



From the
Chief Executive Officer
For UMass Memorial Health Care Employees



Fiscal Year End 2012 CEO Newsletter

From John G. O'Brien, President and CEO
December 19, 2012

2012 – The Best People Provide the Best Care

It is remarkable that another fiscal year has come to a close. Even more noteworthy is that it was a year during which remarkable people did remarkable things. Your hard work was evidenced by the numerous letters I received from patients and families thanking you for the compassionate care that you so compassionately delivered, the awards and accolades that our physicians, nurses, clinicians and staff received from numerous accrediting, regulatory, community and benchmarking bodies, and the numerous meetings held in all the communities we serve where I have the privilege of seeing how we provide the right care, at the right place, at the right time. All of these things demonstrate that we have the best people providing the best care at UMass Memorial Health Care.

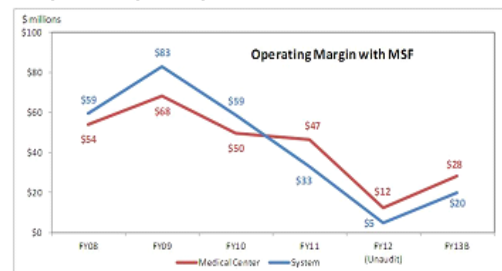
Our dedicated focus on providing affordable, high quality care to all the communities we serve makes an incredible difference in the lives of our patients every day. What makes this year especially notable is that we delivered this care while managing incredible changes and uncertainties with federal and state health care reform. These changes have had a major impact on our health care system from the perspective of declining reimbursement from government and private payers, reductions in patient volumes and increases in costs both planned and unplanned. When I wrote to you in January, we were facing a significant downswing in our year-end financial picture, a financial gap of \$50 million at the Medical Center and the economic reality that if we did not make swift changes in the form of expense reduction and streamlining operations for improved efficiency and productivity, it would be a harder and longer road to address our long-term ability to be affordable for our patients.

Fiscal Year 2012 Financial Results and Clinical Accomplishments

Working together to embrace the rapid changes resulting from health reform we had to make some very difficult decisions that impacted our colleagues and friends in the form of reductions in force and the sale of businesses. These helped us achieve a small, net operating margin – slightly above breakeven – of \$5.0 million, or 0.25% compared to our fiscal year 2012 budget of \$34.1 million and 1.5%. Additionally, this year's total operating margin is \$53.4 million compared to a budget of \$57.4 million. Keep in mind that our total operating margin, which includes losses/gains on investment income, is generally higher than our net operating margin simply due to how our investments perform in the stock market.

While significantly lower than our budgeted fiscal year-end operating margin, a financial surplus allows us to re-invest in people (contributions to our pension plan, our health, welfare and benefits programs and the new hires required to take great care of patients), the latest technology for the latest breakthrough in the delivery of

Operating Margin Trend: FY08 – FY13B



- Operating margin at the Medical Center has dropped from 4.4% in FY08 and 5.2% in FY09 to under 1% in FY12; FY13 is targeted to grow to 2%

care and the capital required to keep our facilities in top-notch shape, or to expand our health care services throughout our communities. Importantly, our financial performance supports the continuation of our journey toward economic sustainability as we face the significant headwinds of change in the years forward. I know that you will agree that as long as there is a healthy UMass Memorial, there is a healthy Central New England community.

Specific to the Medical Center where we faced a \$50 million financial gap earlier in the year, by reducing and/or closing programs in services with declining volumes, executing staff reductions that included managers, mid-level union and non-union staff and maximizing revenue opportunities such as improved documentation to name just a few of the contingency efforts, the fiscal year end net operating margin is also slightly above breakeven -- \$12.2 million compared to the fiscal year 2012 budget of \$48.4 million.

Performance Stats FY2012

- **56,624 total discharges**
- **14,794 total inpatient surgeries**
- **25,480 total outpatient surgeries**
- **273,380 total emergency visits**
- **717,491 total ambulatory visits**
- **4,887 total deliveries**

Coupled with our positive net operating margin are many clinical accomplishments across our system. We continue to deliver high quality, safe care with compassion every day -- even during one of the most tumultuous and challenging fiscal times in the recent history of UMass Memorial Health Care. Your focus, dedication and determination enabled us to make changes necessary that create the financial sustainability foundation upon which we will build over the coming years.

The Road Ahead

Without a continued, aggressive focus on providing affordable care, we know that our operating margin will be threatened for the foreseeable future. Over the next ten years, our health care system needs to plan for and implement about \$524 million in revenue cuts from government payers. This represents all the reductions already passed into law under the Affordable Care Act, Sequestration, bad debt payments and coding adjustments. That's a significant number of cuts for a health care system of our size. It is also why a

relentless emphasis on quality, a focus on the needs of our diverse communities, working collaboratively as a system and planning for the future were all critical parts of securing our financial future in fiscal year 2012. And, a "shared sacrifice" by our Worcester-based union and non-union staff to maintain wages and benefits that are competitive with the market place was, and remains, a vital ingredient for the ongoing financial health of our organization.

While I would like the environment around us to be less overwhelming, it also is an opportunity to continue to focus our collective efforts, resources and energy on the strong and healthy future we are in charge of creating. Building from a position of good financial health, we will continue to limit unnecessary expenses and take advantage of the strengths of our comprehensive health care system. We will do this because we have an incredibly strong team of physicians, clinicians, administrators and support staff at UMass Memorial Health Care.

To that end, and as I noted in my previous CEO Newsletters, our leadership team will continue to partner with every aspect of our organization to:

- Continue our transformational change efforts through the Inspired Change Execution Initiative by streamlining our operations to improve efficiency, effectiveness and ensure a positive patient and staff experience. This work will continue with our McKinsey Worldwide and Deloitte partners into at least our next fiscal year.
- We will continue to review services and programs throughout the system to assure that we are offering care in the right setting, building strong relationships with community-based practitioners, investing in programs where we add the most value to the community and ensuring that we are not unnecessarily duplicating services.
- Consistent with the goals of our health insurers, we will consider new quality metrics that focus on outcomes and the delivery of care that meets both high-quality standards and is cost effective. One

such example of this work is our January 1, 2013, implementation of the Blue Cross/Blue Shield Alternative Quality Contract.

- As we meet at the negotiating table with our last Worcester-based union partner yet to commit to the “shared sacrifice” already undertaken by all of our other Worcester-based union and non-union staff -- *Massachusetts Nurses Association at Memorial/Hahnemann and University* -- we will help them understand our fiscal realities and ask that they collaborate with us as we work to become more affordable for our patients.

There is much to do, but much has been accomplished. We have all the ingredients for success. We will be successful because the more than 4,000 patients we care for every day are counting on us to provide high quality, safe care more affordably now and well into the future.

I encourage you to learn more about our “case for change” and our efforts to deliver high-quality, safe care more affordably by visiting www.umassmemorialchange.org. Watch my new videos on pension reform and mandatory staffing ratios.

Thank you on behalf of our Board of Trustees and our senior leadership team for the part you played in supporting Central New England by delivering truly first-class health care this year. I hope you are proud, as I am, of your work every day.

Along with my personal appreciation, please accept my very best wishes for a happy and healthy holiday season.