

At a Town Hall meeting on Thursday, April 14, at 10:30 a.m., Paul Taheri, M.D., chief executive officer, and Fred Borrelli, chief administrative officer, met with employees at 300 George St. to discuss the situation.

Following are questions and answers from that meeting.

This is a cut to the hospital—why is it having such a big impact on YMG?

This problem started with a recent state Medicaid funding cut to the hospital. The state of Connecticut, which has been battling its own financial crisis, has been exerting substantial negative financial pressure on both hospitals and medical practices, particularly at Yale, for more than a year. These revenue reductions can only be absorbed for some time, and now, unfortunately, these cuts are going to have major impact on our programs and our people.

The recent funding reduction to YMG is a serious problem for our clinical practice because we rely primarily on two sources of revenue:

- Money from payers, including private insurance companies and government sources such as Medicaid
- Income from a shared services agreement with YNHH of about \$235 million. YNHH's \$18 million reduction in this contract with YSM amounts to a 7 percent cut across all clinical departments with a \$1.8 million cut to YMG alone.

In addition, Northeast Medical Group (NEMG), is canceling a \$7 million billing services contract with YMG as it struggles with budget problems of its own. Together with the cut from the hospital, this brings the annual impact to YMG to \$8.8 million—roughly 12 percent of YMG's operating budget for FY 2017. Cumulatively the overall school reduction is approximately ~\$25 million. This is simply too great a revenue reduction in a single budget year.

The practice has been doing well. Why is this happening so suddenly? And why is this causing problems at a time when the practice is growing?

The issue is not with the practice, but with the state funding reduction, and it's twofold. The first problem is the absolute magnitude of the recent cuts—while all hospitals were affected, the Medicaid funding cuts to YNHH and Hartford Hospital, the state's two largest hospitals, were disproportionately negative. The second is the speed at which health care in Connecticut has been changing in the last year and at which this particular decision was made. YMG has been working diligently at clinical optimization and careful budgeting, but there was no way to predict such significant cuts to our medical center at this level and at this pace.

There have been other threats in previous months. Senate Bill 281 for "site-neutral" reimbursement policies, which was proposed in March, could have led to a different

scenario that would have resulted in additional losses in revenue and up to 150 layoffs. Senate Bill 281 would have had a serious financial impact on YMG. The bill died in committee, but could resurface in the next legislative session. It has no connection to the current situation.

How will the funding cut impact jobs at YMG?

YMG is largely comprised of people—in fact, 70 percent of our costs are people, including 400+ managerial and professional (M&P) and clerical and technical (C&T) employees. Given that YMG's expense base increases are at a disproportionate rate to our revenue due to our high labor expenses, a revenue disruption of this magnitude will have major impact on our operations and people.

In the event of layoffs or other job reorganization, it's important to know that each area of the practice is different and not everyone will be impacted in the same way. Reductions will be addressed through a combination of freezing vacant positions, pursuing opportunities for revenue enhancement and changing workflows, in addition to some layoffs. We will make all decisions judiciously, with sensitivity and respect for everyone involved.

What are YMG's plans to reduce the impact on jobs?

We are looking at every opportunity to improve efficiency and to identify new revenue streams. Our clinical optimization team continues to work to enhance practice experience and patient workflows clinic by clinic. This team has made noticeable improvements in several areas and will continue this work throughout the practice. Through gains in efficiency we can help grow our way through these reductions.

In addition, we're pursuing such initiatives as reducing physician bump rates, assessing overtime usage and collecting more copays at time of service. Meanwhile, we are looking at better rates for such services as IT support, and new revenue opportunities in internal medicine, pediatrics, psychiatry, the Yale Cancer Center and across the practice. We are reducing our non-salary expenses, which are mostly related to space, IT and other fixed costs, by approximately \$3 million.

YMG is also optimizing space. This includes exploring whether certain employees can work from home, in addition to looking at consolidated space options from a long-term perspective. We are meeting with managers and staff to brainstorm and identify additional solutions. All of these things are helping and will continue to help.

What is the time frame for making these decisions?

Our new fiscal year starts July 1, so we must develop and implement plans by mid-May. We understand that everyone needs to know the plan as soon as possible, just as YMG needs to make any changes necessary to balance its budget by July.

Can we negotiate with YNHH to avoid the funding cut they are passing along?

While the latest state funding cut demonstrates the close relationship between the hospital and the school, YNHH and YSM, are separate organizations with distinct governance structures, leadership structures, employment status and economic structures. It's true that our two organizations have come a long way toward being true peers, and the hospital cannot function without our doctors. We can assure you neither the hospital nor the school are desirous of making these reductions, and we have been in constant communication, but despite our desire to mitigate the impact of these cuts, we simply do not have the financial position to proceed without change.

Can YMG tap into its own reserves?

The answer is no. As a nonprofit, YMG does not generate surpluses from operations. We are a cost center using clinical department dollars. We provide services that we charge for, but we charge out what those services effectively cost us. At the end of a given fiscal year, we balance our budget, and any surplus is given back to the departments to support the growth of new clinical programs, as well as departmental research and education activities.

Can Yale University help with medical school funds or the university endowment?

Again, unfortunately, the answer is no. As a clinical operation, we are expected to fund our own activities, which in turn help support YSM's teaching and research missions. That is the funding model at YSM and at medical schools across the country.

The university spends as much as it reasonably can from the endowment each year to support operations, student financial aid, departments, and current scholars, all while preserving purchasing power for future generations.

YMG is still growing rapidly. Doesn't it need people to support that growth?

It's true that we are attracting more patients every year, even as our revenue is being strained. We will continue to invest in ourselves to support these patients. This is a balancing act: How do you grow a practice when you are getting fewer dollars for services? We are going to have to develop new ways of doing things that are more efficient and effective. We have intensified our lobbying efforts at the state level and will continue to do this going forward. This a challenge, and it's one that isn't going to go away in this new age of health care.

How will Yale support its staff during the layoffs?

- Unionized C&T staff receive 90 days' notice of layoff and continue to work in their existing jobs during that time while looking for alternative positions at Yale. Employees who are notified of layoff receive priority over other

candidates in their job search. If they have not secured a regular position within the 90 days, they then may elect a benefit of up to 15 months, sometimes extended to as much as 22 months, of employment in an Interim Employment Pool, with the duration of the benefit depending on years of service and the number of staff in the Interim Employment Pool. During both the 90 days' notice and Interim Employment, staff continue to receive full pay and benefits.

- While in Interim Employment, these staff members are assigned to temporary positions and encouraged to interview for other jobs at the university, with the goal of placement in another position within three months. In addition, a team of union members provides job counseling and placement support. In recent years, the university and union have collaborated on improvements to the placement process for laid-off staff. Eighty percent of staff who enter the Interim Employment Pool and seek re-employment find another position within their benefit period.
- Unionized staff members who prefer to leave the university upon layoff may opt instead for either a training grant or salary continuation. Salary continuation provides one week of salary for each year of service for employees who are employed more than three years. Benefits are also continued based on years of service. Employees who elect salary continuation are given priority among job applicants if they choose to seek alternate employment at Yale. The training grant may be applied toward practical or academic training and, depending on service, its value ranges from one to six months' of salary.
- Managerial and professional staff receive 90 days' notice of layoff, and they also continue to work in their existing jobs during that time. They receive salary continuation equal to 2 weeks per completed year of service except that this salary continuation shall not be provided to a staff member with less than three (3) years of continuous service at the effective date of the layoff if they were hired into a fixed duration and notified of such at the time of hire or transfer. *Note: We are also working on an arrangement with an outplacement firm to provide additional support to M&Ps but these details are not finalized.*