Embracing Disruptive Change

Redefining traditional roles amid a radically restructuring market

How did we get here?

Presidential candidates endorsing Medicare for All, 2016

Presidential candidates supporting some version of "Medicare for All," 2020

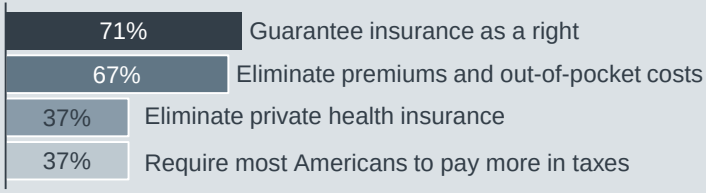
Others running on health care as a central issue

Public support for Medicare for All

56%

Survey respondents who favor a national health plan in which all Americans would get their insurance from a single government health plan

…if it would do the following



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Source: Kirzinger A et al., "KFF health tracking poll – January 2019: The public on next steps for the ACA and proposals to expand coverage," Kaiser Family Foundation, January 23, 2019; Health Care Advisory Board interviews and analysis.

Unaffordability is the biggest catalyst of all

Consumers and policymakers grapple with unsustainable cost trajectory

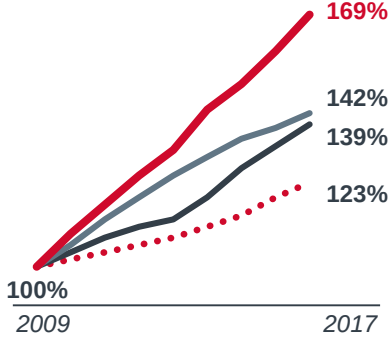
Consumer unaffordability

Government unaffordability

$1,350 Average deductible among covered workers in 2018 for single coverage

Cumulative increase in spending

Indexed to 100% in 2009



2026 Estimated date by which Medicare's **trust fund will be depleted**, 3 years earlier than previously expected

Expiration of ACA rate adjustment in 2019 means higher rate increases—and worsened budgetary problems for CMS

+3.2% Estimated **payment rate update in FY 2020** if IPPS rule is finalized as proposed

1) Projected for 2017.

Source: "Wage Growth Tracker," Federal Reserve Bank of Atlanta, May 9, 2019; Kamal R, Sawyer B, "How much is health spending expected to grow?" Kaiser Family Foundation, March 12, 2019; Girod C, et al., "2018 Milliman Medical Index," Milliman, May 2018; "2019 annual report of the boards of trustees of the federal hospital insurance and federal supplementary medical insurance trust funds," April 22, 2019; Health Care Advisory Board interviews and analysis.

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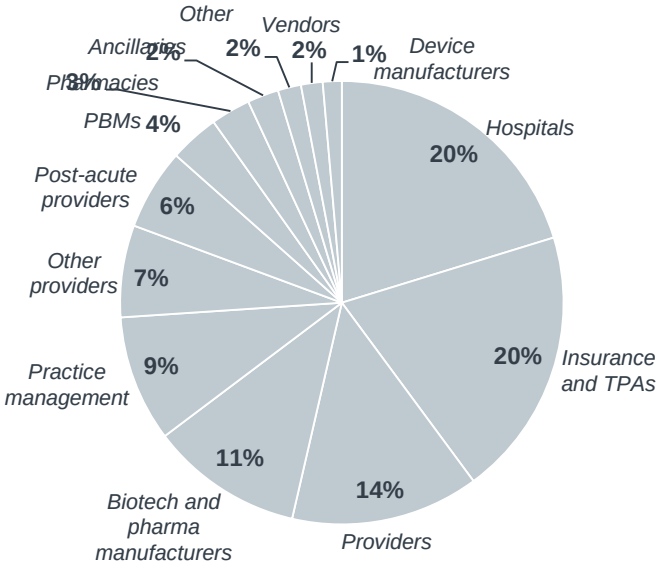
Usual suspects in the line of fire

Share of profits in health care industry[1]



Who's feeling the heat in 2019?

Competitive, purchaser, and/or policy uncertainty

Hospitals

Insurance and TPAs

Biotech and pharma

PBMs

Stable, winning favor

Providers

Practice management

1) From last year of available data for each sector; IBISWorld industry reports.

Source: "IBISWorld industry reports," IBISWorld, 2016-2019; Health Care Advisory Board interviews and analysis.

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On the cusp of something big?

Two questions for health care leaders to consider:

1

How far will purchasers go to attain affordability?

- Rise of top-down spending controls
- Facilitation of consumer-led shopping
- Refinement of provider-facing risk models

2

How will the delivery system respond to the affordability mandate?

- Resurgence of the autonomous provider
- Aggregation of single-specialty medicine
- Segmentation of primary care

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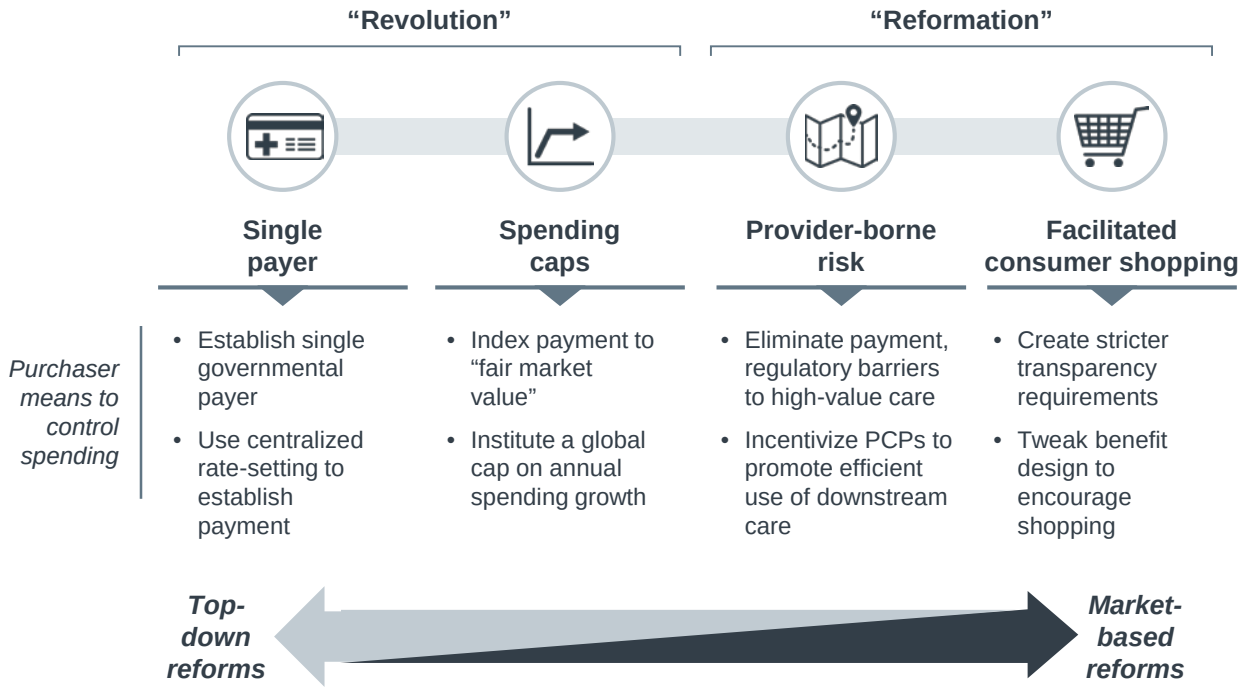
Source: Health Care Advisory Board interviews and analysis.

Thank you, next

Purchasers ramping up across two types of strategies to control spending



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Source: Health Care Advisory Board interviews and analysis.

A clear threat to the cross-subsidy

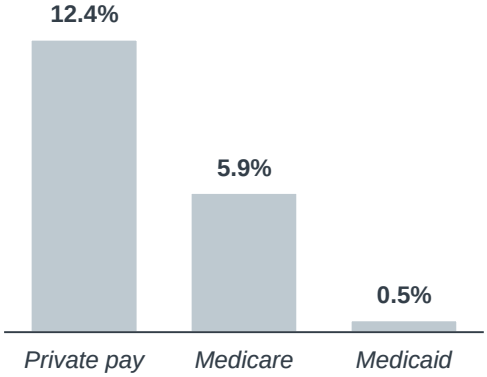
Medicare for All proposal would entail large reimbursement shift

Employers shoulder an outsized share of health care costs

241%

Percentage that private health insurance pays hospitals compared to Medicare on average

Cumulative hospital price growth by payer segment (June 2014–February 2019)



Initial Medicare for All projections paint bleak picture for hospital finances

JAMA

(15.9%)

Projected **net decline in hospital revenue** as result of passage of Medicare for All

Navigant

(22%)

Projected **decline in net margin at model health system** as result of passage of Medicare for All

Source: White C and Whaley C, "Prices paid to hospitals by private health plans are high relative to Medicare and vary widely," RAND, 2019; "Health sector economic indicators: price brief," Altarum, March 15, 2019; Schulman K, "The implications of 'Medicare for All' for US hospitals," JAMA, April 4, 2019; Goldsmith J et al., "Medicare expansion: A preliminary analysis of hospital financial impacts," Navigant, 2019; Health Care Advisory Board interviews and analysis.

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Not giving up on market-based reforms altogether

Purchasers learning difficult lessons along the way

Facilitation of consumer-led shopping

1. **Financial risk without meaningful transparency only serves to enrage patients.**

2. **HDHPs are too blunt—and too limited—a tool to exert large-scale pricing pressure on the market.**

Refinement of provider-facing risk models

3. **Even under risk-based models, reimbursement and regulatory barriers often prevent providers from delivering high-value care.**

4. **Upside-only risk arrangements are insufficient to change longstanding practices, and likely to cost payers in the long-term.**

5. **Independent physician groups have been able to pivot to risk-based models more successfully than hospital-based organizations.**

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Source: Health Care Advisory Board interviews and analysis.

Health care hardly a functional consumer market

Revisiting the prerequisites for shopping—and their absence in health care

Necessary conditions for shopping

Necessary condition	Description	Current state in health care
 **Choice**	Meaningful variation in price and/or quality	✓ Significant variation between new and existing players
 **Transparency**	Ability to compare between different options that are available	✗ Reviews increasingly accessible, but price comparisons remain elusive
 **Financial responsibility**	Consumer has financial stake in purchasing process	✗ Incentive to shop limited to services under deductible; coinsurance impact limited

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Source: Health Care Advisory Board interviews and analysis.

A renewed push for meaningful transparency

Federal government looks to mandate transparency

Regulatory actions on health care transparency in 2019

Finalized

CMS builds app-based out-of-pocket cost calculator for Medicare procedures and drugs; procedure price lookup tool

Hospitals must post list prices online as of January 1, 2019

Drug makers required to disclose list prices in TV ads for prescription drugs

Proposed

HHS has solicited comments on a proposal to require hospitals to **reveal their negotiated rates** with insurance companies

> If you're ashamed of your drug prices, change your drug prices. It's that simple.
>
> *-Alex Azar*
> *Secretary, HHS*

Source: Florko N, "Drug makers will have to include prices in TV ads as soon as this summer," Statnews, May 8, 2019; Health Care Advisory Board interviews and analysis.

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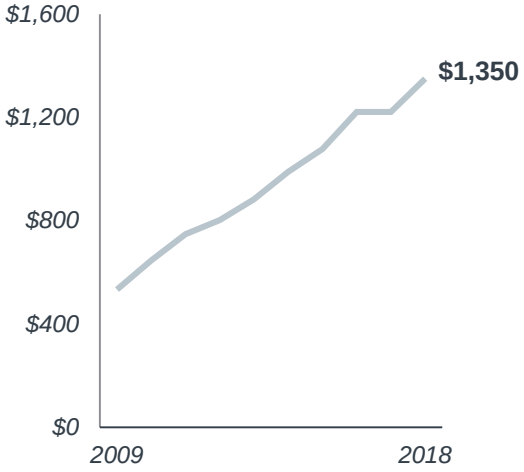
Employers have come around to HDHP limitations

Most employers now recognize shortfalls—and are looking beyond

Offloading more costs to patients

Average general annual deductible for single coverage, 2009-2018



Two major shortfalls of HDHPs

"Too blunt"

Leads to delays in care and reductions in utilization for all services below the deductible, including preventive care

"Too limited"

Does not encourage price shopping for services above the deductible, including many high-cost, "shoppable" services

Source: "2018 annual survey: employer health benefits," Kaiser Family Foundation, 2018; Health Care Advisory Board interviews and analysis.

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Targeting cost exposure at the provider level

Walmart evolving financial incentives to ensure COE use

Evolution of Walmart's Center of Excellence program

2013

Began **covering full cost of travel and treatment for care at a COE** location for heart, hip, knee replacement, and spinal procedures

2017

Started requiring employees to **cover 50% of the cost at a non-COE** location for spine surgery

2019

Now mandates that employees use a COE location for spine surgery or **pay the full out-of-network cost**

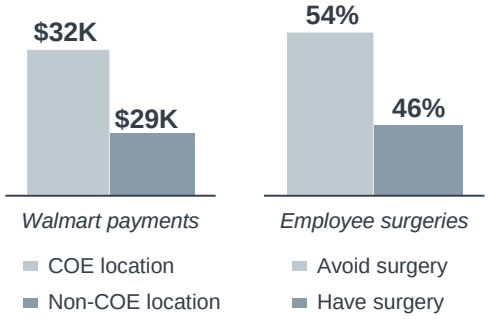
CASE EXAMPLE

Walmart

Retail corporation with 1.5M employees • Bentonville, Arkansas

- Starting in 2019, employees must use a Center of Excellence location for spine surgery or else pay the full cost at a non-COE location
- Since the program's inception, Walmart has expanded the number of COE locations to 15 health systems (including Mayo Clinic, Cleveland, Clinic, and Johns Hopkins) and expanded the number of surgical episodes it covers under the program

Savings come from combination of price and surgery avoidance



Source: Evans M, "Walmart, other employers get choosier about workers' doctors," The Wall Street Journal, April 4, 2019; Health Care Advisory Board interviews and analysis.

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Reorienting benefit design around value

Bind varies employee obligation by value of service

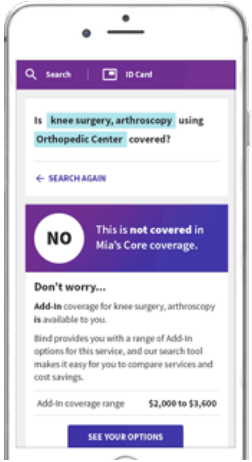
Core coverage

- Preventive care
- Primary and specialty care
- Urgent, emergency, and hospital care
- Chronic care
- Pharmacy needs

Copays range from $15-$500

Add-in coverage

- Plannable procedures not covered by core insurance
- Treatments with low efficacy and wide variation in prices for the same quality of care



Additional premiums & copays vary by member choice of provider

86%

Of consumers choose lowest cost provider when selecting add-in coverage

10%-15%

Savings for employers compared to original plans

75%

Of members have an account on Bind's portal

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Source: Health Care Advisory Board interviews and analysis.

Checking in on the alternative payment landscape

Pace of transition to risk highly variable across payer segments

Progression to alternative payment methodology

	Traditional fee-for-service	Pay-for-performance	Shared savings and bundles	Population-based payments[1]
Medicare Advantage	48%	2.5%	39.2%	10.3%
Original Medicare	10.5%	51.2%	33.8%	4.5%
Medicaid	67.8%	7.2%	20.8%	4.2%
Commercial	56.5%	15.2%	26.6%	1.7%
Total	**41.0%**	**25.4%**	**29.8%**	**3.8%**

1) Prospective PMPM payments, global budgets or full/percent of premium payments, and integrated delivery systems.

Source: "Progress of alternative payment models," HCP LAN, 2018; Health Care Advisory Board interviews and analysis.

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Verma: Stark reforms coming in 2019

Changes purport to eliminate barriers to care coordination

Likely Stark reform

Expand and standardize safe harbor protections beyond current waiver system in exchange for a willingness to participate in alternative payment methodologies

> [CMS reforms will] represent the most significant changes to the Stark law since its inception…It is our hope that these changes will help spur better care coordination and help support our work to remove barriers to innovation."
>
> *-Seema Verma*
> *Administrator, CMS*

Three strategic implications rise to surface

Competitiveness of compensation arrangements

How can new flexibilities to distribute incentive payments and shared savings payments between providers and hospitals drive closer alignment?

Shared investments with non-employed providers

What shared infrastructure investments can hospital systems make with independent providers to promote care coordination (e.g., data/analytics platform, support staff)?

New partnership opportunities with non-traditional groups

Are there opportunities for hospitals to work more closely with distributors, medical device, home health, durable medical equipment, and pharmaceutical manufacturers?

Source: "Remarks by Administrator Seema Verma at the Federation of American Hospitals 2019 Public Policy Conference," CMS, March 4, 2019; Health Care Advisory Board interviews and analysis.

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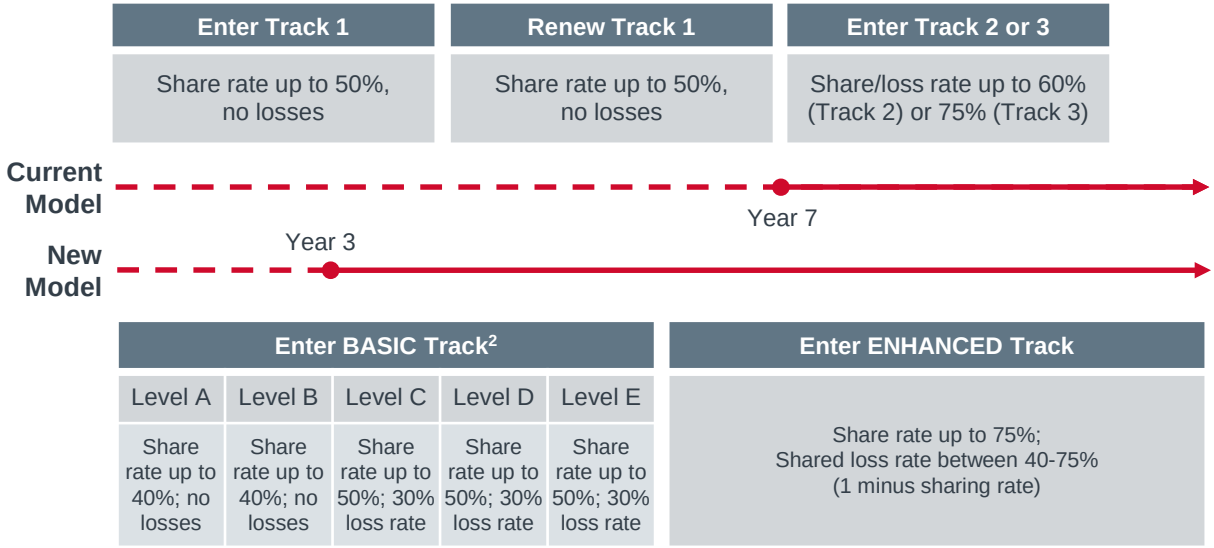
Pushing providers out of the shallow end

New MSSP[1] rule eliminates upside-only Track 1

Program overhaul reduces upside-only participation from six years to two

Illustrative participation pathways to maximize time in upside-only models



1) Medicare Shared Savings Program.
2) Previous Track 1 participants must begin participation at Level B; previous participants in risk-based models (e.g. Track 2, 3) may not participate in BASIC track.

Source: CMS, "Final Rule Creates Pathways to Success for the Medicare Shared Savings Program," December 21, 2018; Health Care Advisory Board interviews and analysis.

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Both public and private payers looking to providers

CMS creating tailored value-based care programs for providers

Refining existing ACO program

MSSP overhaul includes distinction between high- and low- revenue ACOs to create lower-risk participation option for physician groups

Creating new "Primary Cares" model

- Primary Care First track targeted to individual physician practices
- Direct Contracting track targeted to large medical groups, risk-bearing entities

Private payers creating closer relationships with providers

Employers promoting independent PCPs

PepsiCo Inc. waives all premiums for employees that agree to use one of three independent physician practices in the Dallas Fort Worth market

Health plans offer path to value

- **BCBS of MA** and Atrius announce 7-year deal that pays a prospective, capitated amount for 130K commercial PPO members
- **CareFirst** PCMH model offers practice support without downside financial risk

Health plans building hospital-less IDNs

- **OptumCare:** 17 networks across 13 states
- **Humana:** 233 owned, joint-ventured, and alliance clinics across 30 markets

Source: Schnurman M, "Why PepsiCo is paying D-FW employees to go to the doctor's office," The Dallas Morning News, December 2, 2018; "Atrius Health, Blue Cross Blue Shield of Massachusetts announce deeper collaboration to transform health care experience," BCBS of MA Newsroom, February 7, 2019; "CareFirst PCMH Program Background, History and Results (2011-2016)," CareFirst BlueCross BlueShield, Q2 2017; Japsen B, "Humana to expand senior care clinic network to new markets," Forbes, March 19, 2019; Health Care Advisory Board interviews and analysis.

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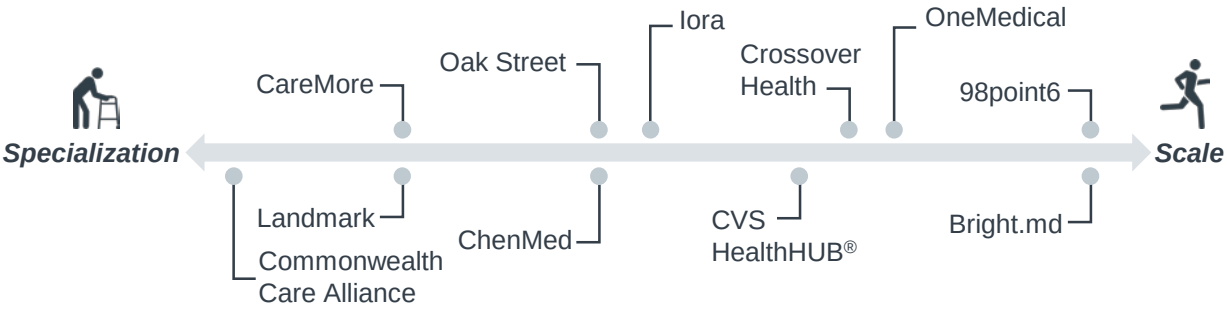
New business models for primary care emerging

New competitors choosing between specialization and scale

Two diverging primary care business models



High-touch management
Coordinate care for complex chronic care patients

Care model

Convenient access
Provide low-cost access for generally healthy patients

Control total costs
Destroy demand for hospitalizations, ED visits, and specialty care referrals to profit from risk contracts

Business model

Enhance efficiency
Improve productivity of clinical workforce to profit from primary care itself

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Source: Health Care Advisory Board interviews and analysis.

Health plan integration provides new growth lever

CVS HealthHUBs® seek to create a new front door to health care

CVSHealth

95%

Percentage of customers that accept help from the HealthHUB® care concierge

Growth opportunities with Aetna integration

Chronic disease management	Connect members to screening services, smart devices, and apps to manage diseases	Drive down total costs
ED avoidance and downstream navigation	Offer low-cost alternative to ED and direct Aetna members to preferred providers for downstream care on the basis of price	
Member engagement in wellness	Promote wellness through on-site dieticians and group activities (e.g., yoga classes, weight management, smoking cessation)	
Cross-sell products	Adjust cost-sharing to promote use of HealthHUB services, including pharmacy	Leverage benefit design
Growth of MA membership	Non-Aetna members that use the HealthHUBs can be converted to Aetna's MA plan	Grow membership

Source: "CVS Health testing new HealthHUB store format," CVSHealth, February 13, 2019; Health Care Advisory Board interviews and analysis.

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AI-enabled diagnosis improves providers' capacity

Artificial intelligence automates low-acuity care

- 15-20 minutes per case
- **20-30 patients per day**

- 3 minutes per case
- **150-200 patients per day (max)**

CASE EXAMPLE

Greenville Health System

1,078-physician health system • South Carolina

- Implemented Bright.md SmartExam platform to improve patient access and experience by boosting provider capacity
- Saw 20-30% expansion in panel size and resolved 90% of cases virtually

20-30%
Expansion in panel size

2.5 minutes
Time for provider to review and approve diagnosis

90%
Of cases are resolved virtually

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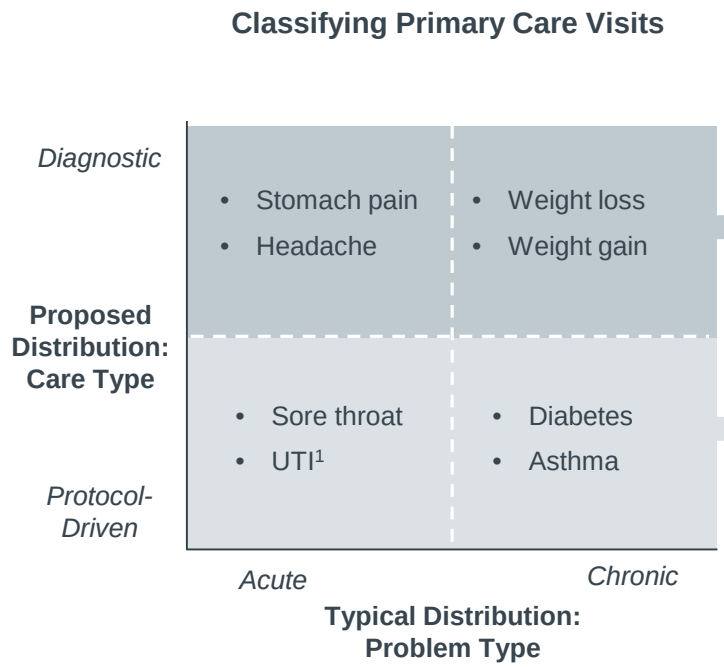
Source: Health Care Advisory Board interviews and analysis.

Improving Clinician Labor-Cost Efficiency

Provider Skills Map to Care Type, Not Problem Type



Physician Advantage

- Physicians trained in differential diagnosis
- Shorter visits help meet productivity expectations
- Average compensation: **$235,592**[2]

Advanced Practitioner Advantage

- APs trained in patient education techniques
- Cost-effective to spend more time with patient
- Average compensation: **$100,584**[3]

1) Urinary tract infection.
2) Average annual compensation for Internal Medicine MD.
3) Average annual compensation for Internal Medicine NP.

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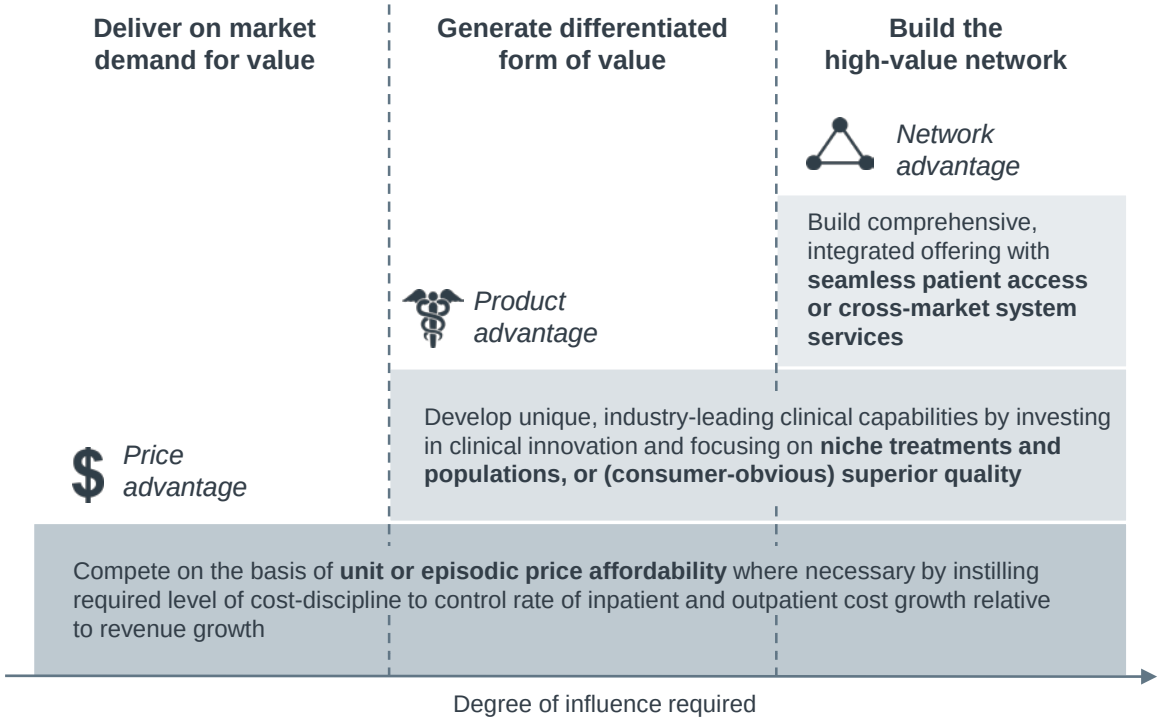
Source: Health Care Advisory Board interviews and analysis.

Securing the freedom to choose

Three viable paths forward for delivering on value



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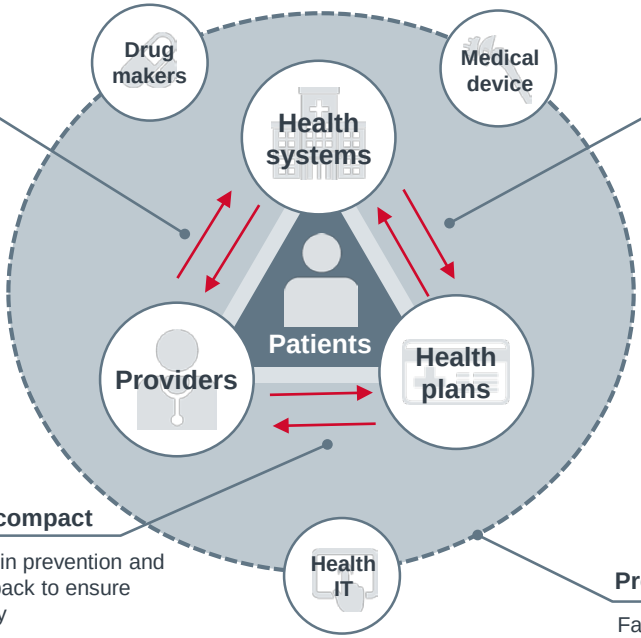
Source: Health Care Advisory Board interviews and analysis.

The new health care compact

Industry must prepare to meet market's demands

Health system-provider compact

- Health systems provide growth and leadership opportunities, innovation infrastructure
- Providers champion care standardization work, collaborate on population health improvements



Health system-health plan compact

- Health systems offer reliable, accessible, and efficient network that provides top-of-site care
- Health plans streamline administrative burden of revenue cycle, reporting, and utilization management

Provider-health plan compact

- Providers engage patients in prevention and self-management, quarterback to ensure efficient health care journey
- Health plans provide data to inform referrals, offer flexible contracting opportunities that reward improvements in outcomes

Producer-industry compact

Facilitate the transition to value-based care and propel innovation

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Source: Health Care Advisory Board interviews and analysis.

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