THE FUTURE OF THE HEALTHCARE MARKETPLACE: WHAT’S NEXT?

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OUTLINE

• American Healthcare: Progress and Promise
• Elections Matter
• Looking Ahead:
  – Shallow Pocked Consumers
  – Employers Stay or Go
  – Providers: Making Volume to Value Real
AMERICAN HEALTHCARE: PROGRESS AND PROMISE

- Coverage Expansion
- Payment Reform
- Volume to Value
- Consolidation and Integration
- Delivery Shift to Ambulatory Environment
- IT Infrastructure
- Enhancing the Consumer (and Provider) Experience
BIG DROP IN UNINSURED UNDER OBAMACARE
UNINSURED RATE AMONG THE NONELDERLY POPULATION, 1972-2016

Share of population uninsured:

Note: 2016 data is for Q1 – Q3 only.

PERCENT OF POPULATION UNDER AGE 65 UNINSURED

2013

<10% (4 states plus D.C.)
10%–14% (18 states)
15%–19% (18 states)
≥20% (10 states)

2014

<10% (11 states plus D.C.)
10%–14% (25 states)
15%–19% (12 states)
≥20% (2 states)

2015

<10% (23 states plus D.C.)
10%–14% (21 states)
15%–19% (6 states)


Note: States are arranged in rank order based on their current data year (2015) value.

a At least a −0.5 standard deviation change (at least 3 percentage points) between 2014 and 2015.
b At least a −0.5 standard deviation change (at least 3 percentage points) between 2013 and 2015.


Notes: Low-income defined as living in a household with income <200% of the federal poverty level. States are arranged in rank order based on their current data year (2015) value. Alaska, Indiana, Louisiana, and Montana expanded their Medicaid programs after January 1, 2015.


NOTES: Coverage under the Medicaid expansion became effective January 1, 2014 in all but seven expansion states: Michigan (4/1/2014), New Hampshire (8/15/2014), Pennsylvania (1/1/2015), Indiana (2/1/2015), Alaska (9/1/2015), Montana (1/1/2016), and Louisiana (7/1/2016). Seven states that will have Republican governors as of January 2017 originally implemented expansion under Democratic governors (AR, IL, KY, MA, MD, NH, VT), and one state has a Democratic governor but originally implemented expansion under a Republican governor (PA). *AR, AZ, IA, IN, MI, MT, and NH have approved Section 1115 expansion waivers.
THE UNINSURED RATE IN THE UNITED STATES HAS DECREASED, ESPECIALLY AMONG MEDICAID EXPANSION STATES

NOTE: Uninsured rates for 2016 are as of June 2016.
## FOUR BIG STATES

<table>
<thead>
<tr>
<th></th>
<th>California</th>
<th>New York</th>
<th>Florida</th>
<th>Texas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanded Medicaid</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Qualifications for Medicaid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parents*</td>
<td>&lt;138% FPL</td>
<td>&lt;138% FPL</td>
<td>&lt;33% FPL</td>
<td>&lt;18% FPL</td>
</tr>
<tr>
<td>Childless adults</td>
<td>&lt;138% FPL</td>
<td>&lt;138% FPL</td>
<td>Do not qualify for Medicaid</td>
<td>Do not qualify for Medicaid</td>
</tr>
<tr>
<td>Immigrants**</td>
<td>Legal immigrants qualify without the five-year waiting period</td>
<td>Legal immigrants qualify without the five-year waiting period</td>
<td>Children of legal immigrants only qualify without the five-year waiting period</td>
<td>Children of legal immigrants only qualify without the five-year waiting period</td>
</tr>
<tr>
<td>Enrollment in Medicaid/CHIP***</td>
<td>11.9 million</td>
<td>6.4 million</td>
<td>4.3 million</td>
<td>4.8 million</td>
</tr>
<tr>
<td>Marketplace type</td>
<td>State-run</td>
<td>State-run</td>
<td>Federal</td>
<td>Federal</td>
</tr>
<tr>
<td>Enrollment in the marketplace****</td>
<td>1,556,676</td>
<td>242,880</td>
<td>1,760,025</td>
<td>1,227,290</td>
</tr>
</tbody>
</table>
ELECTIONS MATTER
Vitality and the vote

United States, health metrics against swing to Donald Trump, by county

Sources: Atlas of US Presidential Elections; Census Bureau; IPUMS; Institute for Health Metrics and Evaluation; The Economist

*Weighted index of obesity, diabetes, heavy drinking, physical exercise and life expectancy, 2010-12
THE PARTISAN DIVIDE ON HEALTHCARE

Figure 3:
Voters' Evaluations of How Well the ACA is Working

Source: Harvard/Politico October 2016
Figure 12

Majority of Trump Voters Have Favorable Opinion of Many ACA Provisions

Among Trump Voters: Percent who favor each of the following specific elements of the health care law:

- Allows young adults to stay on their parents' insurance plans until age 26: 83%
- Eliminates out-of-pocket costs for many preventive services: 75%
- Creates health insurance exchanges where small businesses and people can shop for insurance and compare prices and benefits: 72%
- Closes the Medicare prescription drug coverage gap: 71%
- Provides financial help to low- and moderate-income Americans to help them purchase coverage: 68%
- Gives states the option of expanding their existing Medicaid program to cover more low-income, uninsured adults: 66%
- Increases Medicare payroll tax on earnings for upper-income Americans: 62%
- Prohibits insurance companies from denying coverage because of a person's medical history: 60%
- Requires employers with 50 or more employees to pay a fine if they don't offer health insurance: 49%
- Requires nearly all Americans to have health insurance or else pay a fine: 16%

NOTE: Some items asked of half samples. Question wording abbreviated. See topline for full question wording.
SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted November 15-21, 2016)
More Americans say federal govt has responsibility to ensure health coverage

Is it the responsibility of the federal government to make sure that all Americans have health care coverage? (%)

- Yes, govt responsibility
- No, not govt responsibility

- 2000: 64, 31
- 2003: 59, 41
- 2006: 61, 39
- 2009: 62, 38
- 2012: 61, 39
- 2015: 51, 49
- 2017: 51, 49

Notes: 2000-2013 data from Gallup. Don't know response not shown. Source: Survey conducted Jan. 4-9, 2017. PEW RESEARCH CENTER

Lower-income Republicans increasingly favor govt role in health care coverage

% who say it is the responsibility of the federal govt to make sure all Americans have health care coverage

- Total
- Rep/Lean Rep
- Dem/Lean Dem

Among Rep/Lean Rep...
- $75,000+
- $30,000-74,999
- < $30,000

Among Dem/Lean Dem...
- $75,000+
- $30,000-74,999
- < $30,000

Source: Survey conducted Jan. 4-9, 2017. PEW RESEARCH CENTER
Public Divided in Views of the Affordable Care Act

As you may know, a health reform bill was signed into law in 2010. Given what you know about the health reform law, do you have a generally favorable or generally unfavorable opinion of it?

SOURCE: Kaiser Family Foundation Health Tracking Polls
TRUMP REFORM PRINCIPLES

• “Repeal and Replace....Simultaneously”
• “Everyone will be covered...we are not going to leave people in the streets”
• “We will keep the pre-existing conditions”
• “Pharma is getting away with murder”
• “I am not going to cut Medicare and Medicaid”
• “We’re going to have insurance for everybody,”
• People covered under his new plan “can expect to have great health care. It will be in a much simplified form. Much less expensive and much better.”
• “It will be a thing of beauty”  After first CBO estimates
• ”The premiums will come down, the deductibles will come down”
REPUBLICAN REFORM PRINCIPLES

• Make Consumers Responsible
• Make States Responsible
• Make Price and Quality Transparent
• Make Insurance Cheaper
• Make it More Market Oriented with Less Regulations
• Make Medicare Modern (Maybe Later)
• Make Medicaid a Managed Care Program
• Make the Deficit and Debt Go Down
• But.........Don’t get Rid of Guaranteed Issuance
• And don’t throw 20 million off the insurance rolls
MAKE INSURANCE CHEAPER

• Cheaper for whom?
• More competition, maybe....
• Get Rid of the Lines
• But the key is what is covered and how much providers are paid
• State High Risk Pools Cut off the tail of high spenders a tiny little bit but at a high cost
• Change the Essential Benefits to “Remove the Frills”
• Lower the Actuarial Value of the Plans
• Change the Age Bands
• Remove Guaranteed Issuance (This is the Big One)
• Remove Lifetime Caps
CBO SCORE HIGHLIGHTS

- Uninsured Rises
  - Up by 14 million in 2018
  - Up by 21 million in 2020
  - Up by 24 million in 2026
    - (Down 7 million employer, 3 million exchanges, 14 million Medicaid)
  - By 2026 up to 52 million uninsured
- Individual market premiums up 10-20% for first two years, slightly lower later
- Deficit reduced $337 billion over 10 years
- Massive tax cut for wealthy
- Higher Premiums for Older, Poorer, Rural populations
- Disproportionately affects Trump voters
- “More to come” bills would make it worse for old, sick, poor because of more cheapo plans and flat tax credits that are not income and geography adjusted
- Freedom Caucus influence makes it all “worse”, Tuesday group and Moderate Senators make it “less worse”
- It’s good to be young, healthy and extremely rich so work on that
WHAT WILL CHANGE IF ACHA HAD PASSED: COVERAGE

• Repeal and Replace.....In steps Reconciliation and then attempted sidecars
• More Market Oriented less Heavy Handed Regulation, no matter what
• More discretion to states
• CBO Body Blow to ACHA: Coverage eroded by 14 million by 2018 and 24 million by 2026
• You save $150 billion federal money over a decade because we will have more than 50 million uninsured
• Medicaid especially will be badly hurt after 2020, putting enormous pressure on states
• “You Break It, You Own it”
• Will rich people continue to write a check for poor people?
• If ACHA passes, individual market and exchanges may not survive
• Most consumers will pay more out of pocket, especially older, sicker people
• Guaranteed Issuance preserved but how really if mandates and subsidies removed, and essential benefits and community rating weakened?
REPEAL AND REPLACE IS NOT EASY
“WHO KNEW HEALTHCARE COULD BE SO COMPLICATED?”
REPEAL AND REPLACE IS LIKE BREAKING UP THE BEATLES: JUST KEEP GEORGE AND RINGO AND EXPECT IT TO SOUND GOOD

Taxes and Fees Raised Mandates

Guaranteed Issuance

Subsidies to Medicaid and Exchanges

Stay on Parents Plan

“All you are left with is Ringo”  Chris Jennings

“Republican policies are ideologically coherent, they just aren’t actuarially coherent.”  Ian Morrison
WHAT MAY NOT CHANGE: PAYMENT AND DELIVERY REFORM

• Shift from volume to value
• ACOs
• MACRA
• Bundled Payments
• Payment reform in public and private sector
• Managed Medicaid, but more state flexibility
• Increased transparency on cost and quality
• Medicare Advantage growth
• Consolidation
• Population health and continuum of care
FOUR SCENARIOS FOR HEALTHCARE POLITICS AND POLICY

• Scenario 1: Repair and Revise
• Scenario 2: Constructive Conservatism: “Go Your Own Way”
• Scenario 3: Repeal and Replace Redux
• Scenario 4: Let Obamacare Fail

• Immediate Issues
  – Cost Sharing Reductions
  – Enforcing the Mandates
  – Promoting Exchanges
Figure 12

Across Groups, More Say President Trump Should Try to Make the ACA Work than Make It Fail

Moving forward, do you think President Trump and his administration should do what they can to make the current health care law work or should they do what they can to make the law fail so they can replace it later?

- Do what they can to make the law fail so they can replace it later
- Do what they can to make the law work

By Political Party ID

Democrats
- Do what they can to make the law fail: 8%
- Do what they can to make the law work: 89%

Independents
- Do what they can to make the law fail: 17%
- Do what they can to make the law work: 78%

Republicans
- Do what they can to make the law fail: 38%
- Do what they can to make the law work: 51%

By Trump Approval

Approves of Pres. Trump
- Do what they can to make the law fail: 37%
- Do what they can to make the law work: 54%

Disapproves of Pres. Trump
- Do what they can to make the law fail: 7%
- Do what they can to make the law work: 90%

NOTE: Don’t know/Refused responses not shown.
SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted March 28 – April 3, 2017)
LOOKING AHEAD

• Shallow Pocketed Consumers
• Employers Stay or Go
• Providers:
  – Health Systems Strategic Plans: 10 Common Themes
  – Making Volume to Value Real
SERVING SHALLOW-POCKETED CONSUMERS
CUMULATIVE INCREASES IN HEALTH INSURANCE PREMIUMS, WORKERS’ CONTRIBUTIONS TO PREMIUMS, INFLATION, AND WORKERS’ EARNINGS, 1999-2016

AVERAGE ANNUAL WORKER AND EMPLOYER CONTRIBUTIONS TO PREMIUMS AND TOTAL PREMIUMS FOR FAMILY COVERAGE, 1999-2016

*Estimate is statistically different from estimate for the previous year shown (p < .05).

PERCENTAGE OF COVERED WORKERS ENROLLED IN A PLAN WITH A GENERAL ANNUAL DEDUCTIBLE OF $1,000 OR MORE FOR SINGLE COVERAGE, BY FIRM SIZE, 2006-2015

* Estimate is statistically different from estimate for the previous year shown (p<.05).

NOTE: These estimates include workers enrolled in HDHP/SOs and other plan types. Average general annual health plan deductibles for PPOs, POS plans, and HDHP/SOs are for in-network services.

INSURED ADULTS WITH LOWER INCOMES WERE MORE LIKELY TO REPORT THEY HAD DELAYED OR AVOIDED GETTING CARE BECAUSE OF THEIR COPAYMENTS OR COINSURANCE

<table>
<thead>
<tr>
<th>At least one cost-related access problem</th>
<th>&lt;200% FPL</th>
<th>200% FPL or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insured adults ages 19 – 64 who pay a copayment or coinsurance</td>
<td>46</td>
<td>21</td>
</tr>
</tbody>
</table>

Note: FPL refers to federal poverty level.

Note: States are arranged in rank order based on their current data year (2015) value.

- at least -0.5 standard deviation change (at least 2 percentage points) between 2014 and 2015.
- at least -0.5 standard deviation change (at least 2 percentage points) between 2013 and 2015.


DOES SATISFACTION MATTER? COMPARED TO WHAT?

General Impression of Health Insurance
(Top-2 Box %)

- **Satisfaction with your insurance benefits**
  - 2010: 77%
  - 2012: 79%
  - 2013: 84%
  - 2014: 81%
  - 2015: 79%
  - 2016: 77%

- **Satisfaction with out of pocket costs for prescription medications**
  - 2010: 62%
  - 2012: 66%
  - 2013: 72%
  - 2014: 66%
  - 2015: 67%
  - 2016: 66%

- **Satisfaction with out of pocket costs for health care services**
  - 2010: 58%
  - 2012: 59%
  - 2013: 66%
  - 2014: 62%
  - 2015: 61%
  - 2016: 61%

However...

- **Insurance plan meets my/my family's needs very/extremely well**
  - 2010: 58%
  - 2012: 59%
  - 2013: 66%
  - 2014: 62%
  - 2015: 61%
  - 2016: 61%

Only 47% of Exchange based plan holders feel their plan meets needs very or extremely well

Prepared for: Strategic Health Perspectives
Source: Q600: How satisfied or dissatisfied are you with each of the following?: Q185: Thinking now about all the different components of your health insurance plan, how well does your plan meet your/your family's health needs?
CONSUMERS EMOTIONS TOWARDS HEALTHCARE THEY RECEIVE

Not much change nationally, but Californians are significantly more positive in 2016

Some change towards the positive, but 1 in 4 consumers remains powerless

**Consumer Emotions Towards Healthcare They Receive**

<table>
<thead>
<tr>
<th>Empowered</th>
<th>Hopeful</th>
<th>Relieved</th>
<th>Accepting</th>
<th>Neutral</th>
<th>Resigned/Given up</th>
<th>Powerless</th>
<th>Resigned/Given up</th>
<th>Powerless</th>
<th>Powerless</th>
</tr>
</thead>
<tbody>
<tr>
<td>9%</td>
<td>14%</td>
<td>13%</td>
<td>14%</td>
<td>13%</td>
<td>13%</td>
<td>14%</td>
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<tr>
<td>16%</td>
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<td>16%</td>
</tr>
</tbody>
</table>

California 2016 in Red

13% 14% 16% 13% 14% 16% 13% 14% 16% 13% 14% 16%

Base: All US Adults (2014 n=2501, 2015 n=5037, 2016 n=30052)

Source: Q90 How would you describe your feelings about the health care you receive today, including how much you pay for it and the benefits you receive? Please select all that apply.
COST MATTERS BECAUSE CONSUMERS PAY MORE OF THE INCREASE ... THIS MAKES THEM FEEL MORE POWERLESS

California 21% 28% Received a balance bill for care they thought was covered

California 6% 8% TOTAL Received a bill for hospital services "not in network" even though the hospital was in network

California 13% 13% EXCHANGE

Prepared for: Strategic Health Perspectives
Base: All US Adults (n=10011 split sample)
Q660. Please indicate if any of the following happened to you in the past year
WHO IS BORDERLINE?

They are NOT on public insurance!

- 40% Have Employer based insurance
- 20% Are uninsured
- 32% Had 1+ ER visits last year

- 42% Had 3+ doctor visits last year
- 51% Received a balance bill for care they thought was covered

Gen Pop

- 9% Empowered
- 7% Hopeful
- 15% Relieved
- 15% Accepting
- 14% Neutral
- 14% Resigned/Given up
- 12% Powerless
- 17% Depressed
- 17% Angry

Empowered

Hopeful
Relieved
Accepting
Neutral
Resigned/Given up
Powerless
Depressed
Angry

Overall medical care is major financial burden
Extremely concerned about ability to pay bills insurance doesn’t cover
LOW OUT-OF-POCKET COST REMAINS CRITICAL IN PICKING INSURANCE

Consumers concerned with premiums, deductibles and copays...reasonable cost sharing for hospital services and retail clinic coverage are surging.

Relative Importance of Benefit

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Above Average</th>
<th>Average*</th>
<th>Below Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low monthly premiums</td>
<td>205</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has a low deductible</td>
<td>181</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low copay for doctor visits</td>
<td>161</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to all medical imaging at reasonable cost-sharing/co-pay</td>
<td>149</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reasonable cost sharing, or copay levels for hospitalization</td>
<td>143</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct access to all specialists (no referral needed)</td>
<td>111</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes an extensive network of doctors</td>
<td>101</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to leading hospitals in my area</td>
<td>94</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coverage for dependents</td>
<td>93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coverage for medical care at retail clinics or urgent care centers</td>
<td>84</td>
<td>Below avg in 2014</td>
<td></td>
</tr>
<tr>
<td>Low copay for generic drugs</td>
<td>90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to cutting edge medical devices and medications</td>
<td>88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to brand name drugs at reasonable cost-sharing, or co-pay,</td>
<td>76</td>
<td></td>
<td></td>
</tr>
<tr>
<td>levels</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provides me with cash incentives or rewards for healthy behavior</td>
<td>66</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coverage for a wide selection of brand name drugs</td>
<td>60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes an extensive network of hospitals</td>
<td>59</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Coverage for over-the-counter medications</td>
<td>48</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to specialty hospitals (i.e. children’s hospitals)</td>
<td>47</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The insurance brand is a name I know and trust</td>
<td>38</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

BASE: ALL QUALIFIED RESPONDENTS (2015 n=5037)
Q65 Respondents were given a maximum difference trade off exercise in which they were forced to choose the most preferred and least preferred plan feature. *Average is 100, and the scores represent importance relative to that average.
EMPLOYERS: STAY OR GO?
MAJORITY OF COVERED WORKERS ARE IN FIRMS OF 1,000 OR MORE

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2016

NOTE: Data are based on a data request to the U.S. Census Bureau for their most recent (2013) Statistics of U.S. Businesses data on private sector firms. State and local government data are from the Census Bureau's 2012 Census of Governments.
JUMBO EMPLOYERS ARE SEEING A PROLONGED RESPITE FROM DOUBLE-DIGIT PREMIUM INCREASES, BUT THESE ARE STILL RUNNING AT TWO TIMES CPI

FEWER EMPLOYERS ARE LOOKING FOR AN EXIT; CONTINUE TO FEEL RESPONSIBILITY FOR EMPLOYEE HEALTH NEEDS

Company’s Position on Employer-Sponsored Healthcare: Providing Benefits
(Top-2 Box % - Describes Completely/Very Well)

* Asked only of Employers with 50 or more employees
Base: All Employer Health Benefit Decision Makers (n=340)
Q800: Please indicate your level of agreement with the following statements. Do you strongly agree, somewhat agree, somewhat disagree or strongly disagree?

- It is our responsibility to ensure our employees’ health needs are met
- My company is actively exploring ways to get out of providing health insurance to our employees
- Employer-based health insurance will soon become a thing of the past
- My company feels it is worth it to pay the penalty associated with not providing employee health benefits rather than providing health benefits to our employees.*
PERCENTAGE OF ALL WORKERS COVERED BY THEIR EMPLOYERS’ HEALTH BENEFITS, IN FIRMS BOTH OFFERING AND NOT OFFERING HEALTH BENEFITS, BY FIRM SIZE, 1999-2016

*Estimate is statistically different from estimate for the previous year shown (p<.05).

MOST EMPLOYERS DO NOT THINK CURRENT INITIATIVES WORK WELL TO CONTAIN COSTS

CDHPs are at the bottom, but even wellness at the top of the list isn’t viewed as very effective.

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased emphasis on wellness and prevention</td>
<td>41%</td>
</tr>
<tr>
<td>Focus more on primary care</td>
<td>38%</td>
</tr>
<tr>
<td>Cost transparency tools for employees to make…</td>
<td>34%</td>
</tr>
<tr>
<td>Aggressive management of specialty…</td>
<td>32%</td>
</tr>
<tr>
<td>Negotiated reference pricing for specific…</td>
<td>31%</td>
</tr>
<tr>
<td>Improved management of behavioral and…</td>
<td>31%</td>
</tr>
<tr>
<td>Better manage heavy utilizers of care</td>
<td>31%</td>
</tr>
<tr>
<td>Centers of Excellence models</td>
<td>28%</td>
</tr>
<tr>
<td>Private exchanges</td>
<td>27%</td>
</tr>
<tr>
<td>Focus on accountable care / ACOs</td>
<td>27%</td>
</tr>
<tr>
<td>Direct contracting with hospitals</td>
<td>26%</td>
</tr>
<tr>
<td>Promoting greater use of bundled payments</td>
<td>26%</td>
</tr>
<tr>
<td>Narrow network health plans</td>
<td>25%</td>
</tr>
<tr>
<td>Expanded use of Patient-Centered Medical…</td>
<td>24%</td>
</tr>
<tr>
<td>Consumer Directed Health Plans (CDHP)</td>
<td>23%</td>
</tr>
</tbody>
</table>
EMPLOYERS MOST CONCERNED ABOUT HOSPITAL PRICES, SPECIALTY PHARMACEUTICALS AND CANCER CARE

Base: All Employer Health Benefit Decision Makers (bases vary)
Q1707: Please indicate your level of concern for the following drivers of health care costs.

<table>
<thead>
<tr>
<th>Level of Concern for Healthcare Cost Drivers, Total Employer Benefit Decision-Makers</th>
<th>2013</th>
<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital inpatient prices</td>
<td></td>
<td></td>
<td>60%</td>
</tr>
<tr>
<td>Specialty pharmaceuticals</td>
<td>47%</td>
<td>54%</td>
<td>55%</td>
</tr>
<tr>
<td>Cancer care</td>
<td>54%</td>
<td>56%</td>
<td>54%</td>
</tr>
<tr>
<td>Hospital outpatient prices</td>
<td>47%</td>
<td>49%</td>
<td>50%</td>
</tr>
<tr>
<td>General pharmaceuticals</td>
<td>46%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Physician prices</td>
<td>54%</td>
<td>53%</td>
<td>48%</td>
</tr>
<tr>
<td>Obese patients generally</td>
<td>45%</td>
<td>53%</td>
<td>48%</td>
</tr>
<tr>
<td>Health plan fees for care management</td>
<td>45%</td>
<td>44%</td>
<td>44%</td>
</tr>
<tr>
<td>Diagnostic imaging</td>
<td>43%</td>
<td>47%</td>
<td>41%</td>
</tr>
<tr>
<td>Innovative, breakthrough treatments/cures for disease</td>
<td>-</td>
<td>46%</td>
<td>40%</td>
</tr>
<tr>
<td>Orthopedic surgery (hips/knees/etc)</td>
<td>41%</td>
<td>44%</td>
<td>39%</td>
</tr>
<tr>
<td>Diabetes patients</td>
<td>45%</td>
<td>45%</td>
<td>37%</td>
</tr>
<tr>
<td>Physician utilization</td>
<td></td>
<td></td>
<td>39%</td>
</tr>
<tr>
<td>NICU/early childhood disease costs</td>
<td>0%</td>
<td>--</td>
<td>36%</td>
</tr>
<tr>
<td>Low-back pain treatment</td>
<td>43%</td>
<td>40%</td>
<td>34%</td>
</tr>
<tr>
<td>Maternity care</td>
<td>41%</td>
<td>40%</td>
<td>32%</td>
</tr>
<tr>
<td>Routine preventative testing</td>
<td>40%</td>
<td>43%</td>
<td>31%</td>
</tr>
</tbody>
</table>
STRATEGIC PLANS: 10 COMMON THEMES

• Strategic Growth
  – Acquisitions of geographically contiguous assets
  – Partnerships across continuum and with other players
  – Grow market share/catchment at expense of nearby competitors

• Consumer Engagement
  – Consumer as decision-maker
  – Role of Patient Satisfaction in Payment
  – Enhance consumer/patient experience
  – Consumer facing tools and technologies

• Physician Relationships
  – Clinical and Economic Integration
  – Three Buckets of Physicians and the “Docking Opportunities”
  – Acquiring and growing practices
  – Improving physician relationships
STRAIGHTIC PLANS: 10 COMMON THEMES

• Quality and Patient Safety
  – Pick an “operating system” for quality e.g. Lean, Six Sigma, High Reliability
  – Develop focused initiatives
  – Pick Measures and Accountability Path
  – Develop Governance framework e.g. Clinical Councils, Physician Compacts

• Innovation at Scale
  – Electronic Health Records as “table stakes”
  – Investment in new ventures
  – Big Data and Analytics Initiatives
  – Virtual Health
STRATEGIC PLANS: 10 COMMON THEMES

• Culture/People
  – Values Based Culture
  – Triple Aim
  – Best Place to Work
  – Engaged Workforce
  – Respect, Reliability, Resilience

• Value/Affordability
  – For consumers: Low Out of Pocket Costs, Convenience and Reputation
  – For Public Purchasers: MACRA and stars and bars
  – For Private Purchasers: ACOs, narrow networks centers of excellence

• Clinical Differentiation (Everyone Focusing on the same things where the money is currently)
  – Orthopedics
  – Cancer
  – Cardiovascular
  – Precision Medicine (AMCs)
STRATEGIC PLANS: 10 COMMON THEMES

• Financial Sustainability
  – Medicare/Medicaid/Bad debt hydraulics: permanent Impairment in Payer Mix
  – “Make Money on Medicare”
  – “No Margin, No Mission”
  – Recognize price cross subsidy from privates may not be sustainable
  – “Best Year ever in 2015…sours in 2016 and beyond…with Trump who knows?”

• Population Health and Risk (NB This is the differentiator in the strategies across health systems)
  – If Risk
    • Own Health Plan or Partnership
    • Direct Contracting with Employers
    • Medicare Advantage Direct
  – If Population Health
    • Invest in Pop Health Analytics and Infrastructure
    • Partner
    • Care Coordination
    • Social Work not Medical Care
**RISK-BEARING STRATEGIES VARY CONSIDERABLY**

Hospitals committing to clinical integration for contracting w/ payers, but full risk only for the few

**Hospital Risk Management Strategy**

<table>
<thead>
<tr>
<th>No plans to take risk beyond modest shared savings and pay-for-performance arrangements</th>
<th>Experimenting w/ risk arrangements, but small part of revenue</th>
<th>Committed to clinical integration organization strategy for contracting w/ payers</th>
<th>Building an ACO model that is capable of taking risk such as Medicare Advantage or employer direct contracting</th>
<th>Committed to moving the majority of revenues to fully at risk within 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>41%</td>
<td>29%</td>
<td>19%</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>31%</td>
<td>25%</td>
<td>26%</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>30%</td>
<td>28%</td>
<td>27%</td>
<td>9%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Base: All Hospital-Based Execs (2016: n=205; 2015: n=200; 2014: n=202)

Q980: Which of the following best describes your hospital’s/hospital system’s “risk bearing” strategy?
THE TENSION

Bundles
- More is still better
- Encourage improvement of teams
- Not everything is easily bundled
- “Screw me on the bundle, and I’ll screw you on the rest”

Population Health/Risk and Accountable Care
- Frequency
- Appropriateness
- Determinants of health care
- The mutual disrespect problem
- Social work not medical care
WHAT POPULATION LEVEL ANALYTICS REVEAL

• The 5/50 Problem
  – 5% account for 50% of spending
  – 1% account for 20%
  – Bottom 50% account for about 2%

• Segmentation of populations

• What you will find ...
  – HONDAS
  – Behavioral health
  – End-of-life care
  – Cancer
  – Frail elderly
  – Social work not medical care
  – Specialty pharmaceuticals
THE TRUCK, THE REFRIGERATOR AND THE BUS
LOOKING TO 2020

• Repeal and replace likely to cause strategic chaos, but....
• Pressure on public payment sources will continue
• Private Payers will not tolerate costs shift willingly
• Exchanges, Medicare Advantage, Managed Medicaid and DB to DC among employers makes market more retail
• Shallow-pocketed consumer becomes more important as decision maker as costs are shifted more to them
• Long run three payer segments: Managed Medicaid, HDHP (Exchange and Employer) and Medicare Advantage/ACO increase pressure to deliver value
• Care redesign for higher performance
  – Migrating Business model to Risk
  – Care coordination and management across the continuum of care
  – Alignment of all physicians, nurses and caregivers with this process
  – Consumer facing innovation in delivery and telehealth
  – Innovation at Scale
• Stay Tuned: Even More Change is Coming
DAY TWO OPENING

Ian Morrison PhD

www.ianmorrison.com

Twitter@seccurve
RISING PHYSICIAN DISCONTENT
PHYSICIANS DISSATISFACTION IS GROWING STEADILY

Nearly half are somewhat or very dissatisfied with their practice.

Overall Satisfaction with Current Practice

NET Satisfaction

NET Dissatisfaction


Q800: Overall, how satisfied are you with your current practice situation?
CONSUMERS EMOTIONS TOWARDS THEIR HEALTHCARE

Some change towards the positive, but 1 in 4 consumers remains powerless

Consumer Emotions Towards Healthcare They Receive

Prepared for: Strategic Health Perspectives
Base: All US Adults (2014 n=2501, 2015 n=5037, 2016 n=30052)
Source: Q90 How would you describe your feelings about the health care you receive today, including how much you pay for it and the benefits you receive? Please select all that apply.
PHYSICIANS TOO FEEL POWERLESS IN CURRENT SYSTEM

One in four physicians is depressed or angry about the health care system today – no change since last year.

Physicians’ Emotions Towards Current Health Care System*

Base: All Physicians (2016: n=599; 2015: n=626)
Q1850: How would you describe your feelings about the health care system today? Please select all that apply.
PHYSICIANS FEEL BURNED OUT

Across all practice setting a majority of physicians feel burned out. price transparency and narrow networks don’t help

(Base: All 2016 Physicians (n=599) Q1786)

Q1786. Do you agree or disagree with the following?

- **36%**
  - Price transparency, including what physicians earn, will ultimately be good for our health care system

- **46%**
  - I am likely to lose patients as a result of the narrow network offerings on the exchanges/markets

- **60%**
  - I am personally feeling burned out about my medical practice.

- **66%**
  - Medicine today looks and feels nothing like it did when I began to practice

(Top 2 Box: Strongly/Somewhat Agree)

Only 7% say their practice is handing burnout “very well”, while 28% say “somewhat well”
What is "MACRA"?

The Medicare Access and CHIP Reauthorization Act of 2015 (MACRA) is a bipartisan legislation signed into law on April 16, 2015.

What does Title I of MACRA do?

- **Repeals** the Sustainable Growth Rate (SGR) Formula
- **Changes** the way that Medicare rewards clinicians for value over volume
- **Streamlines** multiple quality programs under the new Merit-Based Incentive Payments System (MIPS)
- **Provides** bonus payments for participation in eligible alternative payment models (APMs)

Recall: How MACRA get us closer to meeting HHS payment reform goals

The Merit-based Incentive Payment System helps to link fee-for-service payments to quality and value.

The law also provides incentives for participation in Alternative Payment Models via the Bonus payment for Qualifying APM Participants (QPs) and Revalued scoring in MIPS for APM participants who are not QPs.

<table>
<thead>
<tr>
<th>New HHS Goals:</th>
<th>2016</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare fee-for-service payments (Categories 1-6)</td>
<td>50%</td>
<td>90%</td>
</tr>
<tr>
<td>Medicare AFS payments linked to quality and value via APMs (Categories 2-4)</td>
<td>50%</td>
<td>90%</td>
</tr>
<tr>
<td>Medicare payments linked to quality and value via APM (Categories 3-6)</td>
<td>50%</td>
<td>90%</td>
</tr>
<tr>
<td>Medicare payments to QPS in eligible APMs under MACRA</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**How much can MIPS adjust payments?**

- Based on the MIPS composite performance score, physicians and practitioners will receive positive, negative, or neutral adjustments up to the percentages below.
- MIPS adjustments are budget neutral. A scaling factor may be applied to upward adjustments to make total upward and downward adjustments equal.

**2019 2020 2021 2022 onward**

**Merit-Based Incentive Payment System (MIPS)**

**Timeline**

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.5</td>
</tr>
<tr>
<td>2016</td>
<td>0.5</td>
</tr>
<tr>
<td>2017</td>
<td>0.5</td>
</tr>
<tr>
<td>2018</td>
<td>0.5</td>
</tr>
<tr>
<td>2019</td>
<td>0.75</td>
</tr>
<tr>
<td>2020</td>
<td>0.25</td>
</tr>
</tbody>
</table>

**Qualifying APM Participants**

5% Incentive Payment

Excluded from MIPS

**Quality Measure Set**

**Medicare Fee-For-Service (FFS)**

**MIPS**

- External Measure Improvement
- Non-Qualifying APM Payment Adjustment (x-)
- Value Modifier
- Full Incentive

**APMs**

- Non-Qualifying APM Conversion Factor
- Qualifying APM Conversion Factor
MACRA NOT WELL UNDERSTOOD, BUT FEARED

Awareness of MACRA

<table>
<thead>
<tr>
<th>In depth knowledge of law &amp; requirements</th>
<th>Somewhat familiar with requirements</th>
<th>Recognize name but not familiar with requirements</th>
<th>Never heard of it</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>17%</td>
<td>42%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Likely Course of Action

- Join or remain part of an Alternative Payment Model (APM) 17%
- Remain in fee-for-service (FFS or MIPS) 49%
- Not yet sure 33%

Beliefs about MACRA Impact

- Drive physicians to join larger organizations or networks 65%
- Cause physicians to stop accepting Medicare patients 61%
- Make it more difficult for patients to access the care they need 59%
- Cause undue harm to rural physician practices 52%
- Increase physician participation in value-based payment models 40%
- Reduce costs of delivering patient care for your organization 19%
- Improve quality of patient care 14%

Base: All 2016 Qualified Respondents (n=599)
Q1230. How familiar are you with the Medicare Access CHIP Reauthorization Act (MACRA) of 2015 and its requirements?
Q1235. Based on what you know, which of these options is your practice likely to choose?
Q1240. Please indicate your level of agreement with the following statements about the likely impact of MACRA on the practice of medicine?
### PHYSICIANS MOST WILLING TO WORK UNDER SALARY

Bundled payments still quite low

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaried Payments</td>
<td>-31%</td>
<td>35%</td>
<td>-40%</td>
<td>31%</td>
</tr>
<tr>
<td>Pay-For-Performance</td>
<td>-36%</td>
<td>27%</td>
<td>-46%</td>
<td>18%</td>
</tr>
<tr>
<td>Episode-Based Payments</td>
<td>-46%</td>
<td>16%</td>
<td>-49%</td>
<td>15%</td>
</tr>
<tr>
<td>Global Payments</td>
<td>-52%</td>
<td>14%</td>
<td>-55%</td>
<td>13%</td>
</tr>
<tr>
<td>Capitated Payments</td>
<td>-49%</td>
<td>12%</td>
<td>-62%</td>
<td>11%</td>
</tr>
<tr>
<td>Bundled Payments</td>
<td>-61%</td>
<td>8%</td>
<td>-67%</td>
<td>7%</td>
</tr>
</tbody>
</table>

**Base:** Office-Based Physicians (2016: n=452; 2015: n=476)

**Q1205:** There are a number of different proposals being discussed for changing the way physicians are reimbursed. How willing would you be to work under the following models of reimbursement?
## EHRS BOTH HELP AND HURT QUALITY CARE; TELEMEDICINE IS CATCHING ON, MALPRACTICE CONCERNS REMAINS BIGGEST NEGATIVE

Helped/Hurt Ability to Provide Quality Patient Care

<table>
<thead>
<tr>
<th>Category</th>
<th>Hurt (%)</th>
<th>Helped (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic Medical Records</td>
<td>36%</td>
<td>45%</td>
</tr>
<tr>
<td>Medical specialty societies</td>
<td>12%</td>
<td>33%</td>
</tr>
<tr>
<td>Medicare Part D prescription drug benefit</td>
<td>27%</td>
<td>31%</td>
</tr>
<tr>
<td>Hospitals</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Integrated Health Systems</td>
<td>24%</td>
<td>28%</td>
</tr>
<tr>
<td>Pharmaceutical / Biotechnology companies</td>
<td>30%</td>
<td>26%</td>
</tr>
<tr>
<td>Medical device companies</td>
<td>20%</td>
<td>24%</td>
</tr>
<tr>
<td>Telemedicine</td>
<td>15%</td>
<td>24%</td>
</tr>
<tr>
<td>Affordable Care Act, ACA</td>
<td>47%</td>
<td>20%</td>
</tr>
<tr>
<td>American Medical Association</td>
<td>26%</td>
<td>19%</td>
</tr>
<tr>
<td>Center for Medicare/Medicaid Services (CMS)</td>
<td>49%</td>
<td>12%</td>
</tr>
<tr>
<td>Health insurance companies</td>
<td>71%</td>
<td>9%</td>
</tr>
<tr>
<td>High-deductible health plans</td>
<td>62%</td>
<td>7%</td>
</tr>
<tr>
<td>Concern about malpractice litigation</td>
<td>71%</td>
<td>5%</td>
</tr>
</tbody>
</table>


Q815: In recent years, has each of the following helped or hurt your ability to provide quality patient care?
ONE IN THREE PHYSICIANS IS DRINKING THE BERWICK KOOL AID

Back in 2012, we created a segmentation to understand how US doctors are dealing with all this consolidation and integration. Are they drinking the kool-aid? Or sitting it out?

THE SEGMENTATION OF BERWICKIAN NIRVANA

- **Optimistic Intenders**
  - I haven’t reformed yet, but I want to.
  - 14%

- **Blazing Believers**
  - Integrating…and happy about it.
  - 37%

- **Independent Resisters**
  - I haven’t reformed, and don’t plan to.
  - 30%

- **Reluctant Objectors**
  - Integrating…and NOT happy about it.
  - 20%

**Segmentation inputs include:**

- Use of EHRs
- Knowledge about meaningful use criteria
- % of medication DAW vs generic allowable
- P12M experience on salary, management by health plan, or use of evidence based guidelines

- Willingness to work in solo practice
- Perceptions on physician responsibility for patient treatment compliance
THE FORCE AWAKENS – RESISTERS ARE COMING BACK

Believers are increasing but Resisters are also growing once again.

THE SEGMENTATION OF BERWICKIAN NIRVANA (2)

*The 2014 sample skewed a bit different (higher solo practice than the population).
WHO IS SATISFIED WITH THEIR EHR?

Overall satisfaction is low across the board, with no real differences by specialty or affiliation. A few differences stand out:

**More Satisfied**
- Work in IDNs
- Younger
- Lean left politically
- More optimistic about future of medicine

**Less Satisfied**
- Age 50+, more years in practice
- More FFS compensation
- Less optimistic about future of medicine

<table>
<thead>
<tr>
<th>Satisfied</th>
<th>Somewhat</th>
<th>Not Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>27%</td>
<td>46%</td>
<td>27%</td>
</tr>
</tbody>
</table>

**EHR Satisfaction**

- EHR Satisfied: 84%
- EHR Somewhat Satisfied: 35%
- EHR Not Satisfied: 38%

**NET Practice Satisfaction**

- NET Practice Satisfaction: 27%
- NET Practice Dissatisfaction: 27%
EHR DISSATISFACTION LINKED TO DEPRESSION, ANGER

Though equally powerless, those satisfied with EHR system more than twice as likely to feel hopeful, accepting.

Base: All 2015 Physicians Using EMR (Satisfied 148, Not Satisfied 153)
Q1850: How would you describe your feelings about the health care system today? Please select all that apply.

Base: All US Adults (2015 n=5037)
Q47 How would you describe your feelings about the health care you receive today, including how much you pay for it and the benefits you receive? Please select all that apply.
IMPROVEMENT FATIGUE

• Obamacare Angst replaced with Trumpcare Angst
• Need for explanation of the why of change
• Multi-Tasking: Redesigning healthcare when we all have a day job
• Mixed signals: Is it volume or is it value?
• The Quality Police: Checklists, projects, measures and workarounds
• The Electronic Health Record
• Scribes: A symptom
POPULATION HEALTH
POPULATION HEALTH MANAGEMENT

- Segment high-risk populations
- Harness advanced analytics
- Use patient registries and medical homes
- “No outcome, no income”
- Go upstream
- Eat your own cooking
- Focus on the whole population
- Meet people in their lives
- Emphasize wellness and prevention
- Think outside the box
- Leverage Technology
- Partner, partner, partner
EXPECTED AGE AT DEATH VS. HOUSEHOLD INCOME PERCENTILE FOR MEN AT AGE 40

Bottom 1%: 72.7 Years

Top 1%: 87.3 Years
U.S. LIFE EXPECTANCIES BY PERCENTILE IN COMPARISON TO MEAN LIFE EXPECTANCIES ACROSS COUNTRIES

- Lesotho
- Zambia
- India
- Iraq
- Sudan
- Pakistan
- Libya
- China
- United Kingdom
- Canada
- San Marino
- United States - P1
- United States - P25
- United States - P50
- United States - P100

Expected Age at Death for 40 Year Old Men

60 65 70 75 80 85 90
RACE-ADJUSTED EXPECTED AGE AT DEATH VS. HOUSEHOLD INCOME FOR MEN IN SELECTED MAJOR CITIES
RACE-ADJUSTED EXPECTED AGE AT DEATH FOR 40 YEAR OLD MEN
POOLING ALL INCOME GROUPS

Note: Lighter Colors Represent Areas with Higher Life Expectancy
HEALTH AND SOCIAL CARE SPENDING AS A PERCENTAGE OF GDP

Notes: GDP refers to gross domestic product.