The Healthcare Tipping Point: Let’s Talk Strategy

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What About Strategy in This New World?

• Shopping patients with these options:
  – $400 MRI’s through Walmart
  – Teledoc e-visits for $40
  – Apple app medical record tied to an app that monitors bio-metrics and keep them out of the doctor office
  – Cloud based care managers

• $15B - $50B regional health systems that span multiple states

• 80% of payment from Government and driven by a government moving to value and risk based reimbursement
2018 - 2020: The Tipping Point

- Federal, State, and Private Payment Change
- Benefit and Insurance Model Change
- Exploding Medical Technology, Pharma & Genomics
- Enabling Consumer Technology Acceleration
- Aging Demographics Driving High Demand
The BIG Questions Providers Are Asking

1. Demand and costs are escalating, payment isn’t -- How can I cut costs while ensuring quality?

2. Will payment really change to risk based models? Should I take the risk?

3. Am I too small to survive?

4. Who will disrupt me next?
Demand and Costs are Escalating; Payment Isn’t

How can I cut costs but preserve quality?
ACA Reduced Uninsured by 22 Million

US Adult Uninsured Rate

Q3 2013: 18.0%

Major ACA coverage expansion provisions took effect January 1, 2014

Summer 2016 uninsured rate of 8.6% is the lowest in US history

Source: Gallup, HHS
And Commercial Premiums Keep Going Up
Now 5X the Cost of 1995

Employee portion: 42.5%
Employer portion: 57.5%

Source: Milliman Medical Index
July 27, 2017

“The American people have decided healthcare is a right.”

David Brooks, New York Times Journalist speaking on the PBS NewsHour
“Once everyone’s in the system, one of the challenges is, how do you pay for it all? ... the focus becomes on cost.”

Ezekiel Emanuel, ACA architect, bioethicist, oncologist and author, as quoted in the Washington Post
So Let’s Do Some Math
What We Spend Today:
$3.35 Trillion
17% of GDP; with 26M Americans Still Uninsured

- $10,345 per person in 2016
- $862.08 per person per month
- $41,380 family of four
- $3,448.33 per month

Source: CMS
What It Might Cost With Everyone In The System

• 26M more Americans X $10,345 per person = $270B per year
  – 2016 uncompensated care = $36B (AHA)

• So $3.6 Trillion

• Inflate by 5%. In 2028: $7.8 Trillion
Aren’t Medicare Enrollees Already Paying? No. They Only Pay in 1/3 of Their Costs.

Average Medicare Couple Takes Out $357,000 in Care (2011)

Pay in $119,000

Excess Payout: $238,000

$450,000

• $31.5T to pay for Baby Boomer
So How Does Government Pay?
U.S. Strategy is Debt. Can Government Just Add More Debt?

Source: St Louis Federal Reserve
Expense Growth Rates Still Too High

Expense Growth Rates for Non-Profit Hospitals

Source: Moody’s Investor Service.
2018 - 2020: The Tipping Point

- Aging Demographics Driving High Demand
- Exploding Medical Technology, Pharma & Genomics
The Nation is Moving to 58% Medicare, 73% Government Payer Mix by 2022

Source: CMS

2012 2022

Self Pay
Commercial
Medicaid
Medicare

Source: CMS 2013 Annual Report; Kaiser Family Foundation 2016
ACA Cuts Continue… $Billions

Reductions to Medicare Fee-for-Service Payments

- 2013: $(4B)
- 2014: $(14B)
- 2015: $(24B)
- 2016: $(29B)
- 2017: $(38B)
- 2018: $(54B)
- 2019: $(67B)
- 2020: $(76B)
- 2021: $(86B)
- 2022: $(94B)

Source: CMS
Reform Reality: All Roads Lead to Less

Strategies to Survive:

– Radically reduce cost structure
  • Labor and supply costs
  • Minimize unnecessary clinical variation
  • Fixed cost re-structuring and alignment, especially inpatient

– Consolidate to get scale

– Partner with providers to design an optimal network
Will Payment Models Really Change?
Should I Take the Risk?
Follow the Money: Who Will Drive Payment Change?

Your Biggest Payer: The Government (Not the Blues)
“The fee for service reimbursement model as we know it today is dying quickly; we just don’t know the date of the funeral yet.”

• Rich Umbdenstock (Former AHA President & CEO)
Payment is Moving to More Risk: But Pace Uncertain

**Pay for Performance**
- Hospital Value Based Purchasing
- Hospital Readmissions
- Hospital Acquired Conditions
- MD MIPS

**Bundled**
- Hospital Value Based Payments for Care Improvement (BPCI)
- MD APM

**ACO/ TCOC Shared Savings**
- ACO MSSP Track 1 (50% shared)
- Total Cost of Care- TCOC with commercial

**ACO Shared Risk**
- ACO MSSP Track 2 (60% shared)
- ACO MSSP Track 3 (75% shared)
- Next Generation ACO (80-85% shared)

**Full Risk**
- Next Generation ACO full risk option
- Capitation/ Global
- Provider sponsored Medicare Advantage Plan
Most Providers in ACO’s: Still No Real Risk
16% of Medicare Enrollees in an ACO

Medicare Risk Models

- MSSP Track 1
  - Option to renew for second three-year team
  - Savings rate kept at 50% for second term

- MSSP Track 1+
  - Envisioned as new on-ramp on Tracks 2 and 3
  - Offers limited downside risk

- MSSP Track 2
  - Shared savings, loss rate remains at 60% based on quality performance

- MSSP Track 3
  - Shared savings up to 75% shared losses from 40% - 75% based on quality performance
  - Risk arrangements include 80%-85% sharing rate or full performance risk

- Next Gen ACO

43% of ACO’s say they would drop out if CMS required them to assume risk.

439 Participants Coming in 2018
6 Participants
36 Participants
45 Participants

Source: CMS, Becker’s Hospital Review; National Association of ACOs Survey* A subset category so doesn’t add to 100%
Expecting Bundle Expansion in Future

Episodic Cost of Care for Most Commonly Selected Optional BPCI Bundles

- Simple pneumonia and respiratory infections: 54% savings, $21,420
- COPD bronchitis asthma: 57% savings, $20,590
- Sepsis: 46% savings, $28,130
- Cellulitis: 59% savings, $19,230
- UTI: 64% savings, $22,200

11 out of the 15 clinical episode groups analyzed showed potential savings to Medicare

Source: CMS
Kentucky Hospitals Lower Quality But Higher Cost Compared to National Averages

Source: MHA

Value Comparison by State, All Medicare Spending vs. Overall Quality Score (updated 01/16)

Minneapolis hospitals have high quality, low cost

Source: MHA

MedTrendInc.
INTELLIGENT STRATEGIES
The Bet Hospital Systems Are Making:

Payment Will Go to Full Global/ Capitation...

Participants in downside ACOs went from 40 in 2016 to 87 in 2017: 117% increase

Source: CMS
MN Learnings on Risk

1. It’s lives, not beds that matter
2. Data integration and interoperability
3. MD led clinical pathways
4. Specialty and hospital capacity +10-20%
5. Payment alignment key
6. Go too fast and you will get burned
New Provider Owned Plans Not Getting Traction

• Robert Wood Johnson 2017 Study

• Since 2010, of 37 new provider owned plans and 5 acquired plans:
  – Only 4 were profitable;
  – 5 went out of business;
  – 2 are being sold.
CMS Payment Direction

- FFS
- Site specific
- Per unit based

- Value based
- Site neutral
- Bundled/Episode/Shared Risk
Am I Too Small To Survive?
### A Super-Sized Healthcare Industry

#### Insurance Companies
- UHG: $147B
- Anthem + Cigna: $115B
- Aetna + Humana: $115B

#### Hospital Companies
- HCA: $39B
- Tenet: $18B
- Community Health: $19.5B

#### Pharma Companies
- Johnson and Johnson: $70B
- Amgen: $22B
- Merck: $40B
- Pfizer: $48B

#### Retail Pharma Companies
- CVS: $146B
- Walgreens: $103B
- Walmart: $485B
69% of Hospitals in a System

% of Hospitals with a System Ownership

Source: MHA, AHA
Scale Will Win:
2025 Provider Landscape Dominated by 100 Super Regional Mega Systems

- National Mega System ACO
- $10B+ of Revenue
- 30+ Hospitals
- 300+ Clinics

SIZE

ABILITY TO MANAGE RISK
LOW

Independent Hospital

Standalone AMC

Small IDN

National Mega System ACO
5 Days the Changed the Healthcare Marketplace?

• December 3, 2017
  • CVS Health announces it is acquiring Aetna and its 47M members for $69B.

• December 4, 2017
  • Advocate (Illinois) and Aurora (Wisconsin) agree to merge creating the 10th largest non-profit system
5 Days the Changed the Healthcare Marketplace?

• December 6, 2017
  • United HealthGroup announced acquisition of DaVita for $4.9B (DaVita has 300 clinics in 6 states, 35 urgent care clinics, 6 outpatient surgery centers.)

• December 7, 2017
  • Dignity Health (CA) and CHI (CO) announcer merger: 139 hospitals, 700 care sites, 25K doctors in 28 states.
But Wait... There’s More

• December 10, 2017
  – Wall Street Journal reported that mega-systems Ascension and Providence St. Joseph are in merger discussions. Would result in **largest** US healthcare system with 191 hospitals operating in 27 states, with $45B in revenue.

• December 19, 2017
  – Humana announced acquiring Kindred Healthcare home health, hospice.
Why?

• “Integrated care delivery to improve value”
• “Transformative platform for the future”
• “Accelerate change from sick care to well care”
Pressure building on rural hospitals

“Rural hospitals are facing one of the great slow-moving crises in American health care.”
- Anna Gorman, Kaiser Health News, April 2017

• Rural demographics point toward:
  – More residents covered by Medicaid.
  – More residents covered by Medicare who tend to be older and need more complex/specialty care.
  – Fewer employers offering health coverage.
# The Strategy Box

## A Two Track Approach Today

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<thead>
<tr>
<th>System Based</th>
<th>Independent</th>
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<tbody>
<tr>
<td>Metro</td>
<td>Rural</td>
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<td>Large IDN’s</td>
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<th>System Based</th>
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<tr>
<td>Betting on ACO/ accountable payment models</td>
<td>Mostly betting on CAH payment models through 2020</td>
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<tr>
<td>Focus on commercial payer strategies: ACO, narrow network</td>
<td>Wait and see on ACO</td>
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<tr>
<td>Investing heavily now in population health, care re-design, risk management, data integration and analytics</td>
<td>Little commercial experiments</td>
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<tr>
<td>Major focus in cost reduction, while improving quality</td>
<td>Investing in MD recruitment, MD integration, service line growth, new service development</td>
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<tr>
<td>More competitive marketing for lives</td>
<td>Focus on quality #1,</td>
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<td></td>
<td>Cost reduction important given BCBS</td>
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Who Will Disrupt Me Next?
Consumer’s Now Know We Are Expensive and Costs Vary Widely

What Matters to Consumers When Purchasing Health Products or Services?

- Price: 82%
- High Quality Ratings by...: 64%
- Quality Ratings by Govt...: 47%
- Word of Mouth: 42%
- Brand name: 35%
Do you believe hospitals are transparent about the prices of services they provide to patients?

- **YES**: 13.30%
- **NO**: 63%
- **Don't Know**: 24%

Source: NRC Market Insights Study 2015
% of Americans Who Trust the Medical System a Great Deal/Quite a Lot

1975: 80%  
2017: 37%

Source: Gallup
Corporate Players the New Disrupter?

- Walmart + Humana
- Clinics: Walmart, Walgreens, CVS
- Tele-health: Virtuwell, Amwell, etc.
- Urgent Care Companies
- Optum – Data + Insurance + Doctors
- JPMorgan + Buffet+ Amazon
- Amazon– medical supply chain
- Microsoft– employing 400+ doctors
- Apple – building medical records
- IBM- Dr Watson
Private Equity In Love With Healthcare

• 2016 $36B
• Huge amounts of money looking for a home
• Safe haven investment in times of economic downturn
• Tele-medicine, retail clinics, urgent care
• Now hospitals and doctor groups
  – MN Eye
  – Northwest Anesthesia
  – Jewish Hospital, Louisville
  – Hartford HealthCare
## Disruptive Consumer Innovations Growing

<table>
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<tr>
<th>Inexpensive rapid care at a ‘provider’ site</th>
<th>Retail Clinics</th>
<th>Physician hailing</th>
<th>Remote diagnosis and link to clinicians</th>
<th>Patient apps for condition self-management</th>
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<tr>
<td>SmartChoice MRI</td>
<td>Walgreens</td>
<td>Pager.com</td>
<td>Opternative: iPhone eye exam, email Rx</td>
<td>Iodine’s Start App: Tracks depression symptoms and drug efficacy</td>
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<td>Right Care</td>
<td>CVS Health</td>
<td>Heal</td>
<td>Google contact lens: glucose monitoring</td>
<td>OneDrop: diabetes tracker</td>
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<tr>
<td>PediaQ</td>
<td>Wal-Mart</td>
<td>Dispatch Health</td>
<td>EpiWatch: predicts seizures</td>
<td>ACC’s: Stain intolerance self-checker</td>
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<tr>
<td>Mend</td>
<td></td>
<td>MedZed (pediatric house calls)</td>
<td>MoleMapper: cancerous mole screening</td>
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<tr>
<td>OrthoNow</td>
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<td>$3.9 Billion Venture capital funding for digital health, first six months of 2016</td>
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New Competitors?
Outsiders Salivating at the Opportunity in Healthcare

• Amazon invading the traditional medical supply chain business to squeeze out waste

• “Our balance sheet is so strong, there is low risk to Amazon to try lots of disruptive services in healthcare. If even one idea sticks, the upside opportunity is enormous.” Former Amazon Executive
New Competitors?
Outsiders Salivating at the Opportunity in Healthcare

• Apple encouraging everyone to own their own medical record

• Apple the standard bearer for the standard- Fast Healthcare Interoperability Resources (FHIR)

• Consumer driven demand from Apple’s app

• Changes the game of HER interoperability
• Will it work??
Requirement to Change Non-Negotiable

Get Efficient
Learn How to Take on Risk
Improve Quality
Providers with Superior Value

How do payers and employers see you versus competition?

REGARDLESS OF PAYMENT MODELS, VALUE PROVIDERS WILL WIN!

Diagram:
- Costs per Episode/ Surgery/ Admission
- Overall Quality Score
- Sweet Spot

State Average
“You can always count on Americans to do the right thing when they’ve tried everything else.”

Winston Churchill
"You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future."

Steve Jobs
1955-2011

“Stay hungry, stay foolish.”