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Your Trusted Advisor for Healthcare Industry Intelligence

2012 Market Insights

by:
C-Suite Resources

September, 2012

Overview of Presentation

- Five Key Elements in Today's New Healthcare
  - The Centrality of Clinical Integration
  - Health IT is a Platform, not a Panacea
  - Learning to Live on Medicare and Value-Based Levels of Payment
  - Managing Business Model Migration
  - Building a Culture of Quality and Accountability
  - Summary

The Centrality of Clinical Integration

Centrality of Clinical Integration

- Hospitals and physicians recognize the challenges of going it alone.
- VBP, Bundled payments, quality measures, population health management, continuum of care issues all require an integrated approach.
- Industry consolidation, ACO development are signs of this recognition

Actions of Providers: Top Five Efforts of Leading Health Systems

- **Rank Your Organization's Top Three Priorities for the Next Three Years**

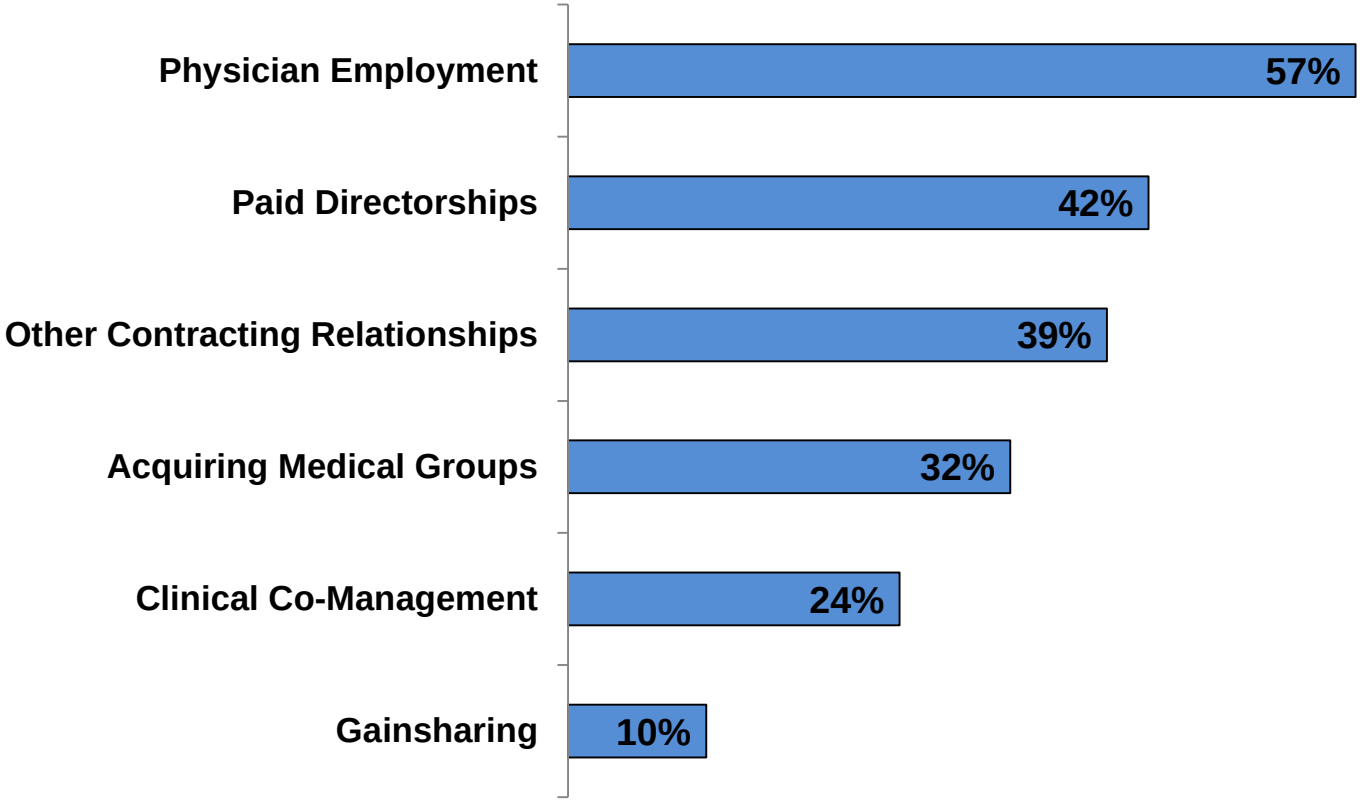
	1st Ranked Choice	2nd Ranked Choice	3rd Ranked Choice	Combined Top 3	Rank Order
Patient experience and satisfaction	26%	16%	13%	55%	1
Cost reduction, process improvement	10%	17%	16%	43%	2
Clinical quality, safety	15%	13%	12%	40%	3
Payment reform, reimbursement (VBP, accountable care)	14%	11%	11%	36%	4
Physician-hospital alignment	15%	12%	8%	35%	5

Source: HealthLeaders Media Industry Survey 2012 Senior Leaders Report;.

Actions of Providers: Physician Alignment

- **Alignment Strategies Currently in Place**

Which of the following physician alignment strategies does your organization currently have in place?



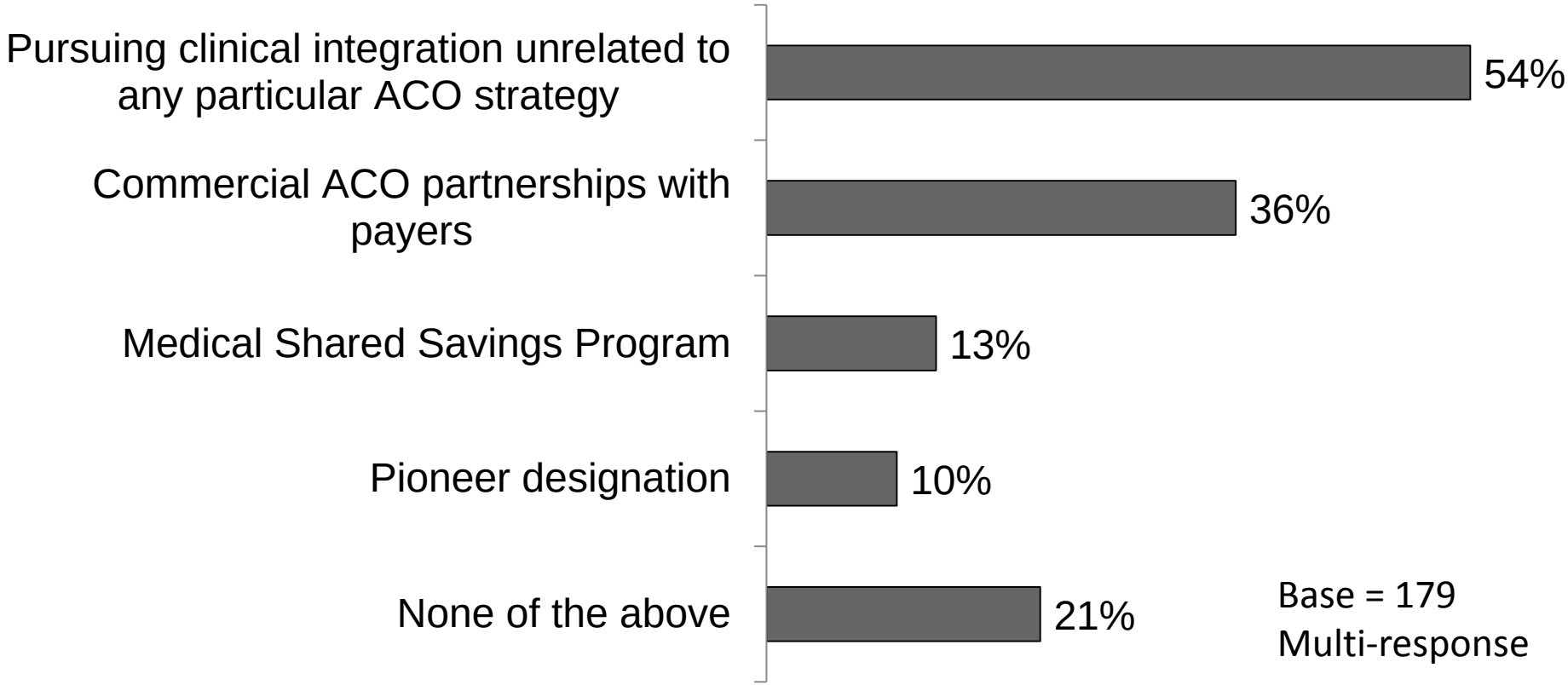
Base = 289

Source: Healthcare Leaders on Reform Readiness; *HealthLeaders Media*, December 2010.

Actions of Providers: Development of ACOs

- **ACO Strategies Organization is Actively Pursuing**

Which of the following ACO strategies or options is your healthcare organization actively pursuing as part of its strategic plan?

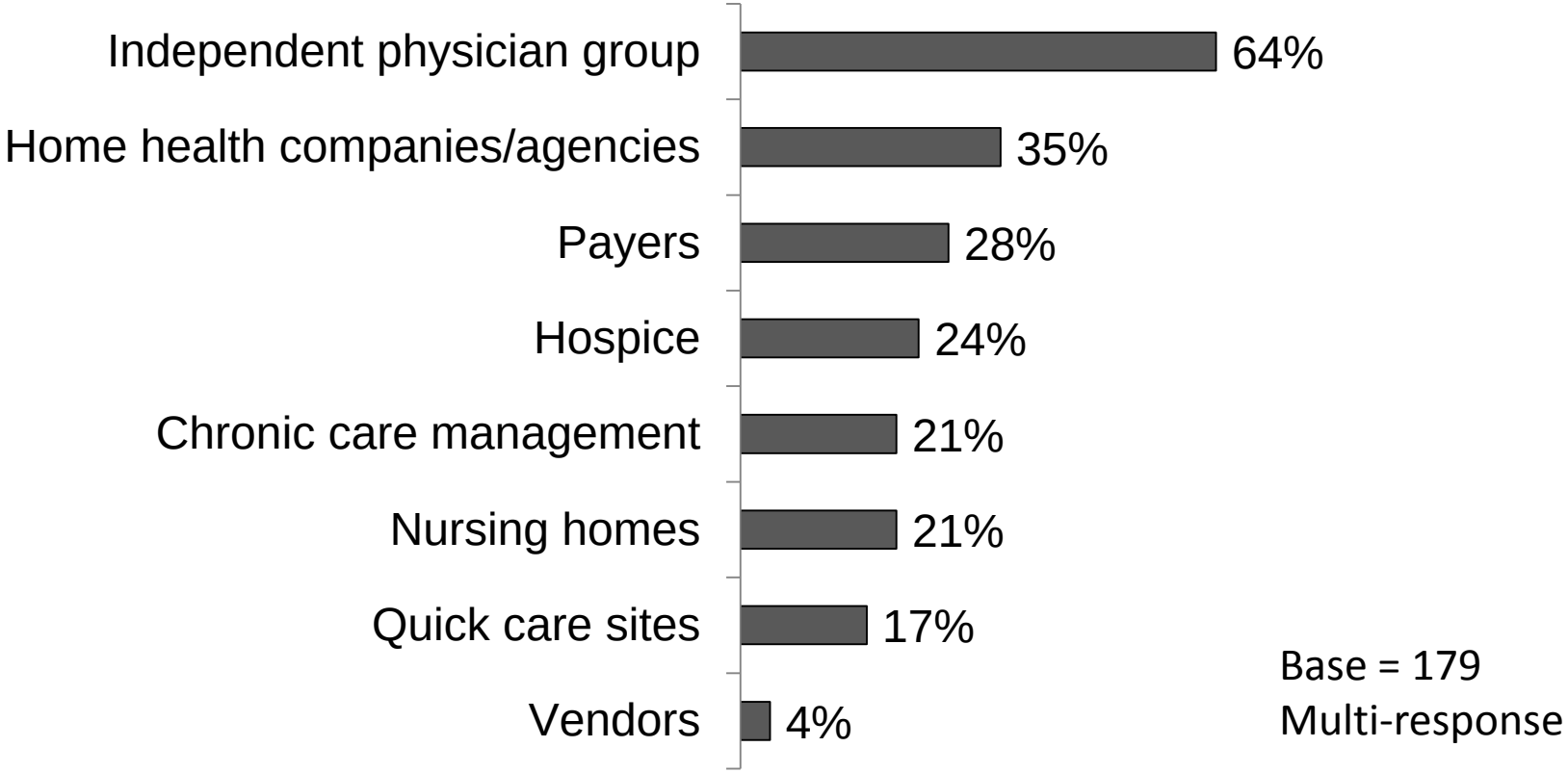


Source: HealthLeaders Media; *ACO: Tailoring Your Own Solution"*

Actions of Providers: Development of ACOs

- **Pieces of Care Continuum Acquired or Strategically Aligned to Prepare for ACO**

Which pieces of the care continuum has your healthcare organization either acquired or strategically aligned with in order to prepare for accountable care?



Source: HealthLeaders Media; *ACO: Tailoring Your Own Solution"*

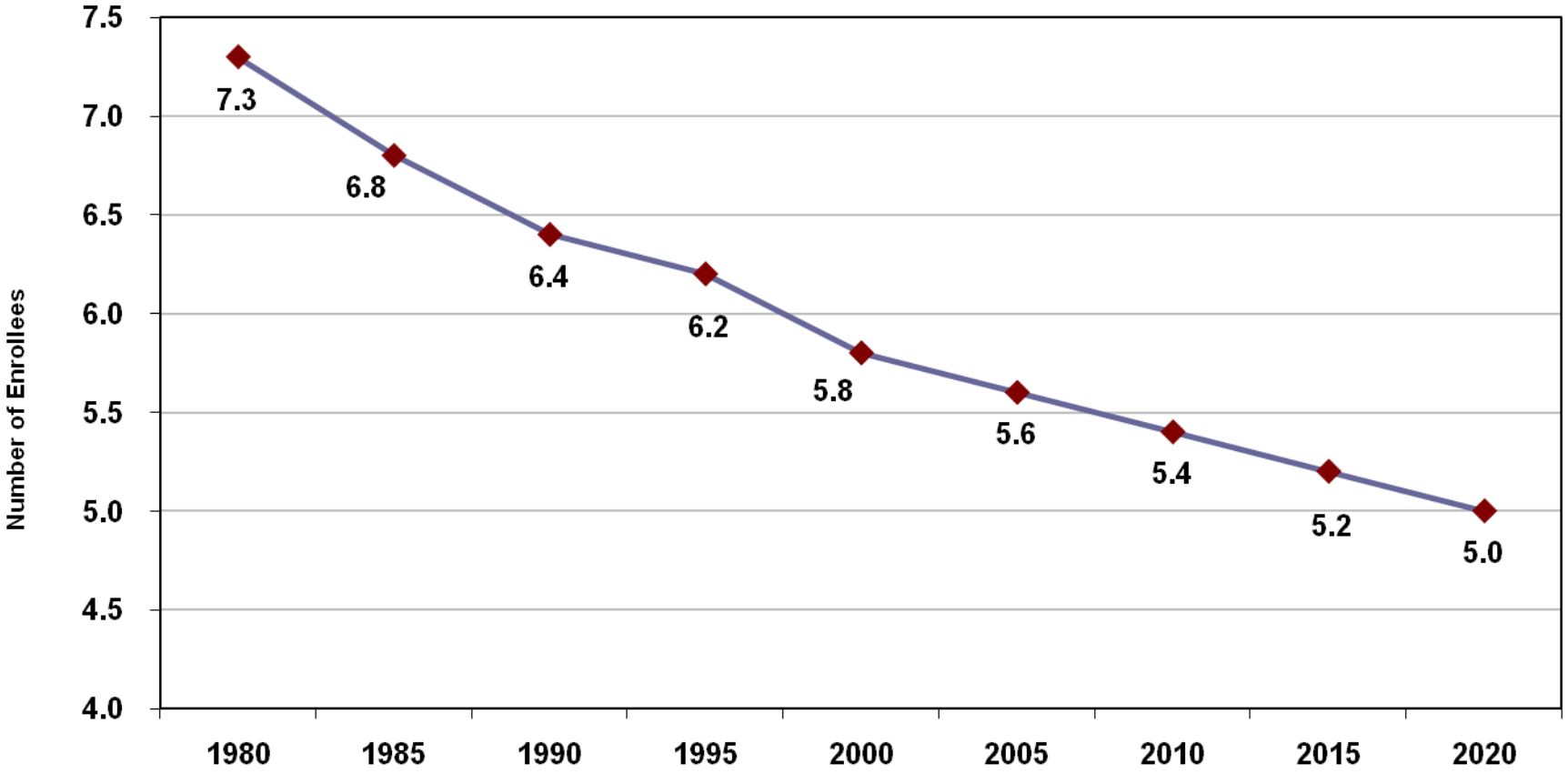
Key Industry Concerns: Operational Challenges

- **Workforce Issues**
  - Shortages worsen in all professional fields
  - Physicians shortage will increase 7-8%/year for next 5-10 years
    - Shortage will be 14-15% in 2025
  - NPs and PAs will increase

Key Industry Concerns: Operational Challenges

- **A Growing and Aging Population**

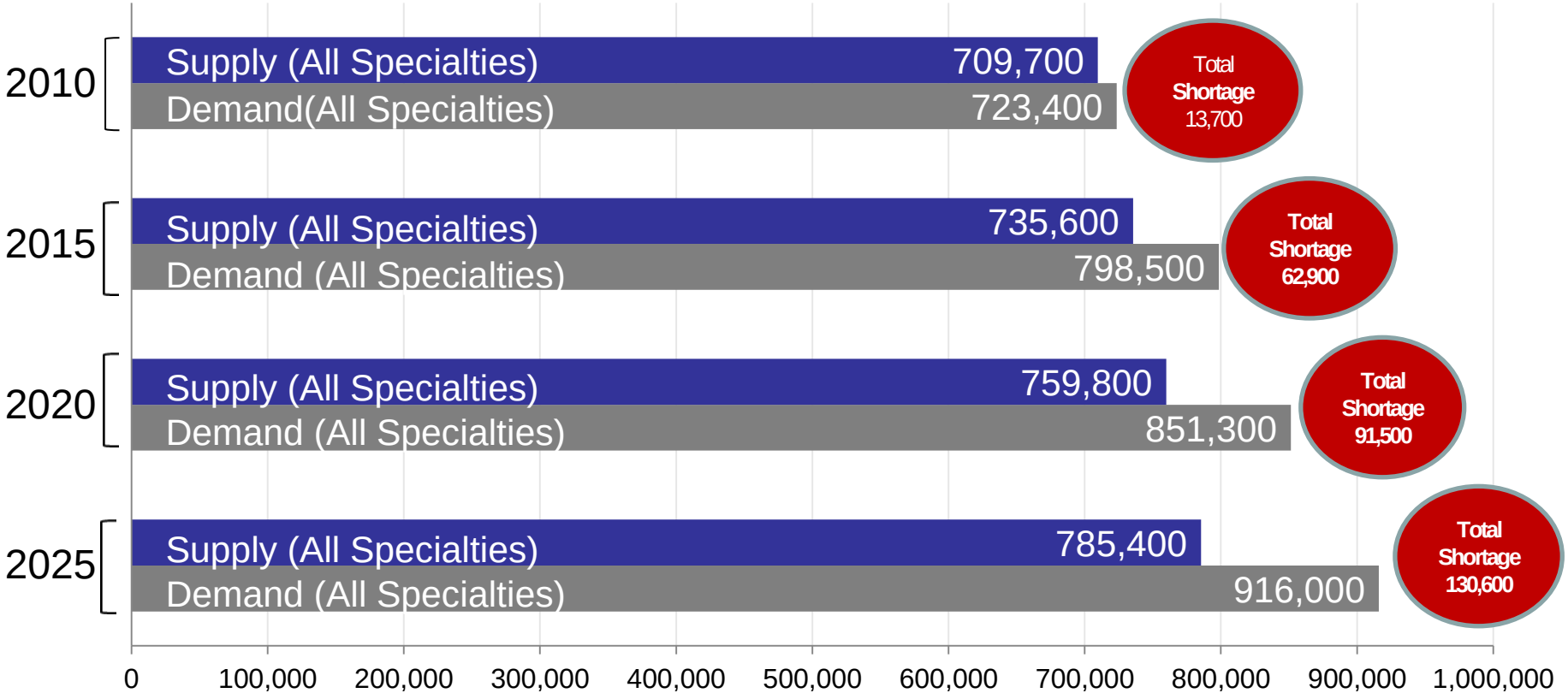
First-Year M.D. Enrollment per 100,000 Population has Declined 26% since 1980: Will Decline Another 7.4% in 10 Years



Source: AAMC; U.S. Census Bureau; Prepared by Center for Workforce Studies, Feb. 2006

A Specialist Gap

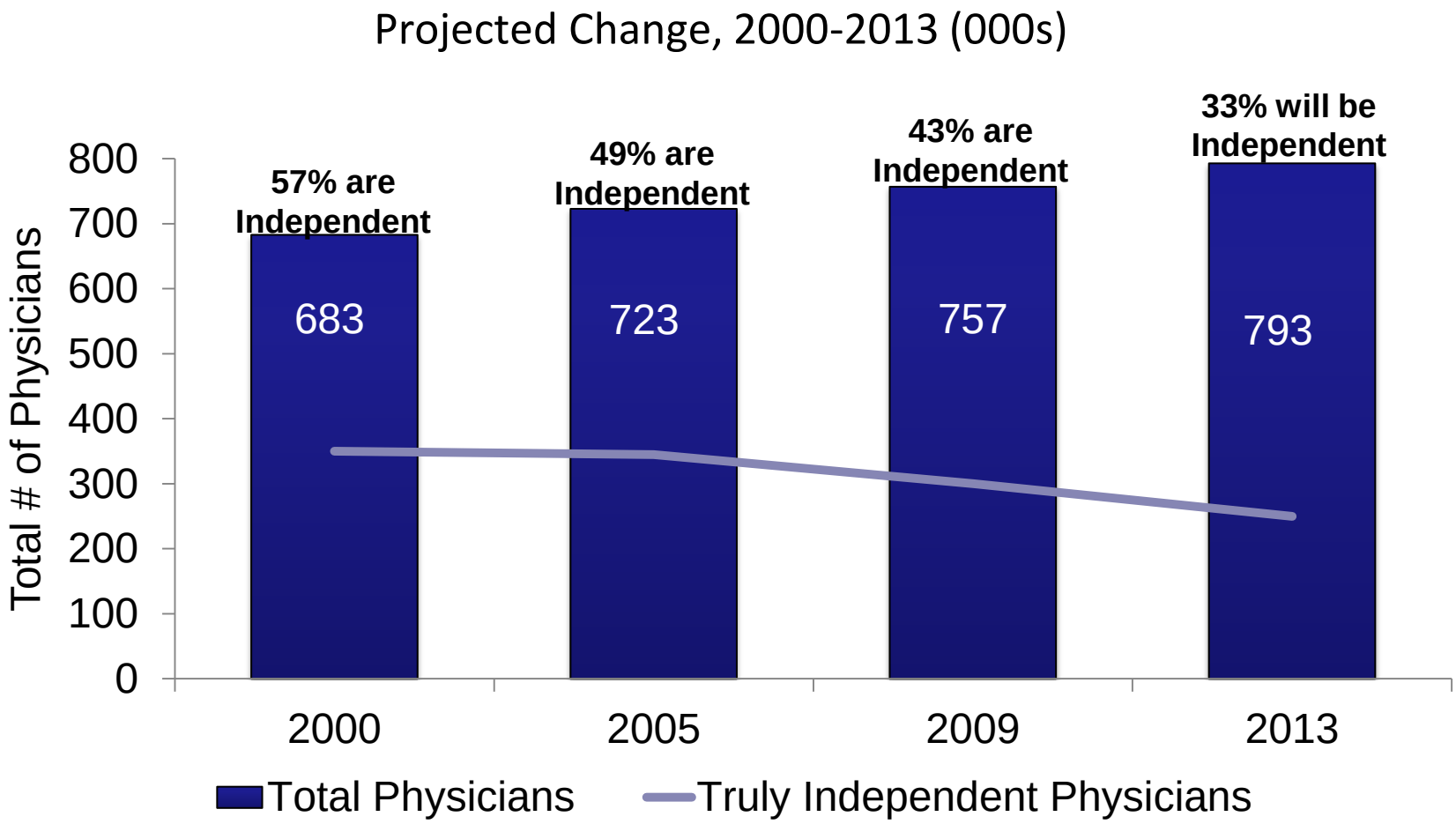
- **An Association of American Medical Colleges analysis shows a "critical shortfall" in the number of physicians across all specialties, including primary care. This isn't just due to coverage expansion under health reform, but also retirements and specialty choice.**



Source: ©2010 Association of American Medical colleges.

Actions of Providers: Physician Alignment

- **Total Physicians vs. Truly Independent[1] –**



[1] Estimated
Sources: Accenture Analysis, MGMA, American Medical Association

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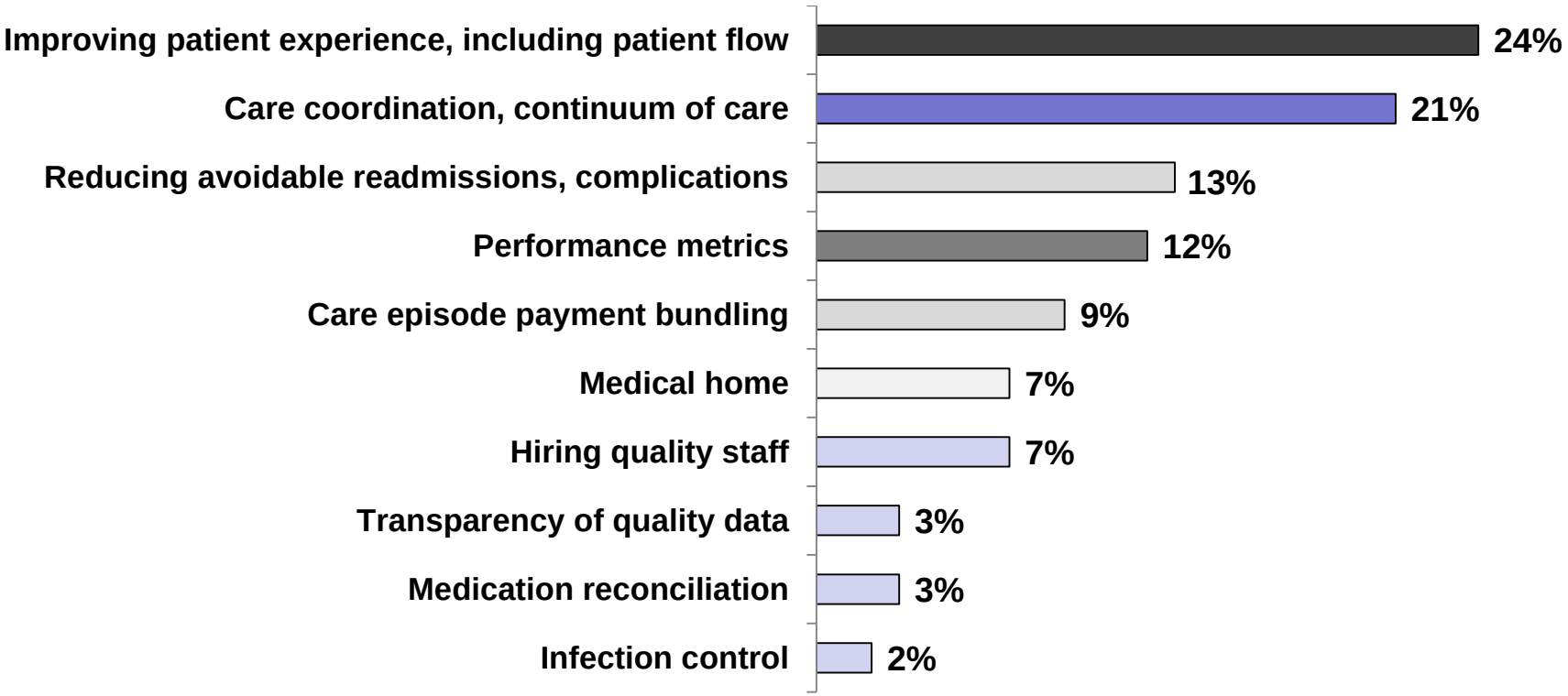
Health IT is a Platform, not a Panacea

Health IT is a Platform, not a Panacea

- Lots of “Meaningless Use” out there.
- IT is the platform for change, but it’s not the end-point.
- Clinical integration, measurements of clinical quality, changes in work flow, reductions in cost are the end-points.

Clinical Care Concerns

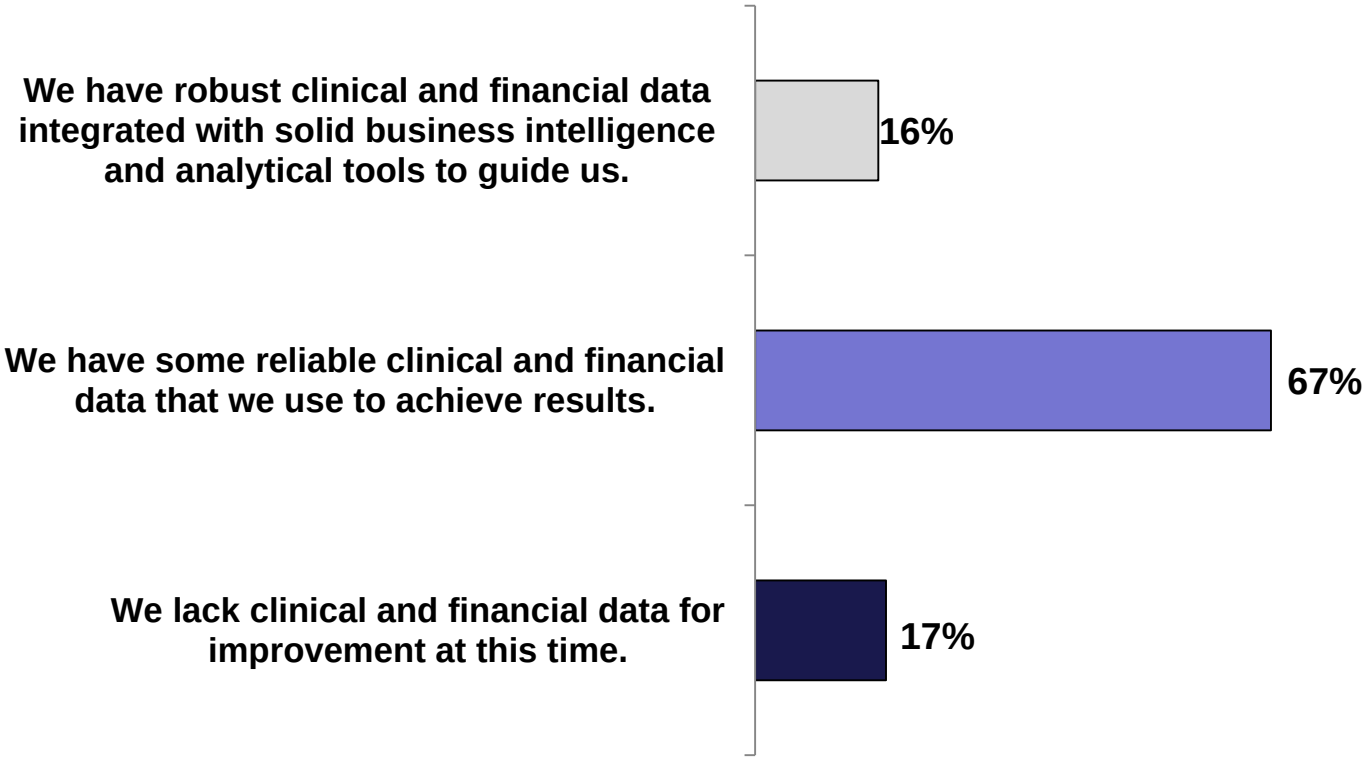
- **Regarding clinical quality improvement, which of the following areas represents the single greatest strategic challenge for your organization?**



Source: HealthLeaders Media Industry Survey 2011, Finance Leaders Report, February 2011; www.healthleadersmedia.com/pdf/survey_project/2012/Finance_2012_f.pdf..

Tools for Cost Efficiency

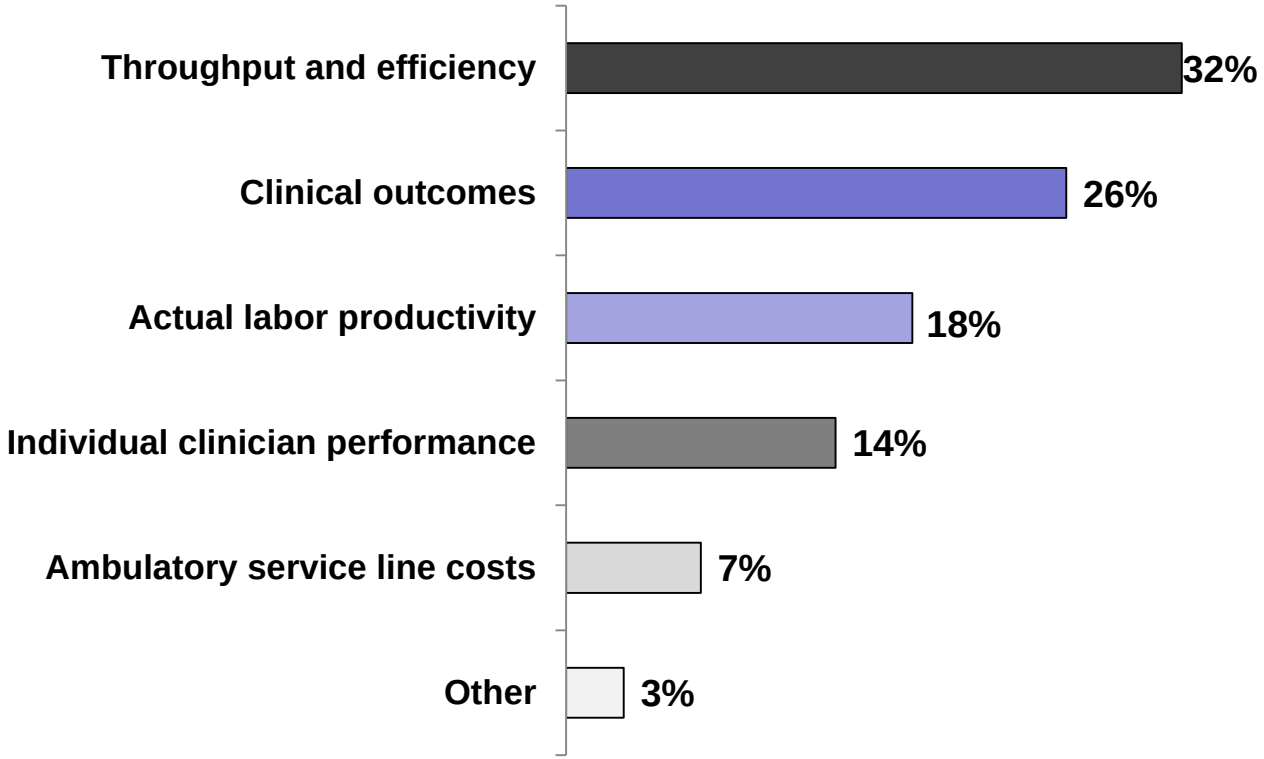
- **Which statement best describes how your organization currently uses information technology to guide cost efficiency programs?**



Source: HealthLeaders Media Intelligence Report, *Cost Containment: Overcoming Challenges,* November 2011

Areas of Need

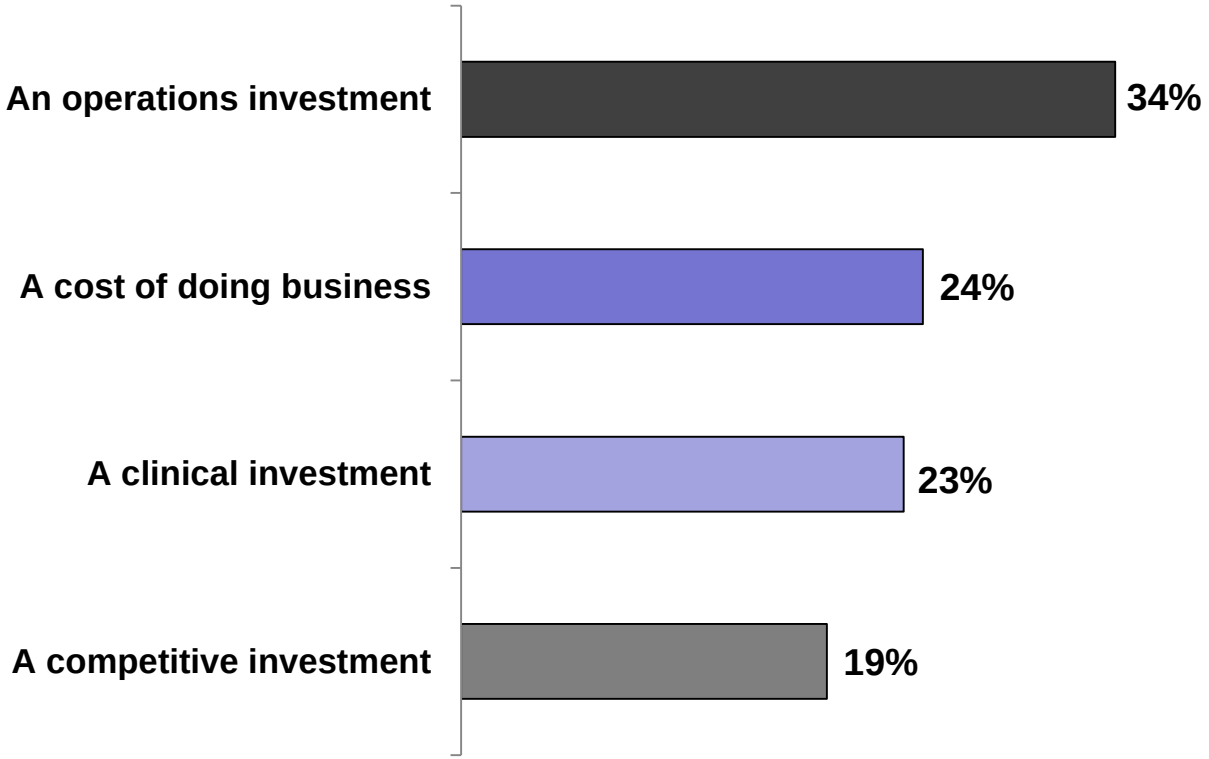
- **Which performance data measurement is your most critical need?**



Source: HealthLeaders Media Intelligence Report, *Cost Containment: Overcoming Challenges,* November 2011

Approach to HIT Spending

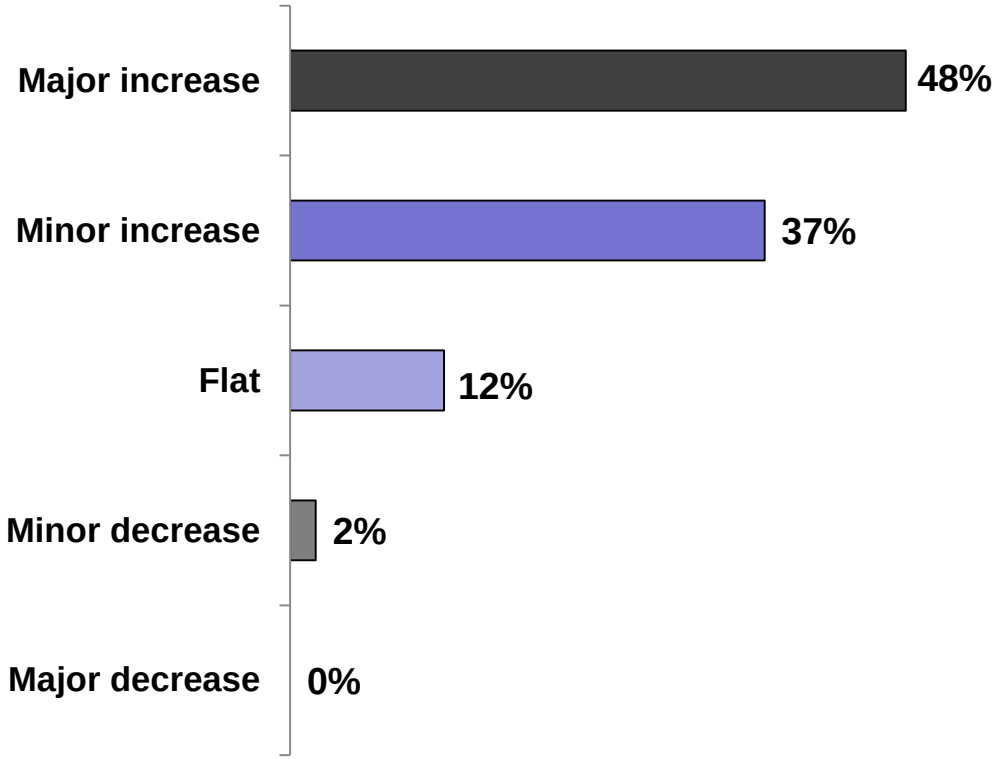
- **Which best describes your organization's approach to HIT spending?**



Source: HealthLeaders Media Intelligence Report, June 2012

HIT Spending Plans

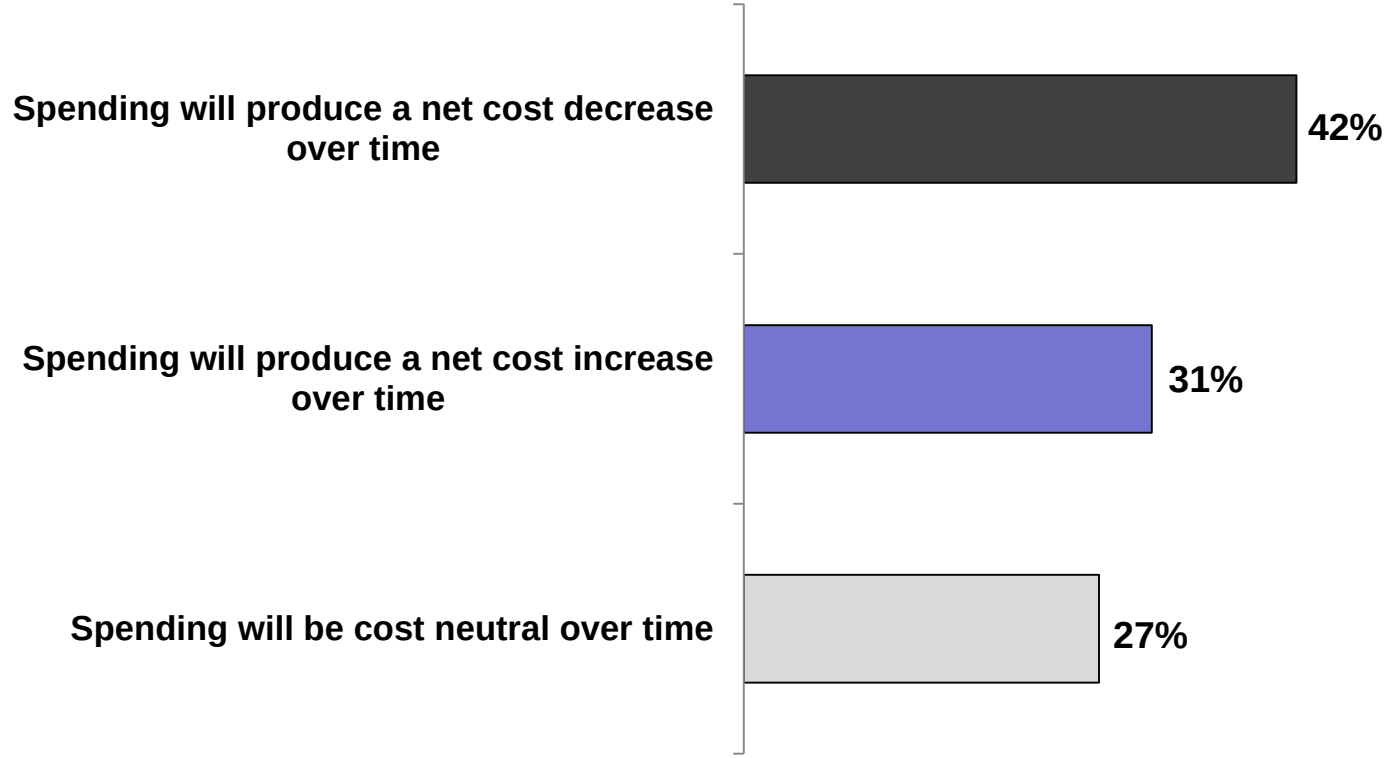
- **Please describe your organization's HIT spending plans for the coming two years.**



Source: HealthLeaders Media Intelligence Report, June 2012

ROI and HIT Spending

- **Please describe the ROI associated with your HIT spending.**



Source: HealthLeaders Media Intelligence Report, June 2012

Decision-Support Use

- **Considering your hospital-based electronic health system, rate your level of satisfaction with the following elements.**

	Strongly satisfied	Somewhat satisfied
Overall functionality	13%	41%
System speed, responsiveness, and downtime	17%	37%
Ability to share information across internal departments or with other organizations such as medical groups	20%	33%
Chart review functionality	14%	37%
Physician portal	15%	34%
Vendor training and support	18%	30%
Ease of use	11%	35%

Source: HealthLeaders Media Intelligence Report., E-Health systems: Opportunities and Obstacles; January 2011; http://content.hcpro.com/pdf/content/261348.pdf

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Learning to Live on Medicare and Value-Based Levels of Payment

Learning to Live on Medicare and Value-Based Levels of Payment

- 10, 15, 20% of levels of cost reduction will be required.
- Value, not Volume, is the new metric of payment.
- New clinical and patient experience metrics are pressuring IT.
- Revenues are rapidly becoming “zero-sum” with big winners and losers.

Actions of Providers: Top Five Efforts of Leading Health Systems

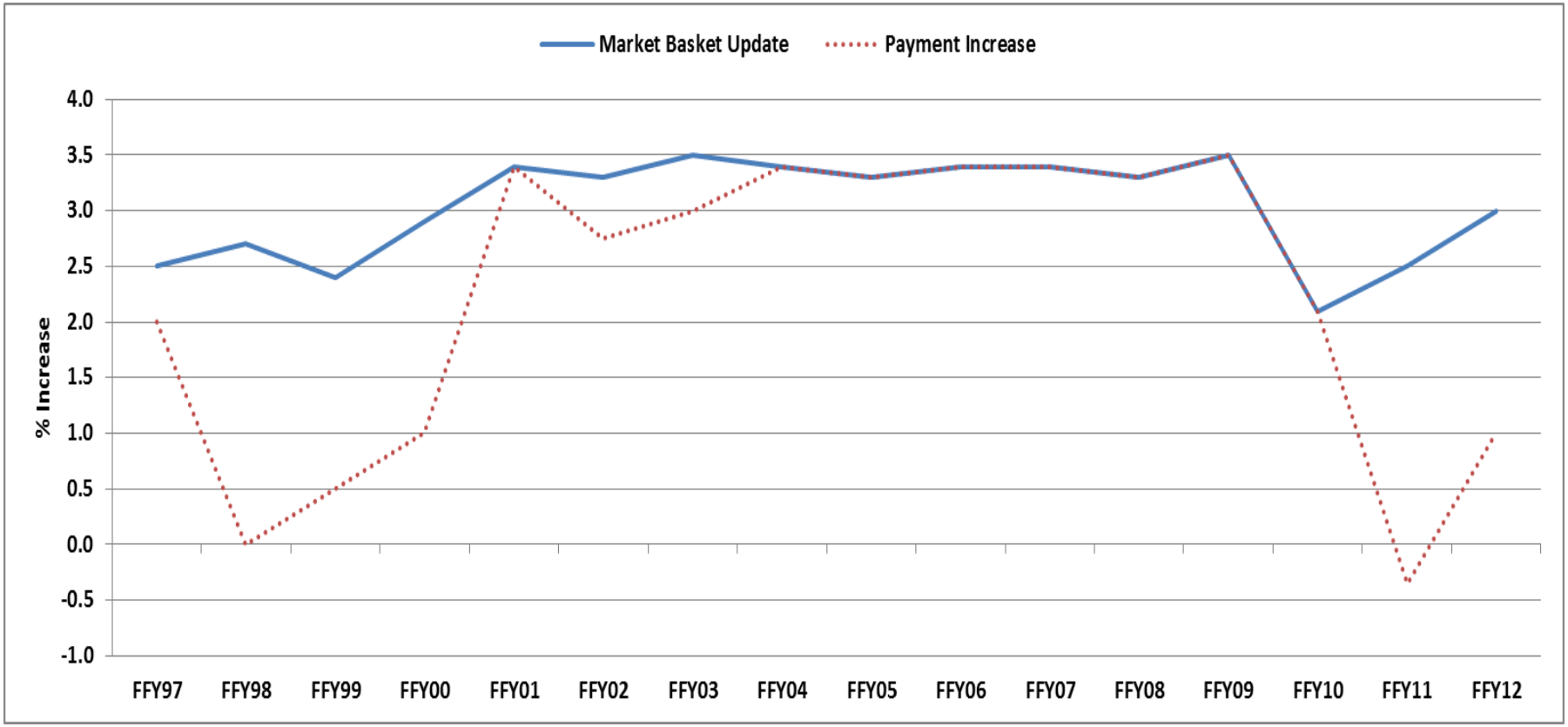
- **Seeking Dramatic Reduction in Operating Costs**
  - Break even/profit on Medicare
    - GuideStar data on 1,739 organizations:
      - Only 25% break even or profit on Medicare
        - Top quartile = 8.9% profit
        - 2nd quartile = 0.3% loss
        - 3rd quartile = 10.8% loss
        - 4th quartile = 31.8% loss
    - Lean, Six Sigma, care coordination, change in core processes are some of the techniques

Key Industry Concerns: Health System Finances

- **August 2011**
  - Final inpatient PPS rule for 2012 (Medicare)
    - Scaled back the “coding offset” reduction from 3.15% to 2.0%
    - Increase payments for hospitals will be 1.1% (in 2012) instead of projected reduction of 0.55%
    - Reductions for re-admissions (includes unrelated and planned re-admissions)
- **April 2012**
  - MedPac recommends 0.9% increase for 2013

Key Industry Concerns: Health System Finances

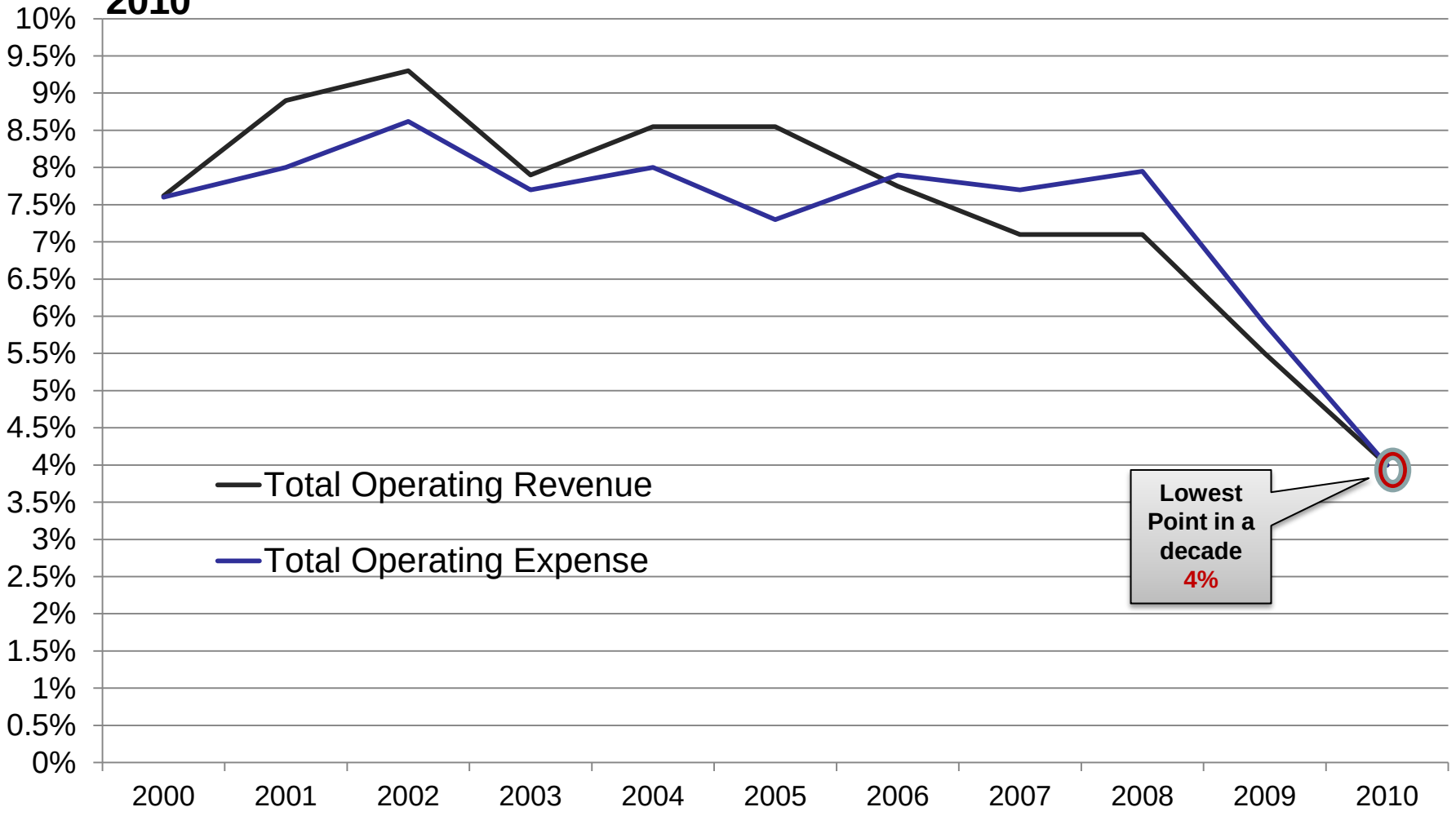
- **Hospital Inpatient Prospective Rates**



Source: Centers for Medicare and Medicaid Services

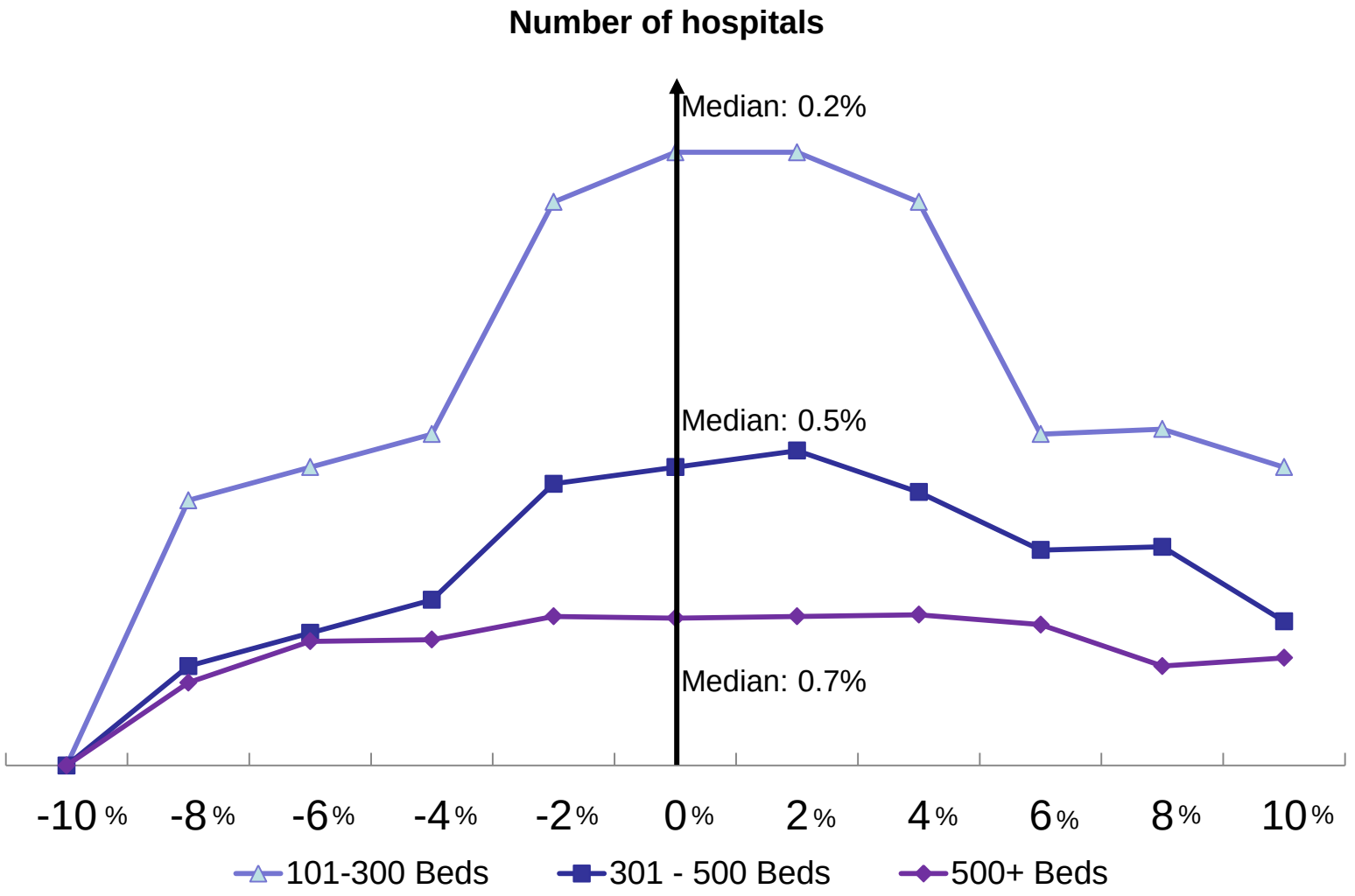
Sliding Margins Limit Financial Flexibility

- **Median hospital revenue growth rate hits lowest point in a decade in 2010**



Source: Moody's Investors Service, 2011

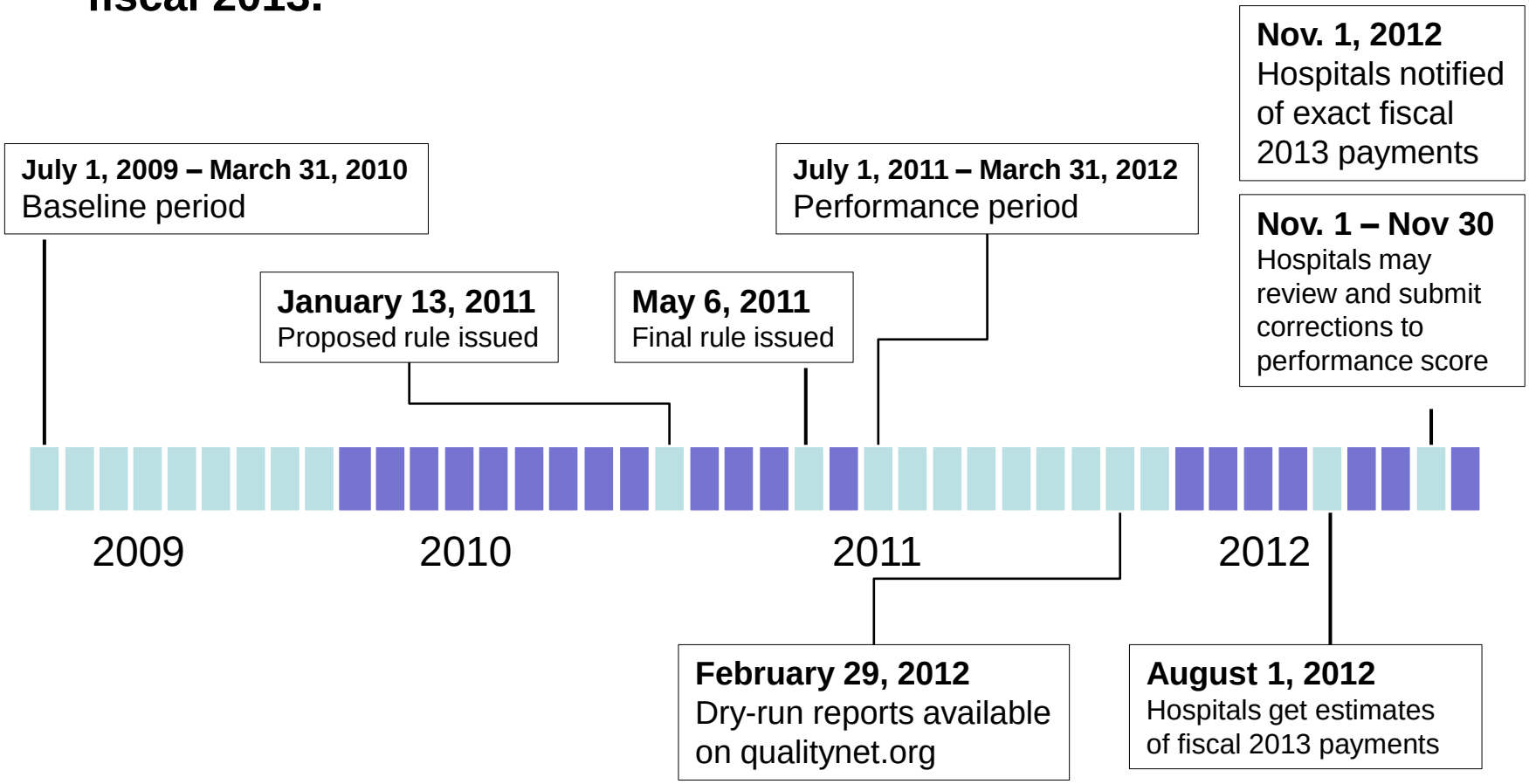
Operating Margin Distribution



Source: HealthLeaders Media June 2012 : Deloitte Development LLC 2011

Health Reform Update: Value-Based Purchasing

- **Hospitals are getting previews of what Medicare will pay them under the value-based purchasing program that goes live in fiscal 2013.**



Source: CMS. Modern Healthcare; March 5, 2012.

Health Reform Update: Value-Based Purchasing

- Value, not volume is the new payment method
- Value will be measured by clinical outcomes (17 measures) and “patient experience” (8 measures) based on HCAHPS scores and cost (“per Medicare beneficiary”).
- Incentives payments will be based on higher of an achievement score or an improvement score
- Incentives are paid from a pool of $ created by reducing all hospital Medicare payments by 1% (2% and 3% in later years)

Change in VBP metrics

- June 12 2012 - - CMS (quietly) added "cost-per-Medicare beneficiary" score to VBP payment calculation.

- October, 2014 - -20% of VBP score now on Medicare cost per beneficiary.
- Example:
  - Los Angeles:
    - L.A. Community Hospital = $24,644; 37% above national median
    - UCLA = $17,988; 2% below national median

- Costs higher than median:
  - Las Vegas, Fort Lauderdale, Newark, Miami, LA., Orange County

- Costs lower than median:
  - Anchorage, Des Moines, Honolulu, Minneapolis, Portland (OR)

Source: Centers for Medicare & Medicaid Services

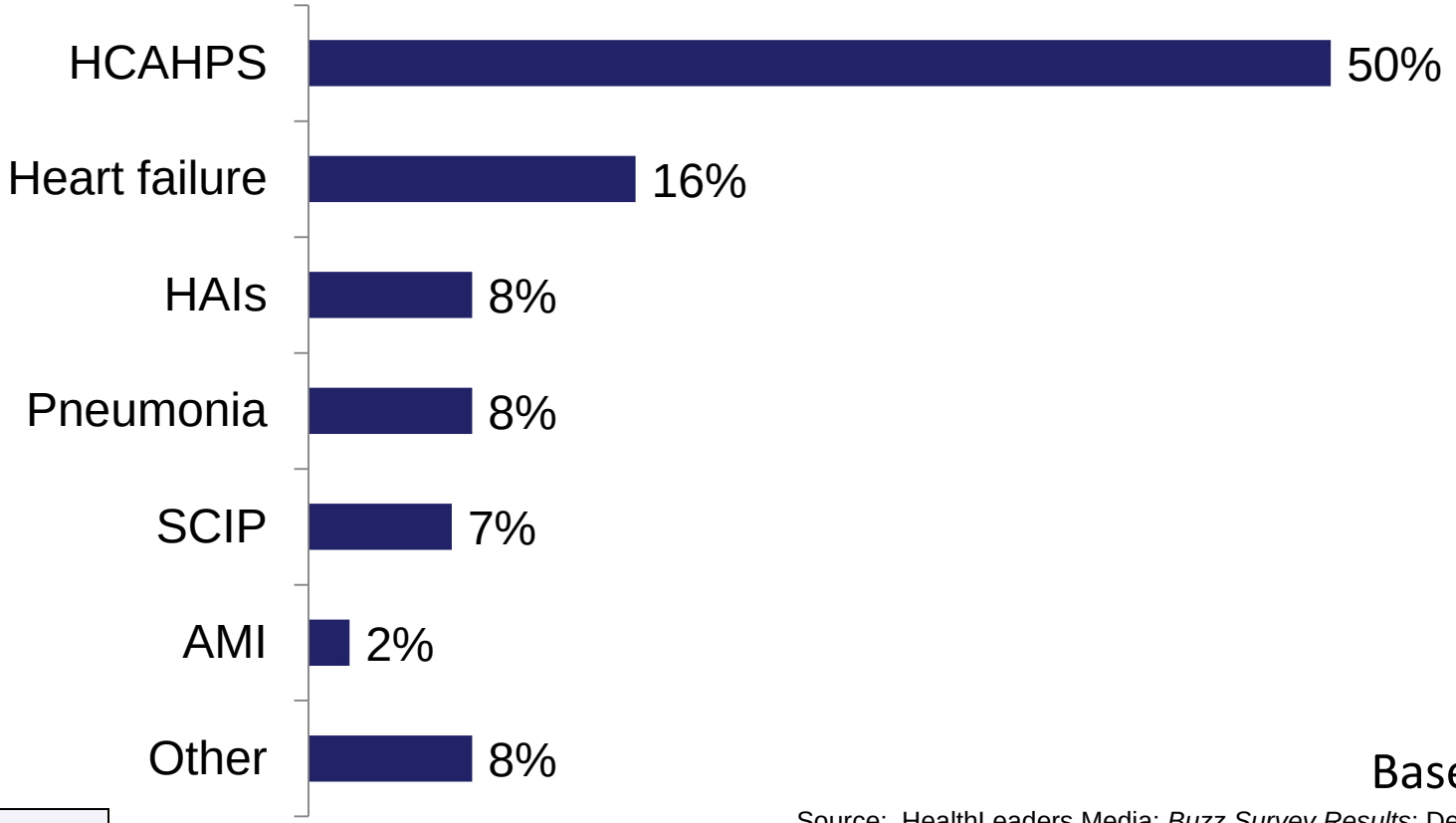
Health Reform Update: Value-based Purchasing

- **Implications**
  - Hospitals will be competing against each other
  - There will be winners at the top, and losers everywhere else
  - It's getting very crowded at the top
  - Insurers developing their VBP programs, e.g., WellPoint:
    - 1,500 hospitals in 14 states
    - No payment increases if quality measures not met:
      - 51 indicators:
        - » 55% health outcomes
        - » 35% patient safety
        - » 10% patient satisfaction

Actions of Providers: Preparation for VBP

- **Most Difficult Measure Expected in Reaching Improvement**

In which particular measure do you expect the most difficulty in reaching improvement or performance initiatives?



Base = 179

Source: HealthLeaders Media; *Buzz Survey Results*; December 2011

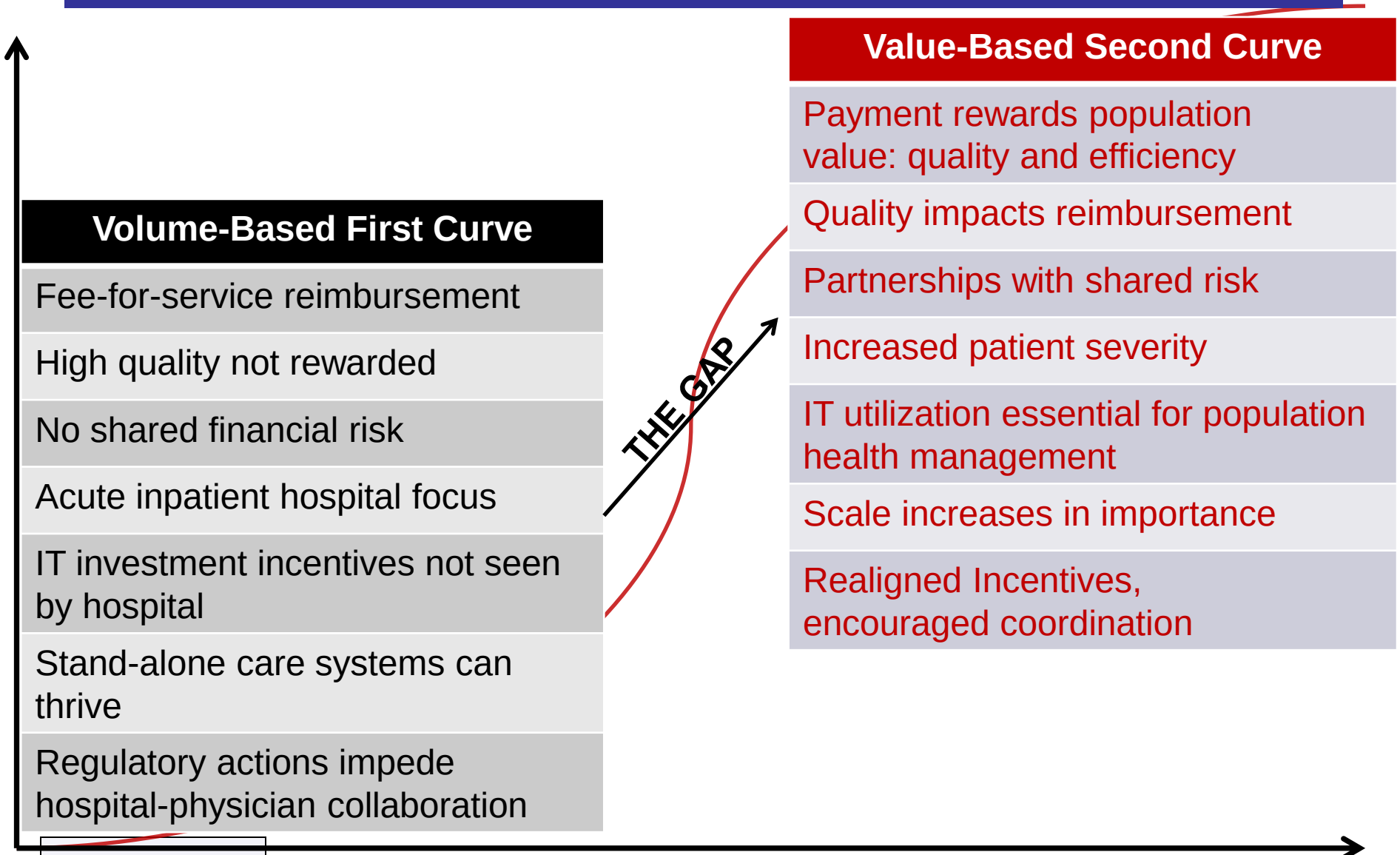
Managing Business Model Migration

Managing Business Model Migration

- Currently, providers are straddling two widely different change curves.

- Industry consolidation, physician alignment, and ACO development are each a major change; and all happening at once.

Life in the GAP



Source: AHA: Hospitals and Care Systems of the Future

Actions of Providers: Industry Consolidation

- **Five Trends That Are/Will Consolidate the Industry:**
  - Hospitals consolidating into systems
  - Physicians consolidating practices into larger groups
  - Physicians being employed by hospitals
  - Hospitals linking with/acquiring post acute care organizations
  - Not-for-profits selling to for-profits

Actions of Providers: Industry Consolidation

- **Hospital Consolidation**
  - Current Status
    - 410 systems – up from 352 in 2006, a 16% increase
    - Systems own or control over 3,600 hospitals, or 70% of the total hospitals, up from 56% in 2006
    - Systems own or control over 622,000 beds, or 77% of total hospital beds, up from 62% in 2006
  - Trends
    - Investor-owned systems acquiring control, but not total ownership, of hospitals
      - *Example*: Vanguard acquires 51% interest in the assets of Valley Baptist Health System in Texas
    - Catholic systems swapping hospitals to consolidate holdings in a state or region
      - *Example*: Trinity and CHI swapped hospitals in Idaho so that Trinity now owns four hospitals in and around Boise

Actions of Providers: Industry Consolidation

- **Physicians Consolidating into Larger Physician Groups**
  - Current Status
    - In 2009, out of approximately 750,000 physicians, 43% are practicing independently or 57% are “employed”, either by hospitals or large physician groups
    - MGMA recent study, done by Accenture, predicts that by 2013, the number of independent docs will be close to 33%, or 2/3 will be employed
  - Trends
    - As hospital systems consolidate, their employed physician groups consolidate into larger groups within the system
      - *Example*: Sanford Health in Sioux Falls, SD, a 30-hospital system, acquired MeritCare, the largest group medical practice in North Dakota with over 200 physicians in 44 care locations

Actions of Providers: Industry Consolidation

- **Physicians Being Employed by Hospitals**
  - *Example*:
    - Recent surveys of healthcare execs indicate:
      - Physician employment ranks as the #1 “physician alignment strategy” with 52% of executives saying they will utilize this strategy
      - 57% say they currently utilize physician employment as their #1 alignment strategy
      - 71% say they have seen an increase in requests from independent medical groups for employment in past 12 months

Actions of Providers: Industry Consolidation

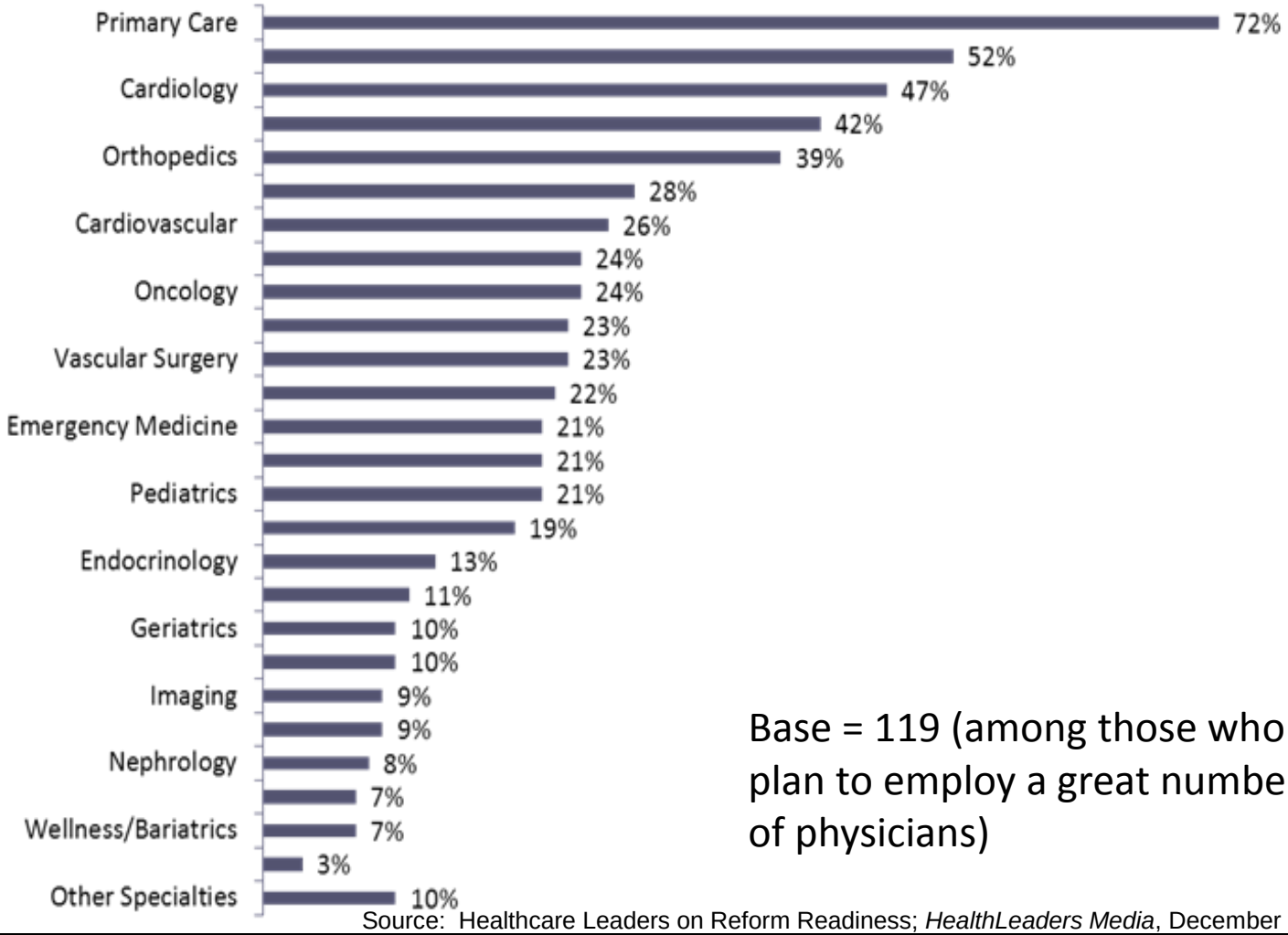
- **Hospitals Linking With/Acquiring Post-Acute Care Organizations**
  - Current Status
    - Hospitals currently own or manage about 11% of skilled nursing facilities; about the same for home health agencies
    - Value-based purchasing, bundled payments, and re-admission penalties are causing hospital executives to consider linkages with post-acute care organizations
      - *Examples*: SSM Healthcare in St. Louis is building a post-acute care network and developing a nurse navigator program. The nurse navigator would prepare and execute a 90-day care plan for each patient needing services following discharge.
      - BJC in St. Louis has built a post-acute care network of skilled nursing, extended care, assisted living and an extensive home health network.

Actions of Providers: Industry Consolidation

- **Summary**
  - The current wave of health industry consolidation is not the “same old, same old” of the past
  - This consolidation wave is broader and deeper; involving hospitals, physicians and post-acute care; not-for-profits and investor owned
  - The consolidations have a practical purpose, not the ego or stock price consolidations of the past
  - Build integrated systems that are accountable for care across the continuum of care
  - Build tighter alignments with physicians to better control overall costs and to be able to gain “bonuses” under the new payment rules
  - Link with insurers in a “commercial” ACO to gain market share and better payments through lower costs/improved outcomes

Actions of Providers: Physician Alignment

- **Plans to Employ a Greater Percentage of Physicians in Next 12-36 Months** In what service lines or specialties?



Base = 119 (among those who plan to employ a great number of physicians)

Source: Healthcare Leaders on Reform Readiness; *HealthLeaders Media*, December 2010.

Health Reform Update: Accountable Care Organizations

- **Four Types of ACOs**

  CMS type ACO (2 attempts)

  - Part of Health Reform Act (Shared Savings Program)
  - Regulations issued March 2011
  - Significant pushback:
    - AHA = Cost of implementation
    - AMGA = 93% of its members would not participate
    - Ten largest multi-specialty group practices will not participate
  - Final rules issued November 2, 2011
  - Unlikely to have much participation

- **Shared Savings Program**
  - April 10, 2012 CMS selected 27 entities as the first ACOs
  - 18 states
  - 10 hospitals, 13 physician organizations, 4 others
  - 33 quality measures:
    - Care consolidation
    - Patient safety
    - Appropriate use of preventive health measures
    - Improved care for at-risk populations
    - Patient and caregiver experience of care

Health Reform Update: Accountable Care Organizations

- **Four Types of ACOs**

  CMS Pioneer ACO Model

  - Alternative to Shared Savings Program
  - Designed specifically for organizations with experience offering "coordinated, patient-centered care, and operating in ACO-like arrangements"
  - 32 organizations selected
  - Began January 1, 2012
  - Much more realistic regulations than Shared Savings Program

Health Reform Update: Accountable Care Organizations

- **Four Types of ACOs**

  Private Payer-Provider ACO ("Commercial" ACO)

  - Great interest
  - Many in formation; rapid growth
    - Estimated 35 formed or announced
  - Led by "integrated" systems

  Providers Focusing on Delivering Accountable Care

  - May or may not have an ACO structure
  - Focus on value, not volume

5 Trends in ACO Development

- Number and types of ACOs are expanding
  - Addition of 150 ACOs in last 8 months
  - Total ACOs now at 310
  - 45 states
- ACO growth is most prominent in large metropolitan regions
- Hospitals / systems still primary backer of ACOs
  - Of 310 ACOs, 148 (48%) are hospital led
  - Of 120 (40%) are physician led

Source: Leavitt Partners, June 2012

5 Trends in ACO Development

- Medicare ACOs are restricted; commercial ACOs are expanding
  - Inherent limitations in federal programs
  - Commercial ACOs experiment with arrangements and structure
- Success of any ACO model over another is undetermined
  - Not enough data or length of time to determine

Source: Leavitt Partners, June 2012

Number of Accountable Care Organizations, by Category

Organization Type	Number of ACOs
Single Provider ACO	177
Multiple Provider ACO	103
Insurer ACO	17
Insurer-Provider ACO	13
Total	**310**

Source : Center for Accountable Care Intelligence :Growth and Dispersion of Accountable Care Organizations: June 2012 Update

Headquarters by Type

ACO Sponsoring Headquarters by Type				
Hospital System	**Physician Group**	**Community-Based Org.**	**Insurer**	**Total**
148	**120**	**13**	**29**	**310**

Note: On July 9, 2012 CMS released the names of an additional 89 newly approved Medicare ACOs. Nearly half are physician-led organizations, many serving less than 10,000 beneficiaries. This brings the total of ACO's of all types to 310.

Source: Growth and Dispersion of Accountable Care Organizations: June 2012 Update

Actions of Providers: Development of ACOs

- **Early Results From Large Commercial ACO**
  - Advocate Care, formed by BCBSIL and Advocate Health Care
  - 250,000 PPO members and 125,000 HMO members
  - Formed in 2010
  - First 6 months of 2011:
    - Hospital admissions down 10.6%
    - ED visits down 5.4%

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Building a Culture of Quality and Accountability

Building a Culture of Quality and Accountability

- This is what healthcare is, or should be, all about.
- Perverse financial incentives (e.g., “fee-for-service”) and disintegrated structures (e.g., physicians as independent contractors controlling volumes and costs of care) have driven the industry.
- The previous four key elements have described the drive to a new culture.

Actions of Providers: Top Five Efforts of Leading Health Systems

- **Rank Your Organization's Top Three Priorities for the Next Three Years**

	1st Ranked Choice	2nd Ranked Choice	3rd Ranked Choice	Combined Top 3	Rank Order
Patient experience and satisfaction	26%	16%	13%	55%	1
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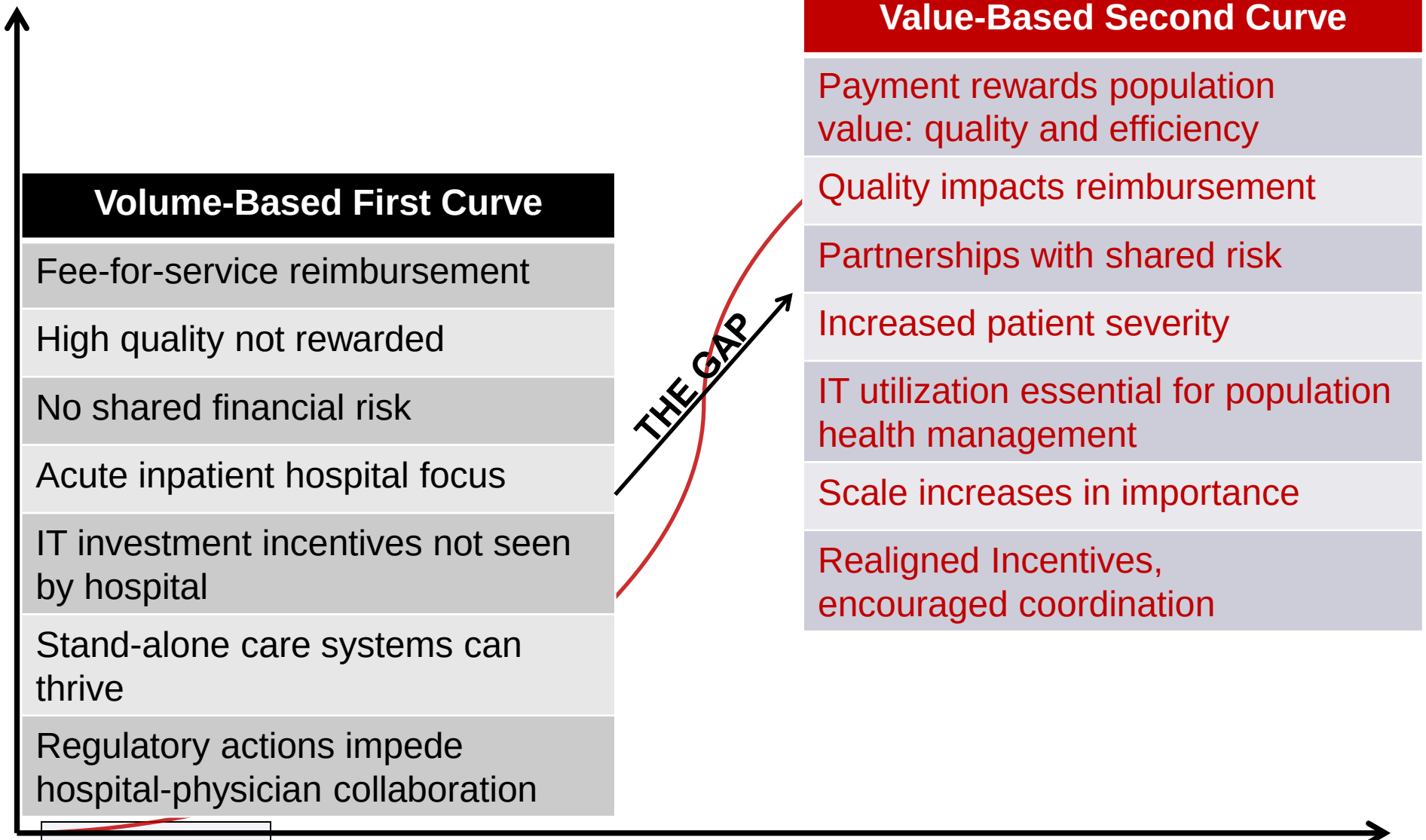
SUMMARY

Life in the GAP



Source: AHA: Hospitals and Care Systems of the Future

Nonprofits Face Difficult Future

- **U.S. nonprofit health care outlook remains negative for 2012**
  - Increased need for capital relating to plant modernization and IT systems
  - Greater limitations on access to capital due to wider credit spreads for lower-rated credits
  - Cost of compliance with changing regulatory environment and new requirements under health care reform
  - Increased reimbursement pressures across all payers
  - Large unfunded pension liabilities
  - Possibility that benefits of tax-exemption will further diminish
  - Benefits of economies of scale, including increased bargaining power with suppliers, payers and labor

Source: Moody's Investors Service

Summary

- Fundamental restructuring of the healthcare system is underway—independent of health reform
- Restructuring will take 10-15 years
- Tipping point 5-10 years out
- All scenarios entail clinical integration, economic integration, and new care delivery models
- Historic hospital and private practice physician business models on life support
- Options for large vs. small systems different
- Impediments to change are enormous—leading transitions will be brutal
- Engage stakeholders—develop a diagnosis before a treatment plan