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HEALTHCARE

How To Stay Independent Amid Increasing Hospital Consolidation? Bassett Blazes A Bold Path With Optum

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Rural and community health systems want to remain independent in an increasingly challenging operating environment. Managed services offerings and new kinds of payer/provider partnerships are providing capital, technology and resources to help keep them independent and better positioned for a fast-changing future.

“**W**hy the hell would you do this deal? What made you think it was a good idea for a health system to outsource so much, and to a subsidiary of a payer no less?” This is the exact question posed to Paul Uhrig, Chief Legal and Digital Health Officer of Bassett Healthcare Network, the morning of May 25th when Bassett’s deal with Optum (a subsidiary of UnitedHealth Group) was announced. The call had come from a friend of his who is an executive for a much larger health system.

It was a good question. On its face, this kind of healthcare collaboration doesn’t make sense, in particular for the health system, which often have adversarial relationships with the entities that pay them. But look under the hood — recognizing the competitive, low-margin environment that independent health systems are operating in, plus the continued flurry of M&A activity, and best-of-breed managed services available — and these types of partnerships begin to make a lot more sense.

Rural and Community Hospital Survival: Win, Lose or Draw

Faced with increasing financial strain and limited resources, rural and community hospitals face a unique set of challenges in comparison to their larger, nonrural counterparts. A February 2021 report from the Chartis Center for Rural Health showed that at least 46% of rural hospitals were in the red this year, with more than 450 at risk of closing. This troubling figure would eclipse the 135 facilities that have closed between 2010 and early 2021, with nearly two-thirds of those (88) happening since 2015.

The fact that so many rural hospitals have closed in recent years is perhaps not surprising, given their operating environment and market characteristics. The populations that rural hospitals serve tend to be older and sicker, and often include marginalized and at-risk communities. Rural hospitals lack the patient volume and diversification of services needed to drive sizable margins (unlike larger competitors) and are more sensitive to reimbursement changes and policy shifts. Outcomes are often lower at rural hospitals as well, with social determinants of health (SDoH), including transportation and limited options for care access, contributing to challenges coordinating care and managing the health of populations.

In their fight to survive, independent hospitals are not only trying to fend off competition from larger systems, but they’re contending with digital disruption from all sides, in the form of telehealth, virtual care, and a variety of new and direct primary care offerings. They are usually dealing with legacy technology infrastructures and outdated organizational structure, making it harder to attract and retain talent in addition to facing nationwide provider shortages. New data from the AAMC (Association of American Medical Colleges) shows that the U.S. could see an estimated shortage of between 37,800 and 124,000 physicians by 2034 across both primary and specialty care.

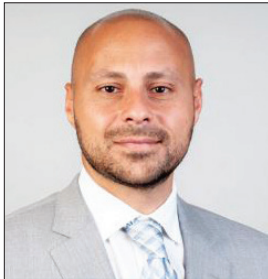
As the bevy of obstacles continues to mount, rural and community hospitals ultimately face a win, lose or draw situation. A draw may mean remaining open but losing independence, acquired either by a larger system (not-for-profit or for profit) or private investors. (Per a 2017 Deloitte and Healthcare Financial Management Association (HFMA) survey, executives of hospitals targeted in a merger cited improved access to capital (31%), delivering care more efficiently (29%), and increased market share (14%) as the most common reasons for merging.)

A loss would be closing. A win would be finding a way to remain independent while simultaneously improving its competi-

tive position, with the capital to invest in innovation and quality improvement efforts. But without access to capital and resources via M&A, or taking any sort of private equity investment, how could an independent hospital achieve this win? By sleeping with their “enemies” — or as some health systems are finding, their unexpected allies.

Bassett, Optum, and the Rise of Best-of-Breed Managed Services

How are rural hospitals staying independent in an increasingly consolidated world? Bassett Healthcare Network, an independent not-for-profit health system in upstate New York, wanted



TOMMY IBRAHIM

Dr. Tommy Ibrahim, MD, MHA, is President and CEO of Bassett Health Network.

to find a partner that could take over much of the administrative and back-office functions that were neither a core competency nor tied to actual patient care delivery. Bassett was also looking for the necessary capital and best-of-breed technology services to set the system up for a more competitive future. The ideal partner for Bassett, said President and CEO Dr. Tommy Ibrahim, was Optum.

Optum is a health information technology and services firm that is part of insurance giant UnitedHealth Group. Optum provides technological, operational, and consulting solutions and services to individuals, healthcare organizations, pharmaceutical companies as well as federal and state governments.

Through the partnership, which launched in May of 2021, Optum is providing Bassett with a broad scope of services, including revenue cycle management (RCM), advanced data and analytics capabilities, and other managed IT services. Per the official announcement, “The relationship gives Bassett the operational capabilities and financial resiliency to meet the evolving needs of the residents of Central New York. It also positions the organization for further growth opportunities while remaining an independent, locally-governed health system focused on serving the unique needs of the community and providing patient-focused care.”

Technology modernization, operational and financial improvement, and the delivery of high-quality care were just some of the goals for Bassett’s decision to collaborate with Optum, explained Ibrahim. Bassett needed to modernize its healthcare delivery system, and “quickly evolve it to one with more technology enablement, more automation, and more operational efficiencies,” said Ibrahim. Each of these functions was a challenge for Bassett, given the rapid advancement in technology and digital capabilities overall, and the struggle to keep pace with the rate of industry innovation.

Facing these constraints, this deal makes a lot of sense for Bassett, says L.E.K. Consulting’s Todd Clark, because roles and

rules are shifting in the evolving RCM and IT management landscape. “It’s hard to maintain a cutting-edge RCM shop when the care and feeding of that shop maintained by the local health system, whose primary goal is to provide care, not figure out how to collect revenue.” This thinking holds true at Bassett, notes Ibrahim, where the health system’s core competencies are advanced clinical capabilities for high-quality care, supporting academics and a commitment to medical education, and furthering health-care research.

Paul Uhrig, Bassett’s Chief Legal and Digital Health officer, echoed the same sentiments, noting that RCM was one of the top three most important aspects of the Optum partnership. Uhrig also cited analytics advancements and technology expertise, including cybersecurity measures, as critical areas that the Optum partnership provides. “We had all of this data, but we weren’t analyzing it to make decisions. In terms of technology, we had to be able to bring in that expertise,” said Uhrig, “even just in terms of using Epic and maximizing the EHR’s utility, which was something we didn’t have on our own.”



PAUL UHRIG

Paul Uhrig is Chief Legal and Digital Health Officer at Bassett Health Network.

How This Deal Fits In To Optum’s Broader Strategy (And Why It Makes A Good Partner For Bassett)

Why would Bassett outsource important functions and share data with an organization more than 100X its size, and one that holds the purse strings to a significant portion of Bassett’s revenue? As the saying goes, the enemy of one’s enemy is actually a friend. The biggest threat to Bassett’s survival isn’t Optum/UnitedHealth Group (UHG) — it’s other (larger) health systems and disruptive players.

Optum is both offering a helping hand to Bassett (and other independent health systems like it) and also laying the groundwork for a longer-term pay off. Optum’s new managed services partnerships with independent health systems is part of a cohesive strategy from UHG, one that reflects the regulatory realities of today’s health insurance business, rising pricing pressures from the largest and most powerful health systems, and the resulting market opportunities.

While the strategy is ultimately about finding the fastest ways to grow earnings, it’s also consistent with bending the cost curve. Components include:

1. Investing in services and subsidiaries that aren’t subject to the ‘medical loss’ ratio.

One of the primary reasons UHG is seeking deals with community health systems is because the company is limited by the medical loss ratio on the payer side, which is where

they can make considerably more money. By investing in and building out new business units that are not subject to medical loss regulation, UHG can more easily overcome this growth hurdle.

This rationale explains why Optum brought its pharmacy benefit manager (PBM) in-house under the Optum PBM name, and why the company has been focused on building up their IT services and capabilities in recent years. In 2017, Optum purchased The Advisory Board Company's healthcare services division, described as "marrying the powerful healthcare services arm of a major payer (UHG) with one of the healthcare industry's leading consultancies."

2. Bolstering capabilities by investing billions in M&A through Optum Ventures and in-house technology development.

UHG is interested in the kind of technology services that allow them to establish a closer relationship with their members — and \$600M in assets under management — with the ability to triage and drive patients to lower costs of care.

UHG technology investments and acquisitions from recent years include those focused on the digital pharmacy (Divvy-Dose), online patient communities (PatientsLikeMe), technology enabled behavioral health care (AbleTo) and remote patient monitoring (Vivify Health).

3. Buying-up physicians practices to control critical referral flow.

As a corporate organization, Optum is buying up physician practices just like private (PE) firms are doing. The company is the largest employer of physicians in the country, where UHG employs more than 53,000, or about 5% of U.S. physicians, with plans to add upwards of 10,000 this past year.

Why gobble up physician practices? One reason is to more strongly position UHG in markets where the health insurance company must negotiate prices and rates with powerful health systems. By buying up physician practices, UHG gains control over physician referral patterns that are critical to the type of expensive care that hospitals rely on to drive revenue: procedures, tests, and inpatient care.

It may seem surprising that UHG, a national payer with \$200B in annual revenue, has trouble negotiating with health systems that are much smaller than it. But L.E.K.'s Clark says it's not this simple, noting "UnitedHealth Group may have market share in every market, but many health systems have a commanding position in their markets. They [health systems] also tend to have a strong presence within the community, so employers want them in-network."

Clark's point is a salient one, with some studies finding that up to 80% of U.S. hospital markets are highly concentrated. Health systems that have a strong market position have been found to exercise that strength in numerous ways, even when negotiating with large national insurers.

4. Keeping smaller health system competitors alive and competing.

Optum's deal with Bassett Healthcare Network is emblematic of a new part of Optum's broader strategy: providing technology and managed services to smaller health systems in structured long term arrangements that work well for both sides. For the systems, they gain immediate access to technology and resources at scale that they likely couldn't finance on their own; for Optum, it's a long term contract with the ability to realize efficiencies in the out years.

For Optum, it's also a way to help out its parent company UnitedHealth Group by keeping healthcare markets competitive. Insurers and their subsidiaries may not have the financial wherewithal or strategic interest to buy smaller, independent health systems. But they can invest in programs, provide managed services, and infuse capital to keep rural and community hospitals alive and kicking, and also out of the hands of private equity (PE) organizations or larger dominant health systems.

The partnership with Bassett in particular makes sense given it's in UHG's best interest to have competition in markets where there tends to be a small number of fairly large competitors." One of those markets is upstate New York, says Mike Valli, Executive Vice President and General Manager of Optum's Provider Services Group. In upstate New York, Bassett's competition includes Trinity Health System, a \$20B health system with operations across the country. "If I'm a competitor system in upstate New York, I'm thinking about how to bump out Bassett," said Valli.

In short, Optum and UnitedHealth Group appear to be a knight in shining armor for Bassett in that its strategic interests are highly aligned with Bassett's (keeping Bassett operationally healthy and independent) and it has the financial strength and flexibility to underwrite the deal.

What's In It For "The Bassetts" of The Country?

From Bassett's point of view, a partnership with UHG also makes sense, especially given the community system is not a threat to UHG — which is focused on expanding the population it serves, while optimizing the Bassett relationship for a longer-term payoff. And through its deal with Bassett and others like it, UHG can keep independent health systems alive, while making them more agile and able to adapt to shifting market conditions.

Its partnership with UHG means Bassett has the capital and an organizational partner to take a number of important steps to remain open, independent, and increasingly competitive, including the following:

Establishing loyalty, preserving community identity, and maintaining independence.

Rural hospitals are often the only source for health care in their region, seen as staples in their communities, and with a loyal

following that identifies them as one of their own. Preserving the community's trust and loyalty — including the many Bassett employees that have worked at the system for the entirety of their careers — was also a fundamental part of the deal and the system's desire to stay independent. "It was our strong belief that the best thing for the community and this region — and to preserve Bassett's rich history and identity within the community — was to remain operating as an independent system," said Ibrahim.

Attracting and retaining talent: Part of the deal was an unprecedented employee optionality model.

One of the most unique aspects of Bassett and Optum's partnership is the employee optionality model. The employee optionality model gave Bassett employees the option to transition to become full time Optum employees, and helped Bassett position itself as a tech innovator that's also focused on bringing in and retaining top talent.

In fact, 95% of Bassett employees made the decision to transition, with Ibrahim noting that employees made this decision on their own because they saw "the massive opportunities, the synergies between the organizations, and the benefits of working with a large, innovative company. It was the right thing for Bassett, the right thing for employees, the right thing for the community, and the right thing for patients," said Ibrahim.

While there's still some skepticism about the model, "the way this progressed has far exceeded all of our expectations, including the board's."

Providing an upfront capital investment for a longer-term payoff.

Bassett's goals and priorities for the partnership, which spans 10 years, are multifold. "Long term, as we continue to improve



MIKE VALLI

Mike Valli is Executive Vice President and General Manager of Optum's Provider Services Group.

operational and financial performance, and strengthen the consumer experience, that will allow us to reinvest in the organization, advance our capabilities in the clinical arena, bring in analytics, pivot to more of a population and value-based strategy, and become more innovative in care delivery streams," said Ibrahim.

Optum's Valli says "it's a longer-term strategic play for Optum as well, with the deal consisting of two primary parts: an upfront capital component/financial investment, and achieving goals included in the contract related to IT, RCM and analytics services."

"We're providing a discount off of the fee at which Bassett operates," Valli said, explaining that Optum brings the backend workflow technology at under-cost to realize the value later in

the relationship.

Because Optum is providing consulting and management services in addition to the discount, the company sees a significant runway for a longer term relationship. As Valli noted, "We provide value in a way that Bassett would not have been able to do independently without a significant out of pocket cost."

An Increasingly Collaborative and Consolidated Future

Will this trend of cross-industry collaboration continue? Valli says that the industry will continue to see more of these kinds of relationships happening in the future, with value-based care playing a part. "As I think about who Optum is talking to in the market today, it's providers on the journey into value-based care, and we can be a jumping off point to help make that happen for them."

The ability to execute at scale, quickly, is another benefit that Valli says Optum provides smaller health systems. "We have a lot of innovative components and investments that organizations can't do at scale like Optum can," which includes tacking Epic's EHR onto organizations using Cerner's EHR. "We have the scale to be able to do that out of the box, and we have the financials to make it possible."

Valli also credits market expansion as a driver of new collaborative opportunities. "Regardless of size, everyone is trying to grow their business, even if they're on the defensive, so we help with consumerism and general growth in their market."

Valli also sees opportunity in managed services in healthcare overall, noting that functions like IT and customer support are regularly outsourced to vendors in other industries, like technology and retail. In healthcare, while the industry has been historically behind those like banking or retail, Valli notes that "we're moving towards consumerism in a more significant way and moving to more transparent pricing models. We're providing those services now at scale. That's the sweet spot."

Bassett's Ibrahim agrees with Valli that the healthcare industry will continue to see new kinds of collaborative partnerships that focus on providing specialized functions and capabilities not typically in a hospital's wheelhouse. "Management services have existed in healthcare for a long time, and we'll continue to see further M&A consolidation activity," said Valli, adding that Bassett is on the leading edge of something that's going to continue to scale going forward with Optum. "Healthcare delivery organizations are going to have to explore these kinds of opportunities to maximize performance, and I think we'll see a lot more of these kinds of partnerships in the future."


Moving Forward: Lighting The Fire

A financial capital infusion. Helping hospital systems innovate and remain competitive while remaining independent. Letting health systems focus on care delivery versus those administrative and management functions that are not their core competencies. Retaining and attracting better talent. There are a lot of reasons why

a managed-services approach can help keep rural and community health systems independent and well-positioned for the future.

For Bassett, they wanted to find a partner to make them more agile and flexible, able to keep pace with the rate of innovation and thwart off competition, while maintaining its stronghold and support in the community. For Optum, and UHG, working with rural and community hospitals represents a new market opportunity in a relatively unregulated (in terms of profitability) space with uncapped long term margin contribution potential, in a way that is very aligned to its parent company's larger strategic interests.

The world may not change dramatically in the next five years,

but the infrastructure and platforms exist to enable these new kinds of care delivery models that include collaboration with best-of-breed service organizations. These kinds of partnerships are helping facilitate a shift in a health system operating models, while also signaling to the industry that it's no longer "business as usual," said Ibrahim. "Bassett may be a small health system in a sleepy area of upstate rural New York, but I'm lighting a fire under the organization and we're going to dramatically change how we're operating." 

Seth Joseph

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