

Snapshot: Forces and Factors Shaping Healthcare Today

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I. Overview of Presentation

Current Forces and Factors Shaping the Industry

- I. Prologue: Random Observations on Pending Changes
 - II. Convergence of the Entire Healthcare Industry
 - III. More on Health Insurers
 - IV. Case Study: Current Status of Insurers and Provider Health Systems in the Minneapolis-St. Paul Market
 - VI. Summary
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II. Prologue: Random Observations on Pending Changes



Are We Really Different?

BANKING

10,961 Commercial banks in 1993

5,876 Commercial banks in 2013

Health Care Industry Parallels

- High fixed/infrastructure costs
- Technology disrupters
- New economic models
- Threat from alternative providers
- Changing consumer preferences
- Disintermediation

AIRLINES

9 Major domestic airlines in 2004

4 Major domestic airlines in 2014

Health Care Industry Parallels

- High fixed/infrastructure costs
- Low margins
- Complex channel strategy
- Fluctuating occupancy rates
- New economic models
- Disintermediation

Sources: Federal Deposit Insurance Corporation; Yellin T. The runway to the final four.
<http://money.cnn.com/infographic/news/companies/airline-merger/>. CNN Money; All websites accessed September 2014.

Disintermediation Coming to Your Market?

B2B

WHOLESALE

Providers sell themselves to physicians and insurers

Employers make decisions on behalf of individuals and their families.

B2C

RETAIL

Providers sell themselves to consumers.

Individuals make decisions on benefits, providers and course of care.

B2B = business to business; B2C = business to consumer.

Why is This Happening?

Factors Driving the “Retailization” of Health Care

1. New benefit and network designs are making the health care consumer more selective and cost conscious.
2. Public and private insurance exchanges are making the consumer a more active participant in the health care process.
3. Entrepreneurs, governments, payers and health systems are bringing price transparency to the marketplace.
4. Consumers continue to be attracted to convenient and cost-effective sites of care (e.g., retail clinics, virtual care).

Narrow Networks Are Here to Stay...Or Are They?

Regulations Crack Down on Narrow Networks

In California, new regulations hold insurers to:

- Appointment wait times
- Adequate number of providers
- Out-of-network options
- Public reporting

Well-Designed Narrow Networks Reduce Costs

In Massachusetts, consumers spent 35% less on health care

- More primary care
- Less ED utilization
- Less diagnostic, imaging and specialty care

Source: Overland D. Narrow networks lower spending by a third, research finds. Fierce HealthPayer: September 8, 2014; Gruber J and McKnight R. Controlling Health Care Costs Through Limited Network Insurance Plans: Evidence from Massachusetts State Employees; Social Science Research Network; September 2014; Gorn D. New rules to limit narrow networks. California Healthline. February 3, 2015.

Private Exchange Adoption Is Slow, But Will Increase (case study)

AON HEWITT CORPORATE HEALTH EXCHANGE

- Employers are required to be fully insured.
- 600,000 lives in 2014; 1,000,000 lives worth \$5B as of January 2015
- Employers include Walgreens, Sears Holdings Corporation and Darden Restaurants
- 8 of 16 prospects from 2014 signed up in 2015
- 73% of employees picked narrow network

TOWERS ONEEXCHANGE

- 90% of employers are self insured
- 565K employees
- Employers include DuPont, IBM, General Dynamics
- Expects 30M active employees to join an exchange over next 5-7 years

Sources: JPM Morgan Health Care conference 2015, Aon Hewitt. Aon Hewitt analysis shows lowest US health care cost increases in more than a decade [press release]. October 17, 2013; Aon Hewitt. Aon Hewitt shows continued cost savings for companies and individuals participating in the Aon Active Health Exchange [press release]. September 18, 2014; Sg2 Interview With Aon Hewitt, September 2014.

Virtual Health Meets Retail Market Needs

Tele “SPECIALTY”
Virtual conferencing



Virtual consults

- Urgent care
- Specialty care



Mobile apps

Social media

Geo-tagged devices

Patient web portals

Online support groups



◀ Clinician to Clinician

Clinician to Patient

Consumer Driven ▶



eICU, eED
Telestroke

eICU=electronic intensive care unit; eED = electronic emergency department



Remote monitoring
Virtual medication
management
Telehealth kiosks

Personal activity
monitors

Patient scheduling
apps

Quality and price
transparency tools



Virtual Visits Propel Patients Toward Consumerism (case study)

50,000

Landing Page Visits

2,000 +

Patients Served

If Not for This Service...

11%
of patients
would have
gone to the ED

58%
would have
gone to an
urgent care
center

21%
would have
visited their
PCP

10%
would have
done nothing

75%

Patients Previously
Without a PCP

45%

New Patients Who
Schedule a Follow-up
Appt. After a Virtual
Consult

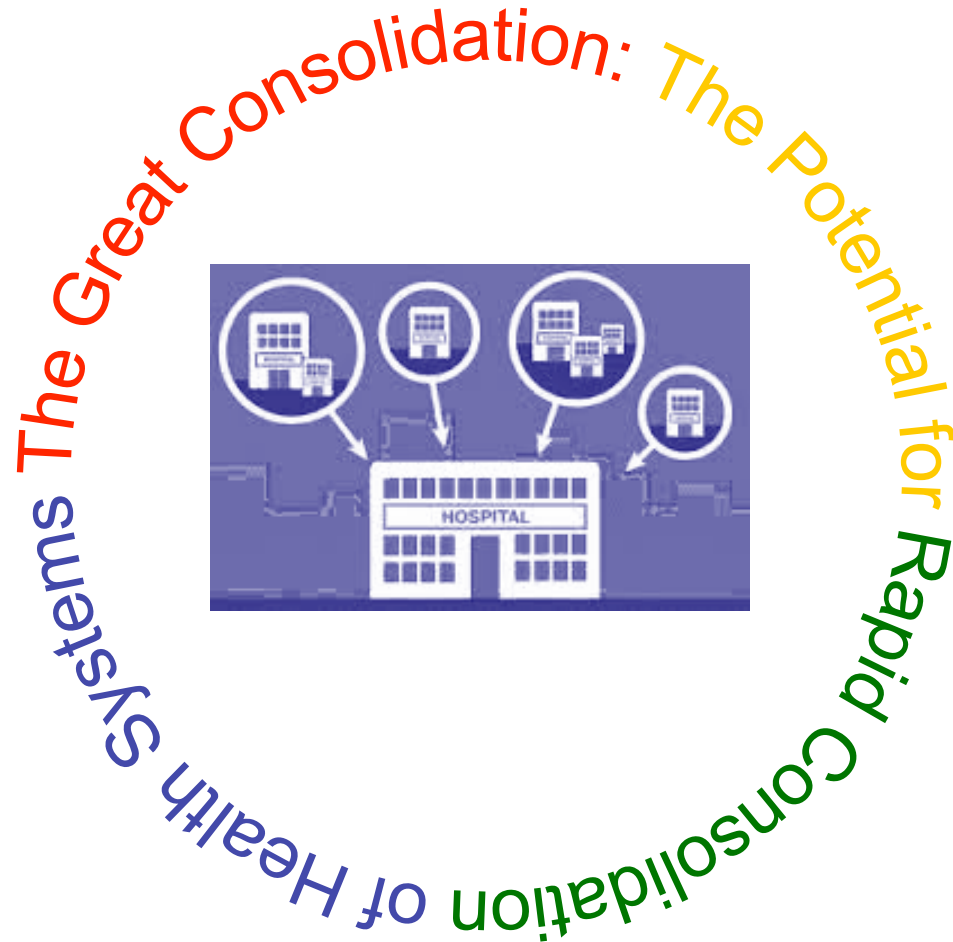
PCP = primary care physician. Sources: Sg2 Interview With Franciscan Health System, 2013; Sg2 Webinar: Developing Your Virtual Health Strategy, featuring Franciscan Health System. March 12, 2014.



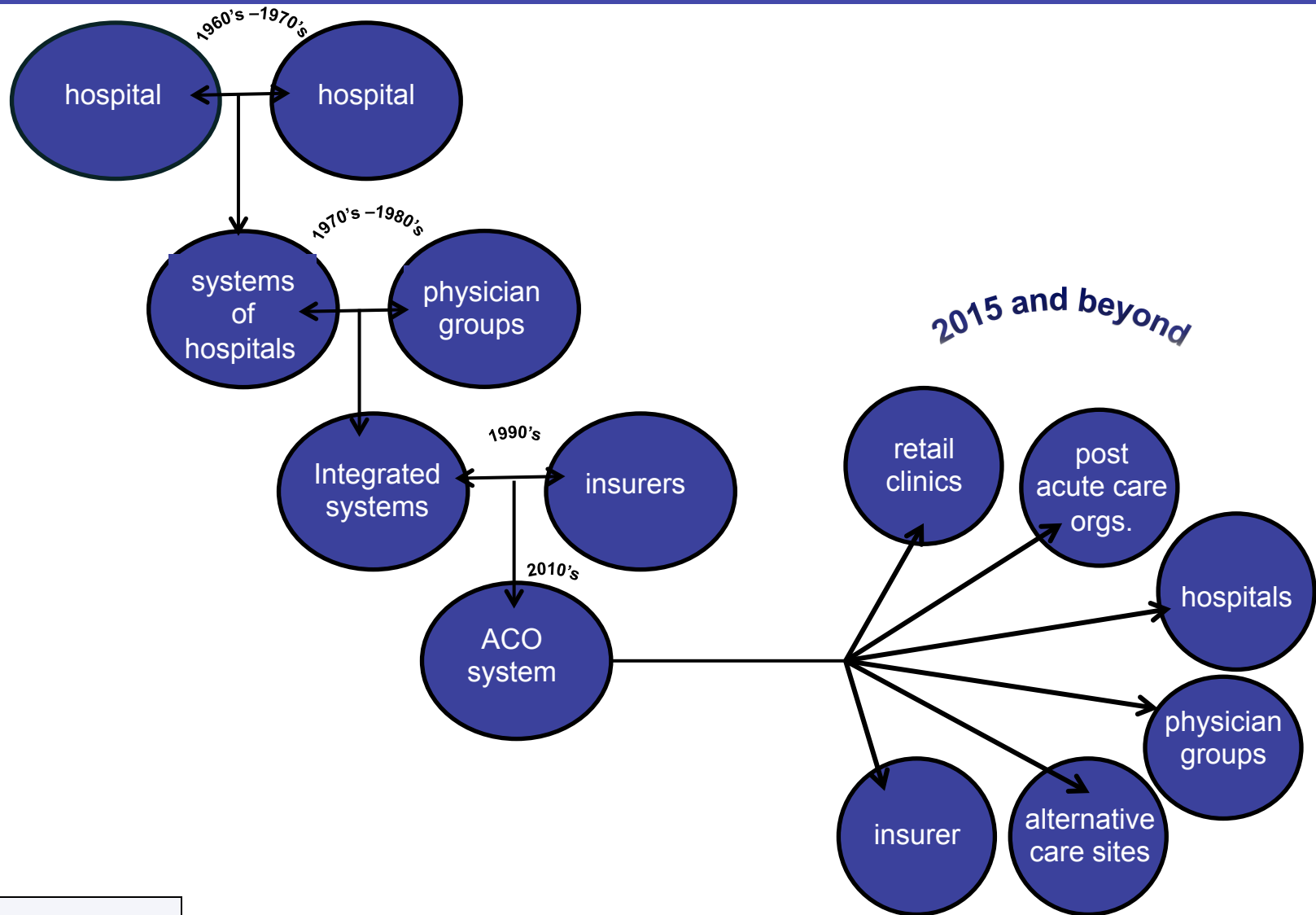
III. Convergence of the Entire Healthcare Industry



Hospitals into Systems



Healthcare Consolidation Progression



The Health System Landscape

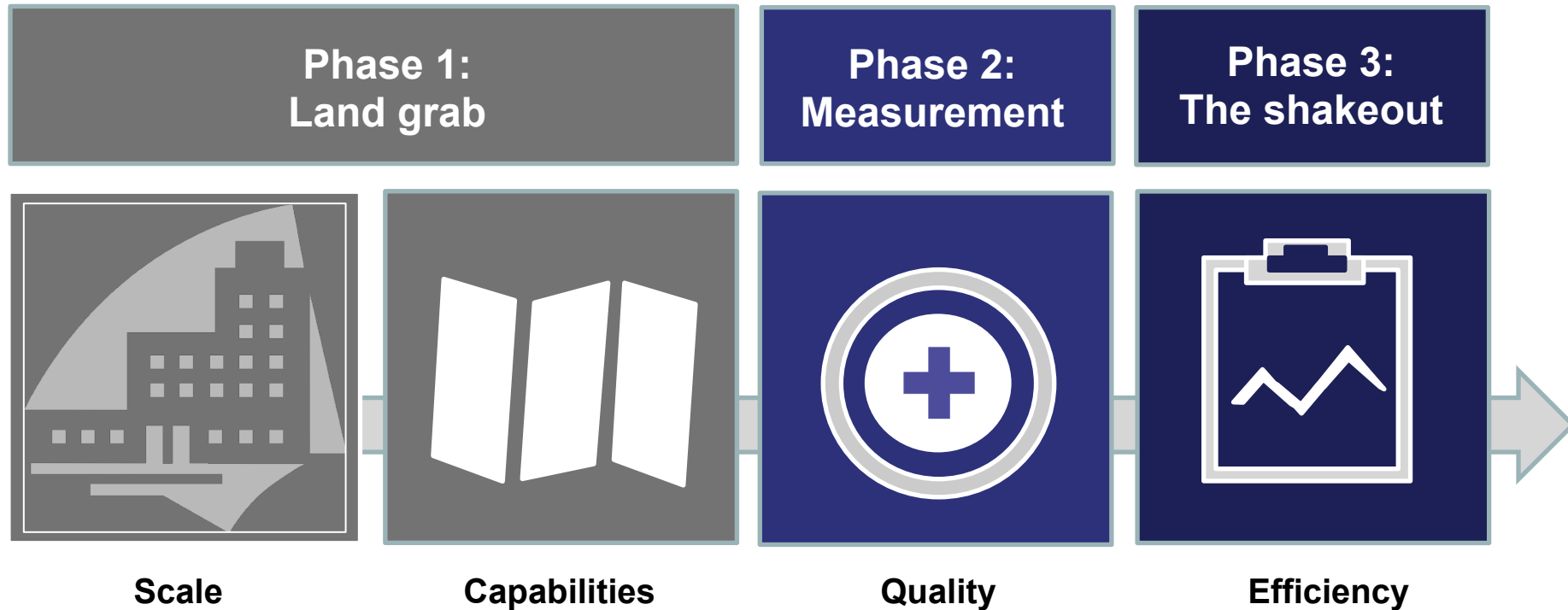
Figure 4.

Group	Description	Number of Health Systems
Large health systems/national chains	<ul style="list-style-type: none"> • 10+ hospitals • Multi-region or multi-state footprint 	80
Mid-tier health systems	<ul style="list-style-type: none"> • 2-9 hospitals • Local regional/metropolitan area footprint 	273
Academic Medical Centers (AMCs)	<ul style="list-style-type: none"> • Academically affiliated • Independent and small multi-hospital systems 	134
Small community health systems	<ul style="list-style-type: none"> • Independent • Located in urban, suburban, and rural markets 	1,346
Total: Non-government health systems		1,833

Source: Deloitte: The great consolidation: The potential for rapid consolidation of health systems

Phases of Consolidation

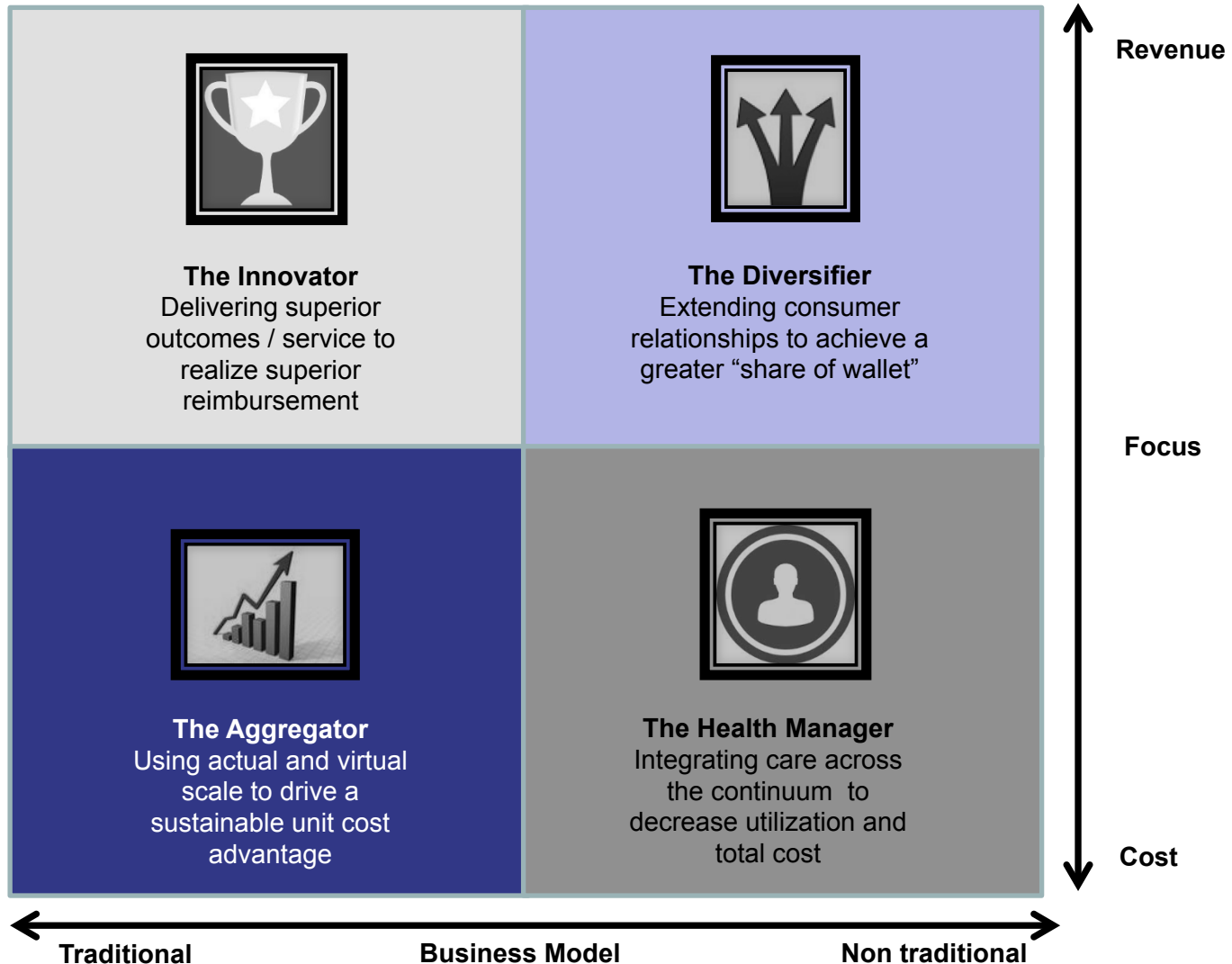
Figure 5.



Source: Deloitte: The great consolidation: The potential for rapid consolidation of health systems

Possible Positioning for Consolidation

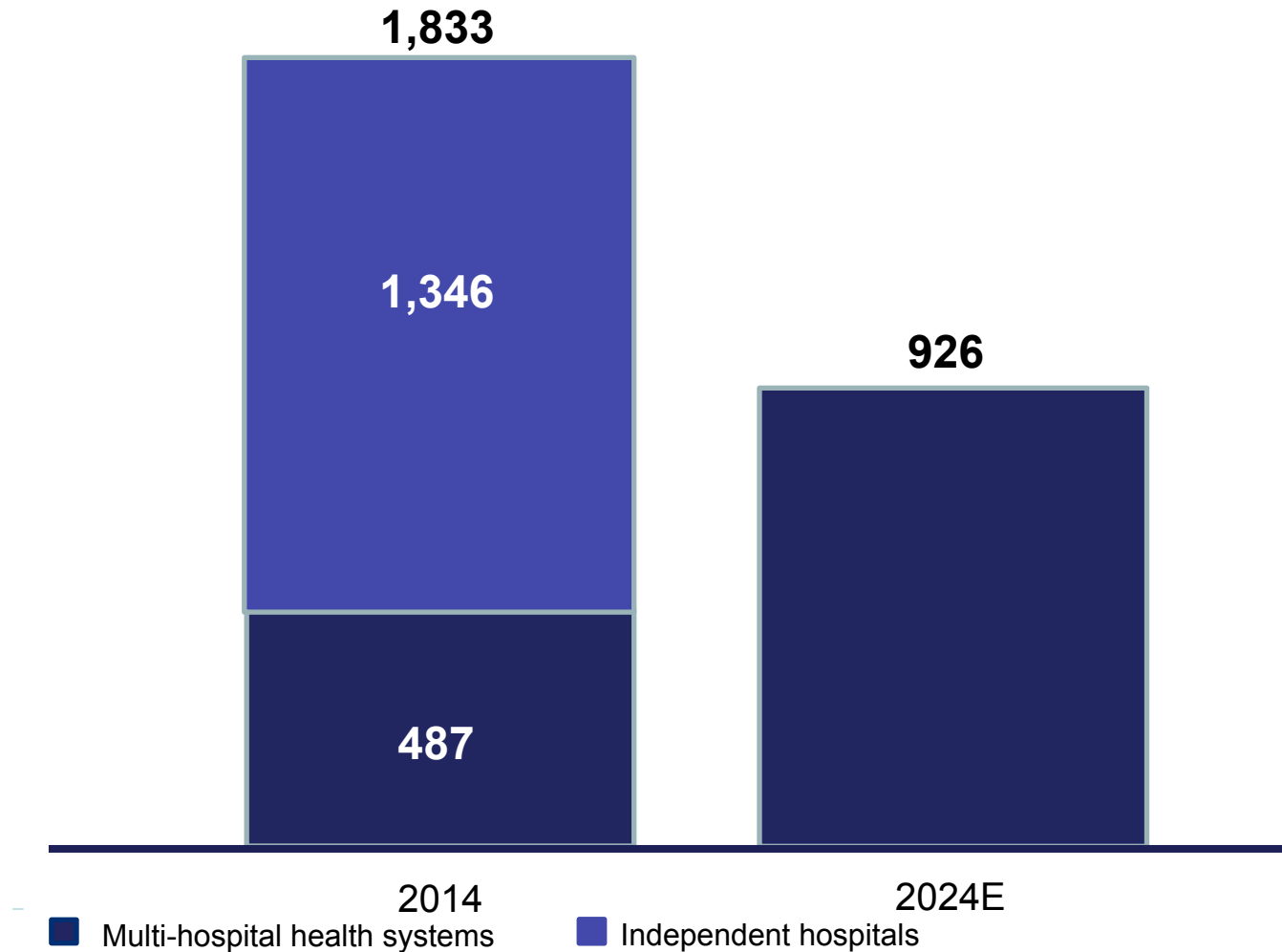
Figure 6



Source: Deloitte: The great consolidation: The potential for rapid consolidation of health systems

Projected Consolidation: Number of Health Systems

Figure 7.



Source: Deloitte: The great consolidation: The potential for rapid consolidation of health systems

Physicians into Systems

- ◆ American Medical Association:
 - Doctors employed:
 - 60% of family practice and pediatricians
 - 50% of general surgeons
 - 25% of surgical sub-specialists
 - 35% cardiologists
- ◆ Merritt Hawkins, physician placement firm:
 - 64% of job offers from hospitals, up from 11% in 2004



Insurer Consolidation

- ◆ Big 5 enroll 70% of all health insured
- ◆ Big 5 likely to consolidate to 3:
 - Aetna trying to acquire Humana
 - 33 million enrollees
 - \$115 Billion revenues
 - Anthem trying to acquire Cigna
 - \$131 Billion revenues
 - UnitedHealth Group waiting to acquire Cigna
 - Would be \$189 Billion in revenues
- ◆ 17 states have a single health insurer with market share of 50% or more.
- ◆ Blue Cross Blue Shield Association
 - 36 plans
 - 106 million enrollees

aetna

Humana

Anthem. 
BlueCross BlueShield

 **Cigna**

UNITEDHEALTH GROUP

Insurers as Care Providers



Humana acquired an urgent care chain



UnitedHealth Group



Monarch HealthCare®
A MEDICAL GROUP, INC.

United acquired a physician IPA



WellPoint acquired a primary care provider



Insurers as Care Providers (cont.)

- ◆ Optum (subsidiary of UnitedHealth Group)
 - 1,000 physician practices acquired
 - 140 urgent care clinics acquired
 - House call program featuring nurse visits in patient homes



Provider Systems as Insurers

- ◆ 64 health systems operate health insurance plans; grow to 150 by 2017
 - Sell directly to employers and consumers
 - Many well established and successful:
 - Sentara
 - 30 years
 - 400,000 enrollees
 - Geisinger
 - 43 years
 - 488,000 enrollees
 - HealthPartners
 - 50 years
 - 630,000 enrollees
 - Henry Ford Health System
 - 55 years
 - 675,000 enrollees

Provider Systems as Insurers (cont.)

- Presbyterian Health
 - 35 years
 - 444,000 enrollees



■ Reasons for success:

- Able to benefit from both fee-for-service payments (hospitals) and “at risk” payments (health plan and employed physicians) and population health management (health plan)
- Health Plan negotiates with physicians, not the hospitals; reduces internal conflicts
- Health plan develops own brand and customer loyalty; advertising, enrollee contacts, patient follow-up
- System gains revenue, employer relationships

Provider Systems as Insurers (cont.)

- ◆ Systems starting new plans
 - Sutter Health
 - Cone Health System
- ◆ Large systems buying health plans
 - Ascension Health pays \$50M to acquire US Health and Life Insurance, operating in 18 states
 - Catholic Health Initiatives acquires Soundpath Health, a Medicare Advantage Plan insurer and purchased QualChoice, commercial insurer.
- ◆ Existing provider owned health plans expand with other systems
 - Sentara offers their health plan to Ohio Health and to several systems in SouthEast to open Medicaid plan in Atlanta
 - Select Health (Intermountain HealthCare) offers their plan to St. Luke's Health System in Idaho

Provider Systems as Insurers (cont.)

■ Geisinger

- Acquired Atlantic Care, 2 hospital system in Atlantic City, NJ
- Previously joint ventured their health plan with Meridian in NJ
- Purpose: expand Geisinger Health Plan into another state, with anchor hospitals.

◆ Insurers offer joint venture or equity co-ownership to health systems

- Allina, Blue Cross Blue Shield MN create new insurance plan to market new products, probably offered through narrow network.



Pharmacies into Retail Clinics, Linked to Systems

Retail Clinic	Number of Sites	Market Share	Health System Affiliations
CVS MinuteClinic	901	50%	47
Walgreens Healthcare Clinic	437	24%	6
Kroger Little Clinic	140	8%	4
Walmart Retail Clinics	103	6%	46
Target Clinic	80	4%	2
RiteAid RediClinic	30	2%	3

◆ These six represent 93% of total sites

- Consolidation
 - CVS acquired Target's 80 sites, June 2015
- Linkages to health systems:
 - CVS seeks linkages with leading systems
 - Cleveland Clinic, MedStar, Carolinas, Lahey Clinic, Henry Ford, Texas Health Resources
 - Installing EPIC EMR, link directly to systems EMR
 - Walgreens
 - Increasing their affiliations; Ochsner, Johns Hopkins

◆ Systems operate their own retail pharmacies:

- Allina - 26
- Fairview - 35

Post Acute Care Linked to Systems

◆ Ascension Health Senior Care

- Reorganization of existing senior services programs into new division
- 34 senior care facilities, 5,500 beds



◆ Allina Health

■ Allina Senior Care Transitions

- 48 FTE physicians and nurse practitioners
- House calls to patients in assisted living and skilled-nursing facilities
- 24/7 consultations



■ Interlude Restorative Suites

- Transitional care services
- Collaboration of Allina, Benedictine Health, and Presbyterian Homes & Services
- Focus on post-hospital rehabilitation, 7-12 day stays



Summary

- ◆ Convergence of all aspects of the care system is occurring
- ◆ Large, financially integrated systems are leading the convergence
- ◆ Linking payors and providers is the initial convergence
- ◆ Sharing of risk throughout the care continuum is now occurring

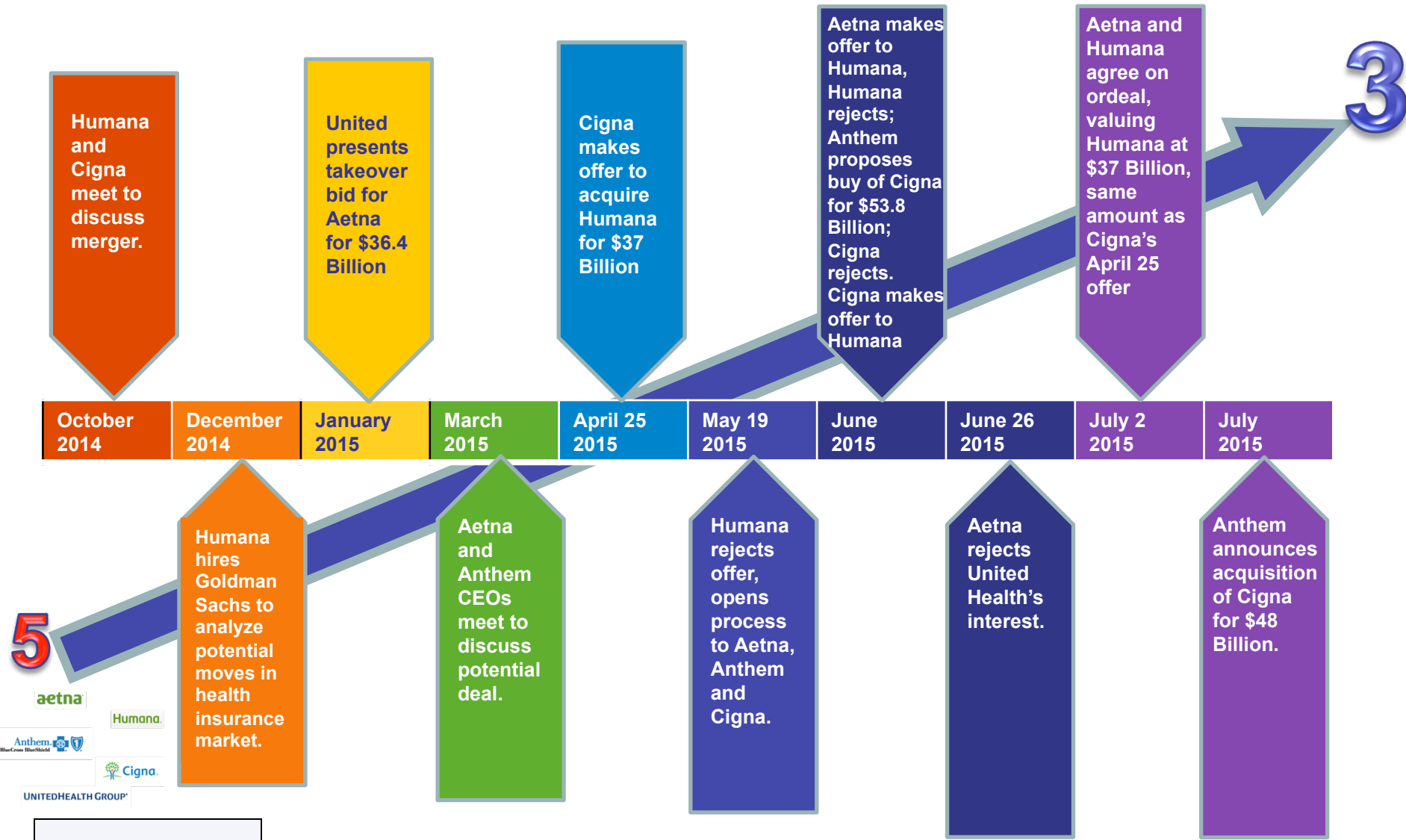




IV. More on Health Insurers



The Big 5 Become the Big 3



5

3



Analysis of Lasts 7 Months

- ◆ Big 5 all felt they needed larger “footprint”
- ◆ Four felt United would be “too big” if they acquired any one of them.
- ◆ Humana was viewed as smaller, could be acquired, but 75% of its revenue is in Medicare Advantage, a good insurance market for the future.
- ◆ United would have “owned” the Medicare Advantage market, with a combined
- ◆ All three made a play for Humana, eventually acquired by Aetna, forcing Anthem and Cigna to combine, leaving “the Big 3”.
- ◆ All seeking “dominant” positions in as many states/metros as possible.



2017 Explosion in Premiums on ACA Public Exchanges

- ◆ 2017 Explosion in premiums on public exchanges when 3 Rs expire.
 - Little known federal subsidies to insurance companies end in 2016
 - Came in through regulations, not the ACA
 - Risk adjustments compensates plans when they have enrollees with especially high claims
 - Reinsurance limits insurers downside risk; payments are made to plans that cover high-risk individuals
 - Risk corridors provide a government subsidy if insurer losses exceed a certain threshold.
 - Example:
 - » Humana in 2013 received:
 - \$42M in risk adjustment payments
 - \$51M in risk corridor subsidies
 - \$586M in reinsurance payments
 - \$689M total

**R
R
R**



2017 Explosion in Premiums on ACA Public Exchanges (cont.)

- Likely reaction of health plans in 2017:
 - Large premium increases
 - Large increase in deductibles
 - Combination of both
- Net result
 - Significant increase in uninsured due to inability to afford premiums or deductibles, or
 - Massive increase in government subsidies on public exchanges



V. Current Status of Insurers and Provider Health Systems in the Twin Cities



Current Status of Insurers and Providers Systems in Twin Cities

◆ Insurers

■ Blue Cross Blue Shield of Minnesota

- Largest health insurer in MN
- Revenues of \$10.1 billion
- Net operating (loss) of \$8.2 million (0.1%)
- Net Income of \$61.5 million
- 2.6 million enrollees



■ UCare of Minnesota

- \$2.9 billion in revenue, \$95 million in net income
- Grew out of Family Practice Dept. of U of M Medical School, still closely affiliated
- 400,000 enrollees
- If current decision by MN Health Dept. stands, could lose 50% of enrollees.

Health care that starts with you.SM

Current Status of Insurers and Providers Systems in Twin Cities (cont.)

■ HealthPartners

- 1.5 million medical and dental plan members in 4 states
- Ranked in top 30 plans in the nation by NCQA
- \$3.4 billion in revenues; \$69 million net income
- With strong presence in both East and West Metro, well positioned for growth.



■ Medica Health Plans

- \$3.38 billion in revenue, operating income of \$12.3 million, not including administrative fee income.
- Strong plan, enrollees in surrounding states as well as MN

■ PreferredOne

- PPO type insurer
- Owned 50% by Fairview Health Services, 25% by North Memorial, 25% by Preferred One Physician Associates
- Fairview has options to acquire portions of either North Memorial or Preferred One Physicians in exchange for an \$18.75 million loan in 2014.

Current Status of Insurers and Providers Systems in Twin Cities (cont.)

- Preferred One (cont.)
 - Jumped big into MNSure exchange individual market under ACA, enrolled 60,000 individuals with low premiums, lost \$139 million on MNSure.
 - Dropped out of MNSure for 2015 enrollment
 - New CEO named July, 2015, after long time CEO “retired”
 - 350,000 enrollees, operating (loss) of \$69 million



Current Status of Insurers and Providers Systems in Twin Cities (cont.)

◆ Health Systems

■ HealthPartners

- Only “financially integrated” system in Minnesota
- Strong enrollment growth in their health plan, currently at 630,000 medical enrollees in MN
- 2 anchor hospitals: Regions and Methodist plus 5 outstate hospitals
- Capable and experienced leadership
- With merger of Methodist in 2013, 2nd system to have operations in both East and West Metro.
- 50 year history of employed physician group; 1,700 total physicians
- Over \$6 billion in total revenues, over \$300 million in net income
- Probably strongest system in the state



Current Status of Insurers and Providers Systems in Twin Cities (cont.)



Fairview Health Services

■ Fairview Health Services

- 7 hospital system, anchored by Fairview University Medical Center and Fairview Southdale Hospital
- Physician group, Fairview Physician Associates, is large network of primary care and specialty clinics affiliated with Fairview, of which about 450 are employed by Fairview
- Strong relationship with Medica Health Plan, but not an exclusive relationship.
- Has had difficulty in retaining CEOs, with 3 CEOs in last 6 years.
- Significant challenge is the University relationship of the last 17 years. Academic Medical Centers have difficulty “fitting in” a community hospital based system.
- Major PR issue several years ago cost Fairview significant financial stress, but recent CEO improved results markedly.
- Current finances:
 - \$3.6 billion revenues
 - \$147 million operating income; 4.7% operating margin

Current Status of Insurers and Providers Systems in Twin Cities (cont.)

■ Allina Health



- \$3.6 billion revenues, \$147 million net income
- Very strong physician network, 700 employed community physicians, 90+ clinics, organized in 1987
- 13 hospitals; 2 tertiary hospitals, one each in St. Paul, and Minneapolis
- Operates 16 retail pharmacies
- Moved into post acute care with 2 (of 5) transitional care units
- Developing separate health plan with BCBSMN
- Closest to Health Partners in developing a “financially integrated” health system

■ Mayo Clinic

- Strong 3 region player, with national/international reach
- Rochester MN is “headquarters” campus plus focal point of Mayo Clinic health system of 8 outstate hospitals in southern Minnesota and 5 in western Wisconsin.

Current Status of Insurers and Providers Systems in Twin Cities (cont.)

■ Mayo Clinic (cont.)

- Mayo Clinic Health System also has clinic locations in 30 additional communities in Minnesota and 17 additional communities in Wisconsin.
- The Health System's extensive network in 62 communities in MN and WI makes it largest system in Upper Midwest.
- Mayo has never "located" in Twin Cities although serves thousands of patients each year from here.
- Current strategy is to locate an Athletic Medicine clinic in downtown Minneapolis, serving the sports teams of NBA and WNBA, with extensive advertising.





VI. Summary



Summary

- ◆ The entire industry is being changed, by lots of external forces including “retailization” , convergence and the ACA.
- ◆ Convergence is happening at the top of the industry, much slower pace of change in the ranks.
- ◆ Insurer consolidation may be biggest factor particularly if they move deeper into care delivery.
- ◆ Opportunities exist in convergence for new players
- ◆ Twin Cities is a mature market, where convergence has been occurring for some years.

