Winter 2013

At Swedish, our mission is about providing safe, high-quality care to the communities we serve. Fulfilling that mission requires us to carefully manage the resources of our organization. More than ever, it is imperative that we increase the value of what we provide through improved quality, reduced cost and increased access to our providers and services. While we had some tremendous success in 2012 driving down costs and improving the safety and quality of our care, we know our work is far from done as we navigate a challenging and complex health care marketplace.

Just over a year ago, Swedish found itself facing a serious financial challenge. Like many health systems across the country, our patient volumes and revenues had declined significantly while our costs, many of which were fixed and relatively inflexible, did not keep pace.

The economic downturn of 2008 had driven up unemployment rates and reduced people’s savings and incomes, causing the already large percentage of our patients who were uninsured, underinsured or on Medicaid to steadily increase. These changes resulted in increased levels of charity care and bad debt at Swedish. More than ever, we are looked to as the safety net for the communities that we serve.

We started our 2012 fiscal year projected to absorb a $90 million operating loss. In response, we quickly made many changes that resulted in Swedish becoming a more efficient organization. Changes were needed to reduce costs, gain efficiency, improve processes, and at the same time, invest in growth. The result was a $39.9 million (2%) positive operating margin – resources we invest directly back into Swedish to support the care and services we provide our patients and communities.

This remarkable turn was achieved through the hard work and focus of every Swedish employee and our clinicians; each played a part in making the necessary and significant changes that put Swedish back on solid financial footing. In fact, in 2012 we operated Swedish with less expense than the prior year, even with an additional hospital (Swedish/Issaquah) as part of the organization. Last year ranks as one of the best financial years in Swedish history.

Through all of these changes, our focus on the safety and quality of our care – the benchmarks that Swedish is known for throughout the Northwest and across the country – never wavered. We continued to receive national and regional recognition for the safety and quality of care across our five campuses. And we never lost our focus on the communities we serve. As a nonprofit, community-based health system, we provided more than $126 million (in actual cost) of community benefits in 2012. In
addition, Swedish has committed at least $100 million toward community benefits in each of the past five years. That is what our founder, Nils Johanson, M.D., intended Swedish to be when he created this hospital more than a century ago. That is who we are. So far in 2013, the hard work we did last year, and our continued focus on operational efficiency across every department and campus, is continuing to produce positive financial results and support our focus on patient safety and quality care.

I wish I could say that the problems we and other health systems faced in 2012 are over. Unfortunately, the business climate for health-care delivery in the U.S. is defined by economic, demographic and political factors that will continue to bring increased financial pressure on health systems and providers for the foreseeable future. These include:

- The aging of the U.S. population, as baby boomers reach retirement age and increasing numbers of our older patients, the heaviest users of medical care, move from commercial insurance to Medicare, which pays less to providers than commercial insurers and less than the cost of care for most services.
- The continuation of the longstanding trend of rising health-care costs, as new treatments and procedures, new technologies and general inflation push these costs higher.
- The gradual phasing in, starting back in 2010 and continuing through 2020, of the Patient Protection and Affordable Care Act (ACA), which many people call Obamacare. Key provisions of this legislation will be implemented in the next two years, including a complicated mix of tax credits, subsidies, mandates and reforms. It is still not entirely clear what their net effect will be.

The good news is that, because of ACA, there are likely to be more patients with some form of health insurance, so that health systems like Swedish will need to provide less charity care.

There will also, however, be more of our patients on Medicaid—which pays hospitals even less than Medicare—as income eligibility levels for this program are expanded. There will also be more patients on Medicare, as the number of eligible seniors begins to increase dramatically. Both of these government managed insurance plans, like many other features of the new health-care law, will be part of a concerted and necessary effort to keep down health-care costs going forward.

For health-care providers, the message is clear: the years ahead are going to bring significant downward pressure on our operating margins, while costs for supplies, caregiver salaries, technologies and facilities are going to be much harder to contain. In this climate, we must change the ways we do business. There are no templates or roadmaps that tell health-care leaders exactly how to manage through this evolving landscape, but the methods we use will likely mirror ones used at Swedish in 2012. We will need to identify, test and implement strategies that allow us to continue providing health care of the highest safety and quality in ways that are more efficient and less expensive. Some of these likely strategies are already becoming apparent. At Swedish, we are exploring ways to move from a transaction-based fee-for-service model, where we rarely see patients until they have become sick, to population-based health models that, for a fee, treat large numbers of patients in groups that are defined by a common employer or insurer. Many large employers are now self-insured and looking for this
type of plan to reduce their costs by emphasizing primary care, disease prevention and management, outpatient care, wellness education and other efforts to keep a population healthy so that individuals are less likely to require an emergency room visit or an expensive stay in a hospital for a serious illness.

For nonprofit, community-based health systems like Swedish, philanthropic support will undoubtedly be a critical factor in coping with the rapidly changing health care landscape and ensuring financial health. This year Swedish is in the final year of the seven-year Campaign for Swedish that has already exceeded its initial goal of $100 million. Like many health systems, ours was founded by a group of visionary and civic-minded donors. Clearly, inviting our communities to invest in the health of our region will continue to be an important, and especially gratifying, part of health-care administration in the coming decades.

Another likely strategy that will play an important cost-cutting role is a more efficient distribution of facilities and resources. For Swedish, our recent affiliation with Providence Health & Services represents a major step in this direction. While we remain Swedish, an independent brand and employer, we are now part of the larger Providence family, which has been a significant source of value and stability for us. We have used the term “better together” inside our organizations, and it’s true. Swedish’s strong presence in King County and its advanced and highly-specialized resources in Seattle make a nearly perfect fit with the Providence system. In addition to promoting cost savings from economies of scale in areas like purchasing, human resources, accounting and information technology, the affiliation has created a network that will be both large enough and comprehensive enough to provide the population-based care I described above to groups that are widely dispersed in the region.

Finally, and perhaps most importantly, health systems must find ways to reduce costs by making certain that everything we do—each examination, each purchase, each surgery—represents the most effective possible use of the limited supply of health-care dollars available, while also delivering the safest, highest-quality care.

At Swedish, this process will rely heavily on leadership from the caregivers and clinicians who work in our clinics and operating suites every day. Physician leadership in providing advanced care, combined with a rigorous concern for patient safety, has defined this organization’s philosophy and business practices since its founding over a century ago. I am confident that, once again, this approach will enable us to play an important role in finding ways to address the fiscal challenges that health systems face in 2013.

I would be glad to hear your thoughts or answer any questions you may have on these issues. I can be reached at 206-628-2514 or at Kevin.Brown@swedish.org.

Sincerely,

@KBrown_Swedish

Kevin Brown
Chief Executive
Swedish Health Services