paid for a continuum of care, rather than only for admittance to a hospital. Therefore, providers will be forced to examine what happens before and after a patient is admitted to the hospital. Committee Chair Lansing asked if the continuum of care would be part of the insurance package. Dr. Stobo responded that the broader care will be part of the payment methodology. Payment will be divided among providers of care before, during, and after hospital stays. This structure under the new legislation forces examination of long-term care as well as hospitalization. Committee Chair Lansing observed that these discussions are still in progress; Dr. Stobo concurred. Committee Chair Lansing requested that Dr. Stobo keep her informed on this issue.

Regent Blum asked if any financial modeling has been done regarding operation of the hospitals under the provisions of the new legislation. He commented that such modeling would be instructive in planning strategy moving toward the time of full implementation. Regent Blum solicited Dr. Stobo's opinion as to the cost to California when the plan is fully implemented in 2019. Regent Blum asked if an estimate of \$2 billion to \$2.5 billion was correct. He mentioned the case of an African American woman in her 90s in San Francisco whose \$1,300-per-month allowance for full-time care has been reduced to zero. Regent Blum commented that he fears that this case is typical and that similar cutbacks will affect many people.

Mr. Muñoz replied that financial modeling has been done. He pointed out that the performance of the commercial markets over time is a key component of the financing. Mr. Muñoz stated that, prior to the exchange becoming active on January 1, 2014, UC Health will have dealt with all eight major commercial health insurance providers on a systemwide basis. Mr. Muñoz reported that this task is half done now, in that UnitedHealthcare, Anthem Blue Cross, PacifiCare, and Health Net are now dealt with as systemwide accounts, which gives UC Health the advantage of approaching commercial payers as a single, unified health system to ensure appropriate rates. These rates will need to be trimmed in the future. Mr. Muñoz commented that a key element is controlling expenses, particularly with respect to personnel benefit expenses and the UC Retirement Plan benefit contributions.

Regarding cost to California, Mr. Muñoz commented that, while \$2.5 billion may be a high figure, the cost will certainly be in the billions. He pointed out that UC Health has historically had a special relationship with the State, citing the fact that the many positive changes in Medicaid payments to UC Health over the last five or six years have not

required any contribution from the State. This benefit is a result of being classified as State-owned and operated facilities under federal law, thereby allowing UC Health's facilities to draw down a fair amount of federal funding on their behalf. Most hospitals do not enjoy this unique relationship, which Mr. Muñoz expected will continue. While this situation does not help the State provide \$2 billion to \$2.5 billion, it does afford some protection to UC Health.

Regarding protection of the most vulnerable citizens, Mr. Muñoz pointed out that the Patient Protection and Affordable Care Act's emphasis on primary and preventive care is more likely to benefit the younger, previously uninsured population. With regard to care for elders, Mr. Muñoz stated that the legislation's ability to deal with issues of elder long-term care financing and capacity will be crucial to its success.

Committee Chair Lansing reiterated that she saw this area as extremely important. She reminded Dr. Stobo of an idea for staffing assisted and long-term care facilities that was made during the public comment segment of the meeting of the Committee on Health Care in California State Prisons. Dr. Stobo pointed out that there are incentives in this legislation for cooperation among all providers of health care. Committee Chair Lansing asked that he keep her informed of progress in this area.

Regent Ruiz thanked Dr. Stobo and Mr. Muñoz for their helpful presentation. He was pleased that UC Health is positioned to do well during all the changes under the new legislation. Regent Ruiz complimented the leadership of UC's medical centers in preparing for this transition. Regent Ruiz raised the issue of the current doctor shortage in California, which has significantly fewer doctors per capita than most states. Regent Ruiz commented that it will be irrelevant if California has funding for care if the state does not have a sufficient number of doctors. He noted that the Central Valley is currently losing doctors due to overwork and inadequate compensation and this problem is only getting worse. UC educates most of the doctors in California and has additional medical schools planned for UC Merced and UC Riverside. Regent Ruiz asked what is being done to address the doctor shortage issue, given that some funding will have to come from the federal government.

Dr. Stobo responded that Massachusetts experienced a similar problem of a shortage of doctors because of the increase in numbers of insured individuals following enactment of its health care reform legislation. He cited an example of wait times of one and a half years to see a family physician. The solution of increasing the number of medical schools to produce more doctors, while necessary, cannot be done quickly enough to address this problem. Dr. Stobo stated that methods of delivering health care must also be changed, with physicians' not being the only deliverers of health care. Community health care workers and other individuals on the health care team must be part of the solution of delivering affordable health care. Dr. Stobo pointed out that funding is provided in the Patient Protection and Affordable Care Act to support such change. Regent Ruiz asked what UC Health's role is in this process; Dr. Stobo replied that UC Health should be a leader in developing models of care, for example in the Central Valley, that will be used as nationwide models. Regent Ruiz stated that this initiative should be given high

priority. Dr. Stobo pointed out that UC's "Program in Medical Education" (PRIME), that trains individuals willing to return to their communities to provide primary health care, is seen as a national model.

Committee Chair Lansing stated that, given the opportunities presented by the new legislation and the lead-in time available, UC Health has an opportunity to be a strong leader both in shaping policy and in demonstrating effective working models.

Regent Makarechian asked Dr. Stobo who will be left uninsured after 2014 and what UC hospitals' obligation to provide care for the remaining uninsured would be. Dr. Stobo replied that one major group that will still be uninsured will be individuals who are not citizens of the United States, since this group is not included in the current legislation. Dr. Stobo calculated that the remaining 18 million uninsured approximately equals the population of individuals who are not legal citizens. He reported that when these individuals currently come to the emergency room, they are treated regardless of their immigration status. Regent Makarechian commented that the new legislation has not changed the law in this regard.

Regent Zettel noted that with regard to increased utilization of teams of medical personnel, she hoped that as UC increases the number of medical schools, it would also increase the programs for physicians' assistants and nurse practitioners. Regent Zettel noted that there is a critical shortage of gerontologists, given the aging population. She asked if the federal monies for medical education are targeting gerontology programs. Dr. Stobo responded that he is not aware of any such programs for gerontologists. However, he noted the bundling of payments for the entire spectrum of care, for example for the entire period of time from when an individual enters the hospital through six months after discharge. He commented that identified individuals will then determine how that bundled payment would be allocated among providers. This model offers an opportunity to change the compensation for critically important individuals. This bundling provides the chance to allocate compensation more fairly, based on the contribution an individual makes to the overall health of the population under care.

Regent-designate Pelliccioni asked if negotiations with the insurance companies involved commercial rates or the reimbursement schedule for the exchanges. Dr. Stobo responded that at this point the negotiations involved the commercial companies such as Anthem, Health Net, and others. Regent-designate Pelliccioni asked if there is a schedule yet for reimbursement under the exchange. Dr. Stobo answered that there is not. He elaborated that UC Health's relationship with commercial insurers will change as 2014 approaches. In the past, UC Health has tried to negotiate with commercial insurers for the best rate, but there will be a new model for this relationship in the future. Dr. Stobo believed that wise commercial insurers are also re-examining their relationship with health providers and will develop new business models. Dr. Stobo emphasized that the new legislation offers an outstanding opportunity for both providers and insurers to redefine their relationship in such a way that they can provide better health care to insureds.

Regent De La Peña thanked Dr. Stobo and Mr. Muñoz for their presentation. He commented that he anticipated that this area of discussion would soon change due to cuts in compensation for doctors. Regent De La Peña commented that commercial reimbursement rates will continue to drop and noted that even now 40 percent of doctors decline to see Medicare patients due to low reimbursement rates. Under the new legislation, many more insured individuals will be entering the system, but doctors may not want to see them for the rates being paid. Regent De La Peña stated that UC Health needs to be able to respond to these changes very quickly and should continue to seek out any possible grants or donations, and focus on cash procedures to secure appropriate funding as quickly as possible. Since UC Health also buys insurance for its employees, Regent De La Peña urged UC Health to consider forming its own health insurance company, giving UC Health the freedom to set its own rates and to insure its own employees. Dr. Stobo stated that the option of becoming self-insured is being seriously examined.

Regent Hime asked how many doctors are produced by the system annually and what percentage of these doctors stay in California. Dr. Stobo replied that approximately 800 doctors graduate each year and that one-third to one-half stay in California. Two-thirds of those who do their residencies in California remain in the state. Dr. Stobo pointed out that these statistics are similar in most states. Regent Hime asked about initiating incentives for graduating physicians to stay in California. Dr. Stobo replied that the PRIME Program is an excellent example, since those physicians stay to provide care in underserved areas of California.

Committee Chair Lansing agreed with Regent De La Peña that this debate is still being shaped. She invited Dr. Stobo and Mr. Muñoz to return in the future to give an update as this issue continues to develop and change.

The meeting adjourned at 11:25 a.m.

Attest:

Secretary and Chief of Staff