Adventist Health/U.S. Dismantles System, Forms New Association

by Jay Greene

On April 1, 1990, members of AHS/US (church leaders and hospital officials) voted to disband AHS/U.S. in an effort to contain legal risks and increase mangement efficiency. Administration of the System's 68 hospitals and healthcare entities will now rest solely at the regional level.

This move followed the March 1989 recommendation of the Financial Review Commission appointed by General Conference officers to study church business. The AHS/U.S. voted the recommendations on February 15, 1990. The following is an article reprinted from Modern Healthcare *detailing the disbanding.*

—The Editors

After an eight-year experiment, Adventist Health System/U.S. is dismantling its national multihospital system and has formed an association that will have no authority over the 64 hospitals sponsored by the Seventh-day Adventist Church.

Under the plan, Adventist's four divisions will become autonomous bodies with as yet unspecified powers over hospitals within the regional groups, said Donald W. Welch, president and chief executive officer of AHS/U.S.

The restructuring is intended to reduce corporate overhead expenses and management fees paid by hospitals and remove legal and debt liabilities from the church, Mr. Welch said. It was recommended after a two-year review by a church task force, he said. Hospitals pay corporate management fees based on a per-bed cost, which was unavailable.

Adventist Healthcare Association, the scaled-down hospital organization, will move its headquarters some time this year to Silver Spring, Maryland, from Arlington, Texas, after an executive director is named, Mr. Welch said.

The new association will continue to operate Adventist's purchasing and risk management programs, which will remain in Arlington, Mr. Welch said. With a handful of exceptions, most hospitals participate in the programs, he said.

The association also will provide mission, philosophy, and educational services to hospital members, he said.

AHS/U.S. operates 64 hospitals with 10,808 beds in 27 states and the District of Columbia, making it the nation's sixth-largest system, according to *Modern Healthcare*'s 1989 Multiunit Providers Survey (*MH*, May 26, 1989, p. 27).

AHS/U.S. reported a net loss of $7.9 million on revenues of $2.3 billion in 1988, compared with net income of $4.4 million on revenues of $2.1 billion in 1987, the survey said. No financial information was available for 1989.

Final approval of the plan is expected to occur at an April 1 meeting of the General Conference of the Seventh-day Adventist church, Mr. Welch said.

Mr. Welch, 62, who has been AHS/U.S.'s only CEO since it was formed in 1982, also said he has resigned to become president and CEO of 185-bed Huguley Memorial Medical Center, Fort Worth, Texas, effective April 10.

Two other Adventist executives, Edward Reifsnyder, senior vice president for finance, and

Roger Rieger, vice president for capital finance, have also resigned.

Analysts who have followed Adventist's attempt to build a national system were disappointed but not surprised with the restructuring.

"With such an enormous organization, it's easy to see how it was an extremely difficult undertaking to truly manage it on a centralized basis," said Glenn Wagner, director of municipal research at Mabon, Nugent & Co., New York.

"It's disappointing that a system this large couldn't muster its resources for the common good," Wagner said. "From an operational standpoint, it may be better to retain local control."

The restructuring primarily eliminates AHS/U.S.'s reserved powers, which include strategic planning and capital financing. Those powers probably will be transferred to Adventist's divisions, said Mr. Welch .

One reserved power had permitted Adventist/U.S. to review and approve capital expenditure requests for more than $5 million, but that threshold is expected to drop to $1million or $2 million, according to Mr. Welch.

"The association will have the power to review decisions and make recommendations but not change decisions," he said.

During the past two years, AHS/U.S. and its divisions have been decentralizing operations to help reduce corporate overhead costs.

For example, last year, Adventist reorganized its largest division to give its six regions and 30 hospitals more autonomy (*MH*, April 28, 1989, p. 5).

One Adventist hospital executive in the Midwest, who asked to remain anonymous, said he expected AHS' largest division, North Eastern and Middle America, to break up into two or three separate divisions. NEMA, which had been three division in the early 1980s, spans states from Maine to Colorado.

Mr. Welch said there have been informal discussions about reorganizing divisions to better reflect common geographic interests.

Earlier this year, a five-hospital group now called Hinsdale (Ill.) Health System spun out of NEMA to form its own obligated division, which is part of the church but not AHS/U.S. (*MH*, Jan. 15, p. 6).

Last year, AHS/U.S. also phased out its retirement center management company and hired Dallas-based Retirement Corp. of America to manage 10 of its 13 retirement centers (*MH*, May 19, 1989, p. 11).

Adventist will continue to operate its own purchasing program, but it will develop an information system to monitor purchasing volumes and product lines, Mr. Welch said.

AHS' risk-management program, which began in 1974, is a self-insurance trust that covers most of Adventist's hospitals, Mr. Welch said. AHS provides as much as $5 million in professional liability and malpractice insurance coverage for its hospitals. AHS buys excess insurance above that amount up to $100 million, he said.

Mr. Welch said the 27 risk-management employees and eight purchasing employees are unaffected by the corporate restructuring.