



Marketing and Planning
Leadership Council

Health Care Industry Trends 2015

Ready-to-Use Presentation Slides

- 1 Payment Reform
- 2 Provider Market
- 3 Purchaser Behavior
- 4 Provider Selection Trends



Payment Reform

- Overview of Accountable Payment Models
- Update on Value Based Purchasing Program
- Update on Bundled Payments
- Update on Accountable Care Organizations

Overview of Accountable Payment Models

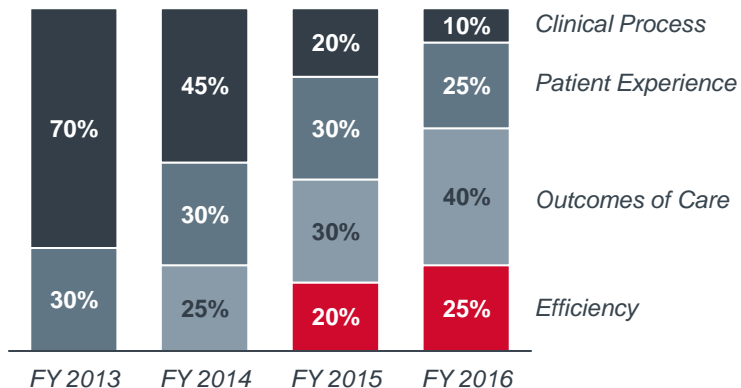
Key Attributes	Value-Based Purchasing	Bundled Payments	Accountable Care Organizations (ACOs)
Definition	Pay-for-performance program differentially rewards or punishes hospitals (and likely ASCs and physicians in coming years) based on performance against predefined process and outcomes performance measures	Purchaser disburses single payment to cover certain combination of hospital, physician, post-acute, or other services performed during an inpatient stay or across an episode of care; providers propose discounts, can gain share on any money saved	Network of providers collectively accountable for the total cost and quality of care for a population of patients; ACOs are reimbursed through total cost payment structures, such as the shared savings model or capitation
Purpose	Create material link between reimbursement and clinical quality, patient satisfaction scores	Incent multiple types of providers to coordinate care, reduce expenses associated with care episodes	Reward providers for reducing total cost of care for patients through prevention, disease management, coordination
Advisory Board Assessment	Withhold-earn back model will put significant dollars at risk for all providers, force immediate focus on quality and experience metrics	Increases accountability for cost and quality within episodes of care without removing FFS volume incentive; new lever for financial alignment between independent specialists and hospitals	Long-range goal of CMS to migrate to risk contracting; will spark industry-wide investment in primary care infrastructure to establish narrower networks
Role of CMMI¹	Dedicating \$500M to Partnership for Patients, targeting hospital-acquired infections, readmissions	Accepting providers' proposals to test four different bundled payment models, including one without inpatient care	Accepting providers' proposals to test various payment systems, including both shared savings and partial capitation

1) Center for Medicare and Medicaid Innovation.

CMS Adds Efficiency Metric to VBP Program

Initially Weighted at 20%, Reducing Clinical Process Weight

Medicare VBP¹ Program Domain Weights

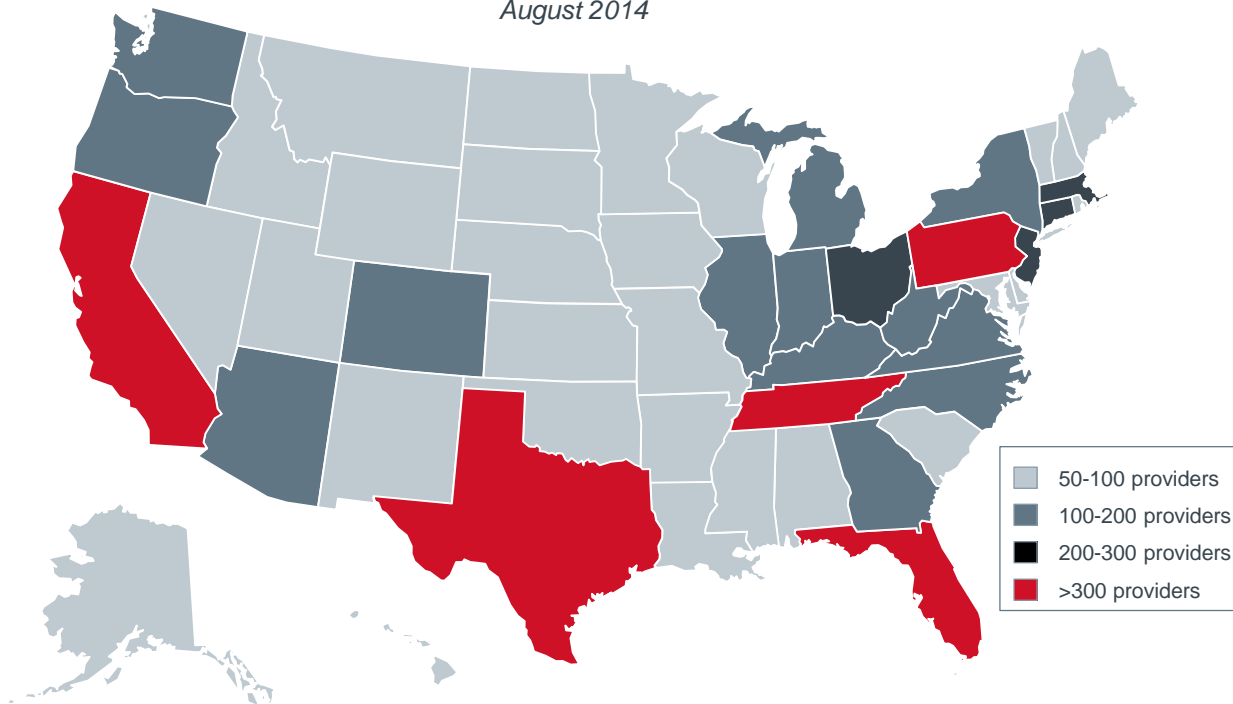


Source: The Advisory Board Company, "Mortality Rates Are Only One of Many VBP Changes to Come," December 4, 2013, available at: www.advisory.com; CMS, "Request for Information on Specialty Practitioner Payment Model Opportunities," February 2014, available at: www.innovation.cms.gov; Health Care Advisory Board interviews and analysis.

Over 6000 Providers Participating in BPCI¹

BPCI¹ Participation by State

August 2014

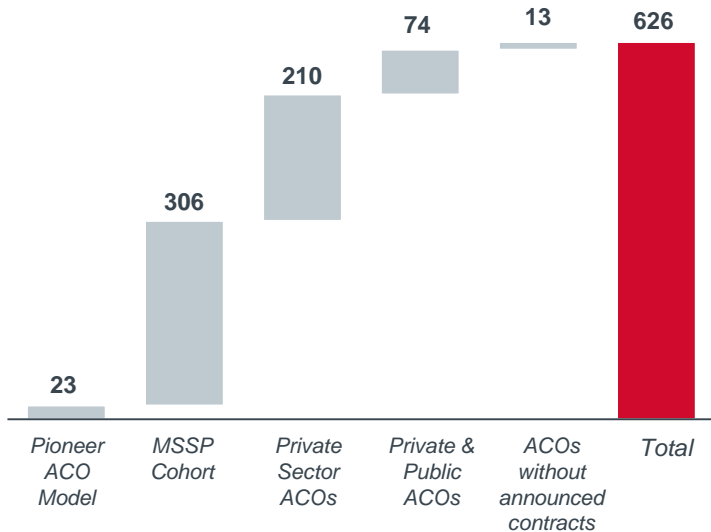


1) Bundled Payments for Care Improvement.

Number of ACOs Continues to Grow

Total Number of Operating ACOs

May 2014



Widening Reach of ACOs¹

67%

Portion of U.S. population living in a primary care service area with an ACO

17%

Portion of U.S. population treated by an ACO

5.3M

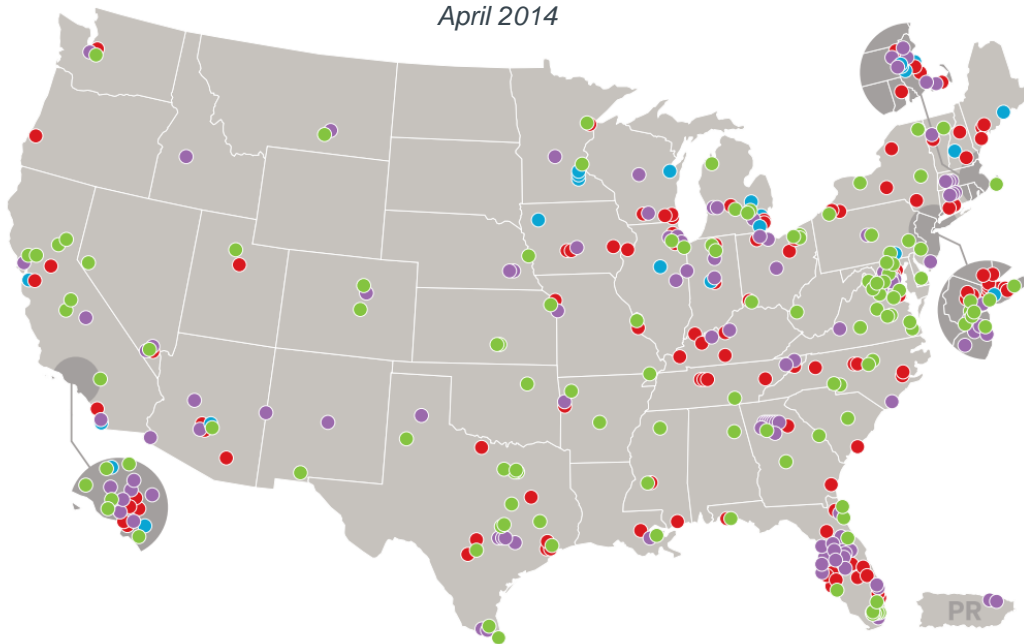
Medicare FFS beneficiaries treated by an ACO

1) As of April 2014.

Where the Medicare ACOs Are

23 Pioneer and 343 Shared Savings Program ACOs

April 2014

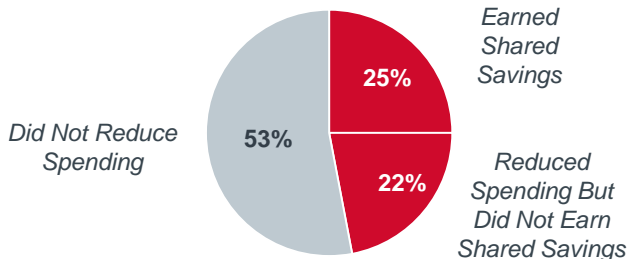


Early Adopters Beginning to Reap Results

Physician-Led ACOs More Likely to Generate Savings

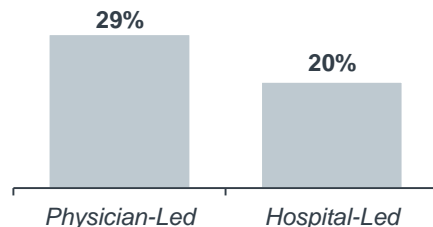
First-Year Spending Reduction By MSSP¹ ACOs

2012 Cohort



Percent of MSSP ACOs that Earned Shared Savings by Sponsorship

2012 Cohort



\$126M

Shared savings earned by 2012
MSSP ACOs in first year

\$147M

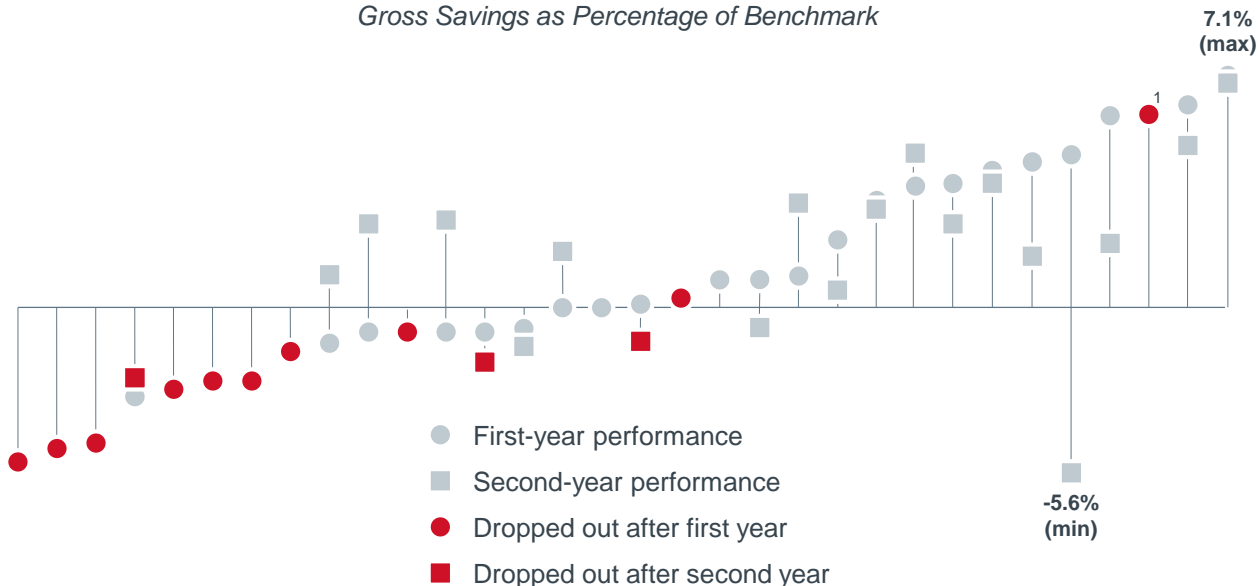
Total cost savings by
Pioneer ACOs in first year

Source: Muhlestein D, "Accountable Care Growth in 2014: A Look Ahead," Health Affairs Blog, January 29, 2014, available at: www.healthaffairs.com/blog; CMS, "More Partnerships Between Doctors and Hospitals Strengthen Coordinated Care for Medicare Beneficiaries," December 23, 2013; Oliver Wyman, "Accountable Care Organizations Now Serve 14% of Americans," February 19, 2013; Health Care Advisory Board interviews and analysis.

Some Pioneers Dropping Out of the Program

Performance, Persistence Closely Correlated

Pioneer ACO Performance
Gross Savings as Percentage of Benchmark



1) Dropped out after second year; second-year performance not reported



Provider Market

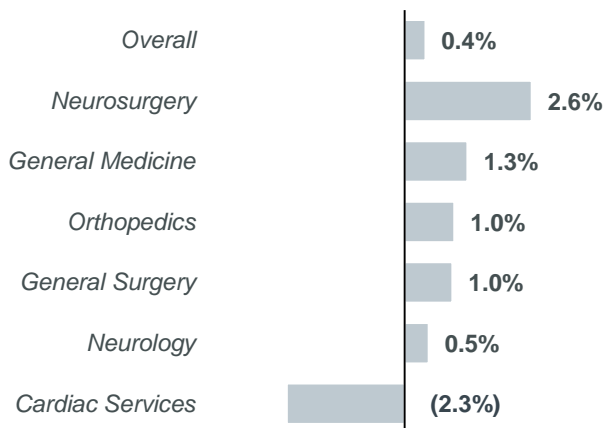
- Volume Performance
- Mergers and Acquisitions
- Partnerships and Affiliations
- Imaging Centers
- Ambulatory Surgery Centers
- Primary Care Network

Modest Growth Anticipated for the Near Term

Inpatient and Hospital Based Outpatient Volume Projections

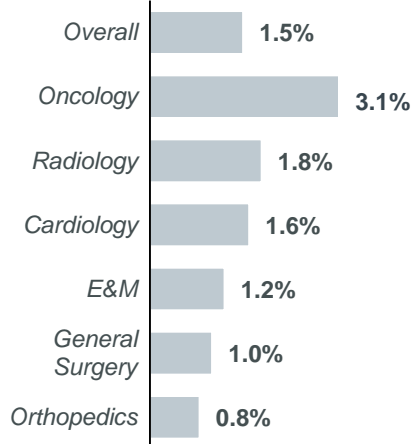
Inpatient Volume, CAGR¹

2013-2018



Hospital-Based Outpatient Volume, CAGR¹

2013-2018

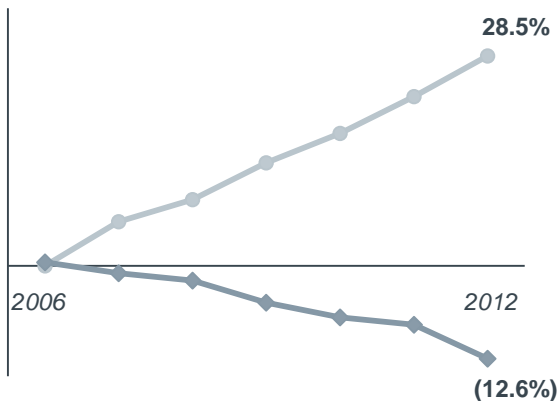


1) Compound Annual Growth Rate

Volumes Continuing to Shift Outpatient

Medicare Volume Growth

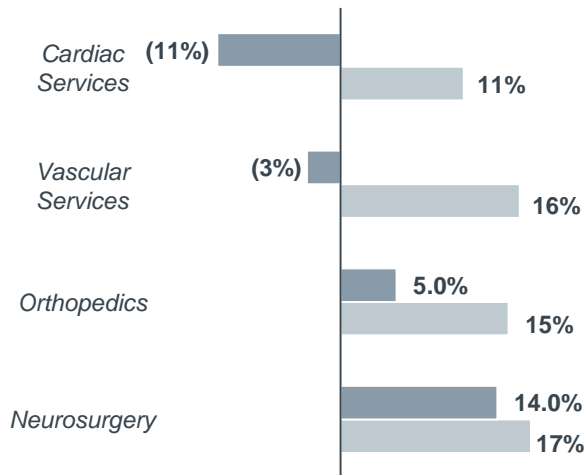
Cumulative Percent Change



Outpatient Services per FFS Part B Beneficiary
 Inpatient Discharges per FFS Part A Beneficiary

All Payer Volume Growth Projections¹

2013-2018



Inpatient
 Outpatient

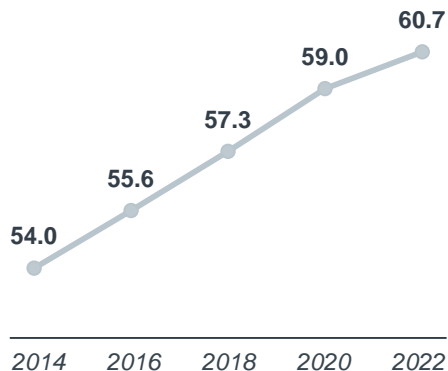
1) Outpatient services represent entire market regardless of site of service (includes hospital-based settings, ASCs, other freestanding providers and physician offices)

Source: "Report to the Congress: Medicare Payment Policy," MedPAC, March 2014, available at: www.medpac.gov; Marketing and Planning Leadership Council interviews and analysis.

Medicare to Become Majority of Volume by 2022

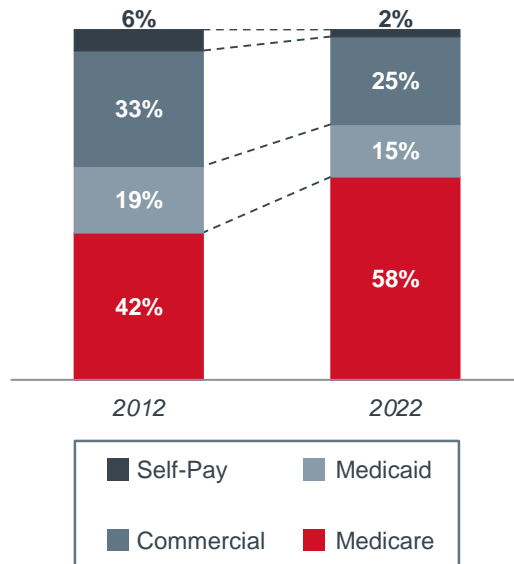
Projected Number of Medicare Beneficiaries

Millions of Beneficiaries



Average Inpatient Case Mix By Volume

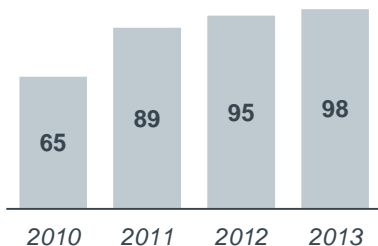
n = 785 Hospitals



Source: CMS, "2013 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds," May 31, 2013, available at: <http://downloads.cms.gov/files/TR2013.pdf>; Health Care Advisory Board interviews and analysis.

Mergers and Acquisitions Continue to Rise

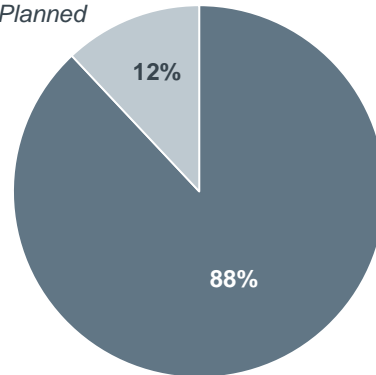
Hospital Mergers and Acquisitions



M&A Plans for the Next 12 Months¹

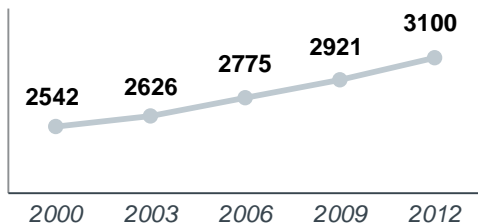
n=189

No M&A Activity
Planned



Planning to Pursue
M&A Within the
Next 12 Months

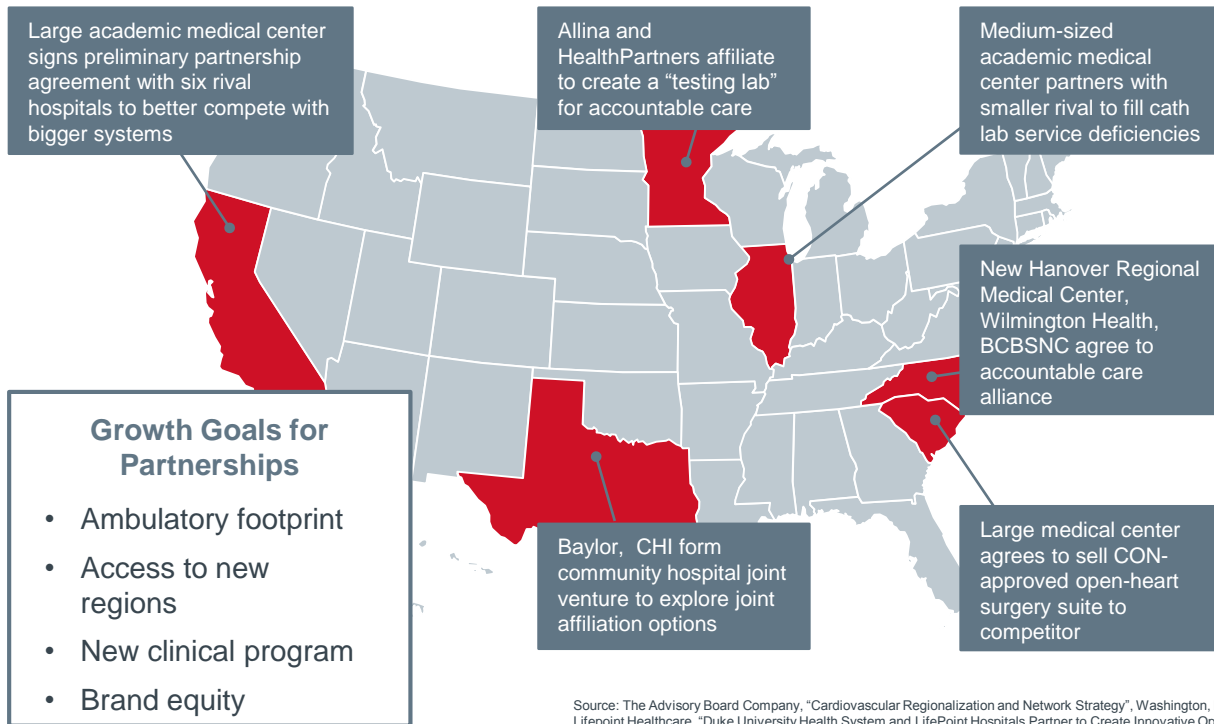
Number of Hospitals Part of a Health System 2000-2012



1) September 2013.

New Partnerships Aim at Integration Without M&A

Partnerships and Affiliations On the Rise



Source: The Advisory Board Company, "Cardiovascular Regionalization and Network Strategy", Washington, DC; Duke-LifePoint Healthcare, "Duke University Health System and LifePoint Hospitals Partner to Create Innovative Options for Community Hospitals," available at: <http://www.dlphealthcare.com>, accessed May 3, 2011; Accountable Care Alliance, Omaha, NE; <http://www.accountablecarealliance.com/partners/>; Crosby J, "HealthPartners, Allina form a 'lab' for health reform," *StarTribune*, available at <http://www.startribune.com/business/133126273.html>; accessed November 5th, 2011; Marketing and Planning Leadership Council interviews and analysis.

Five Major Types of Provider Partnership

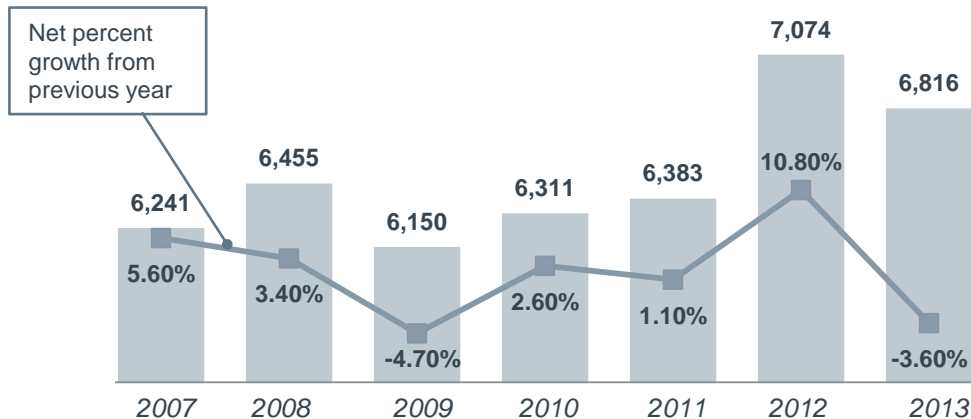
	Description
Merger or Acquisition	Formal purchase of one organization's assets by another, or the combination of two organizations' assets into a single entity
Clinically-Integrated Hospital Network	Collection of hospitals contracting jointly in order to support improved coordination, outcomes; modeled after physician CI networks
Accountable Care Organization	Independent entity, owned by one or several independent organizations, that accepts risk-based contracts and distributes shared savings
Regional Collaborative	Flexible umbrella structure, often encompassing many independent organizations of similar geography, that may serve as foundation for further integration
Clinical Affiliation	Typically bilateral agreement to cooperate around a particular initiative or service line; may involve local or national partners

Imaging Center Market Dips After Years of Growth

First Decline Since 2009

Total Number of Imaging Centers in the U.S.

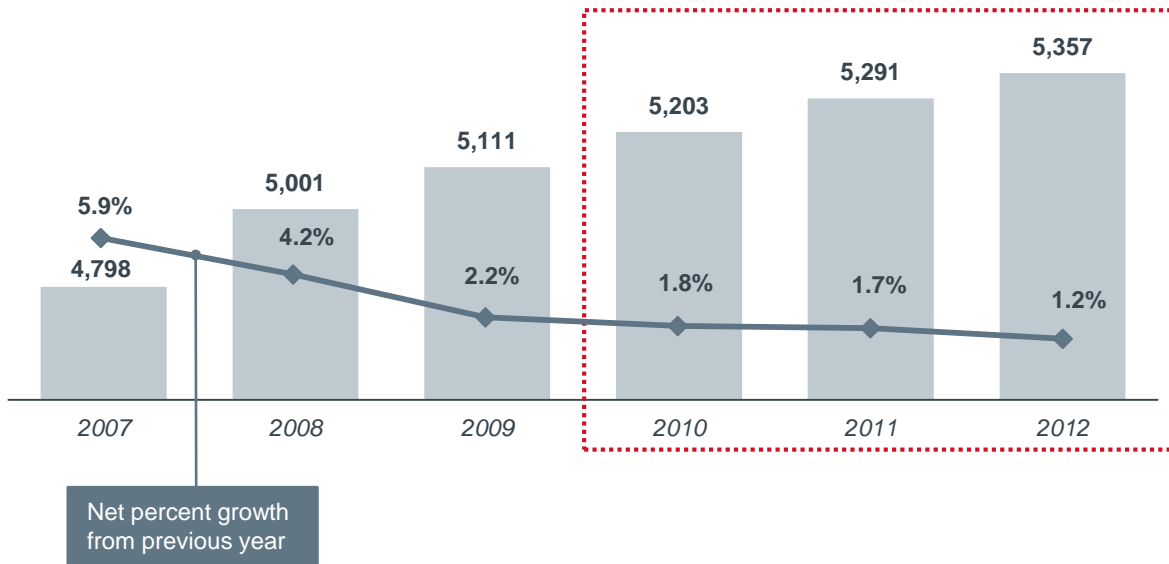
2005-2013



Source: Radiology Business Journal, "Imaging-center Growth Hits the Wall in 2013; Volumes Plummeted in 2011," August 30, 2013; Marketing and Planning Leadership Council interviews and analysis.

ASC Growth at All-Time Low

Total Number of Medicare-Certified ASCs

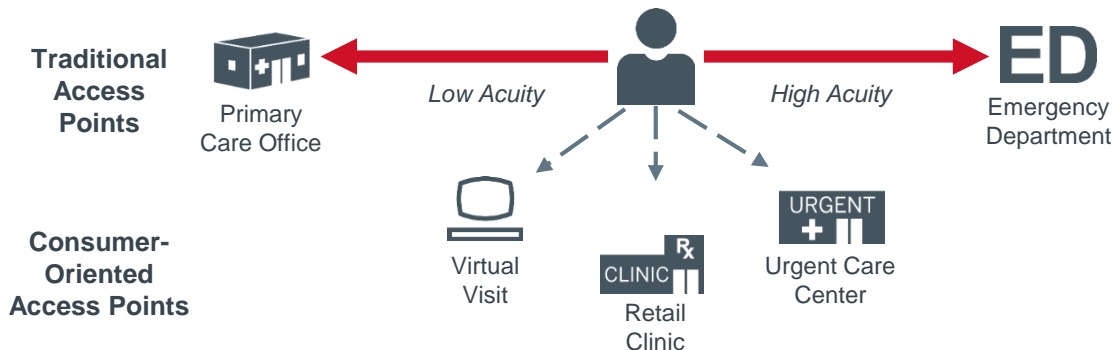


Source: "Report to the Congress: Medicare Payment Policy," MedPAC, March 2014; Marketing and Planning Leadership Council interviews and analysis.

A Growing Network of Immediate Access Choices

Markets Responding to Unmet Needs

Consumer-Oriented Service Delivery Sites Filling the Gap



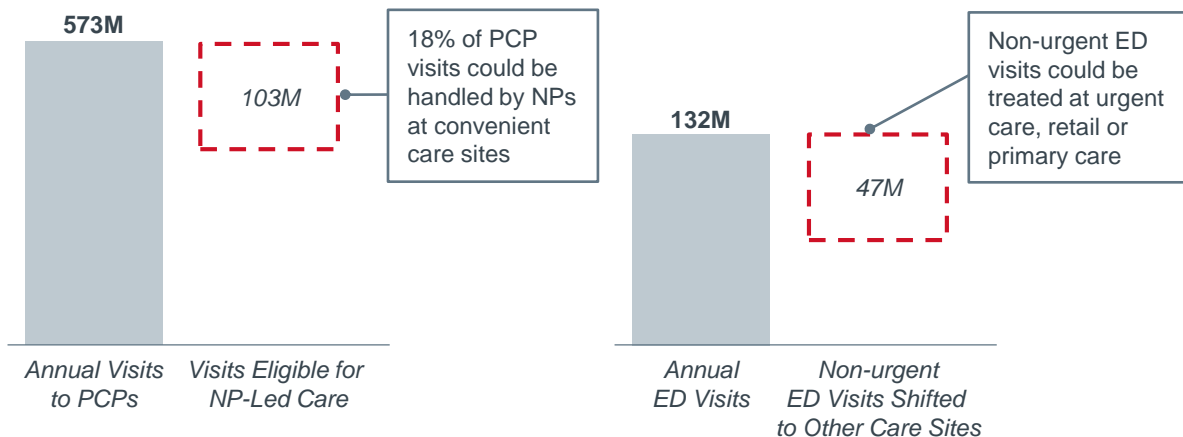
Driving Provider Questions:

- Should we partner to establish **retail clinics**?
- Should we build or expand our **urgent care** footprint?
- Is **virtual care** something that we should provide?
- When should we enter into **partnerships** to meet patient demands?

Major Opportunity to Shift Primary Care Volumes

Redistributing Non-emergent Care to Appropriate Lowest-Acuity Sites

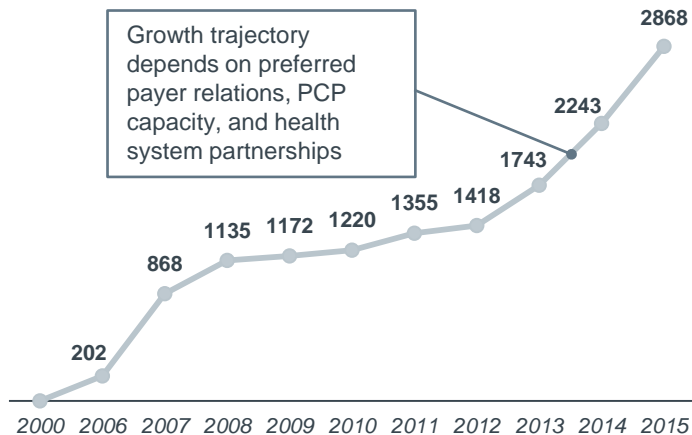
Visits At Risk of Shifting to Other Sites of Care



Source: CDC/NCHS, "National Ambulatory Medical Care Survey, National Hospital Ambulatory Medical Care Survey," 2009-2010; "Primary Care Physician Shortages Could be Eliminated Through Use of Teams, Nonphysicians, and Electronic Communication," Health Affairs 32:1, Jan 2013. Health Care Advisory Board interviews and analysis.

Retail Clinics Expected to Continue Growing

Estimated Total Number of Retail Clinics in the US 2000-2015¹



Retailer



900+



400+



135



14



75+

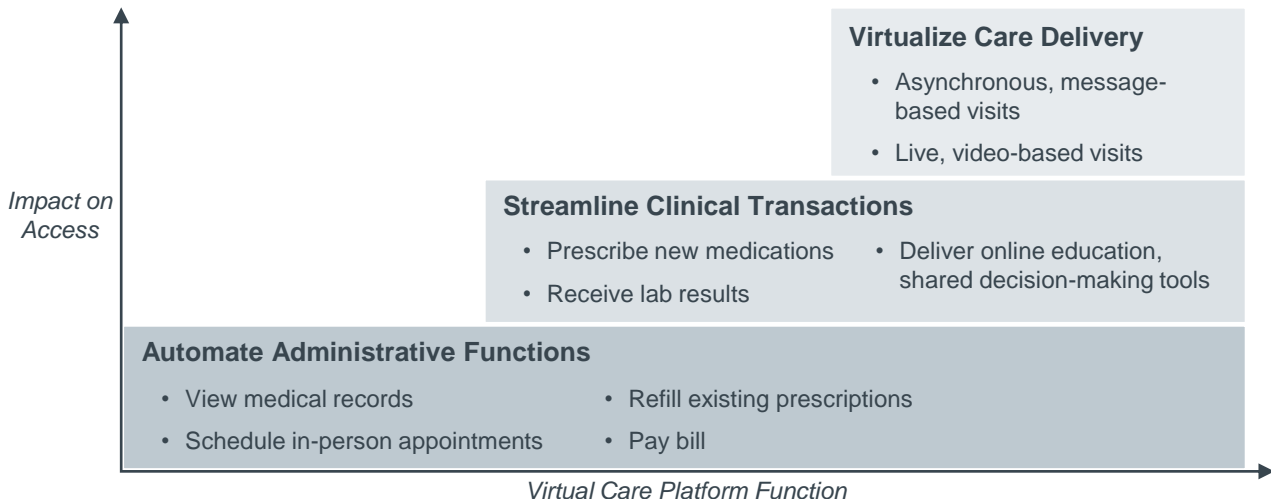
Operational
Retail Clinics¹

1) As of Oct. 2014.

Source: Accenture, "Retail medical clinics: From Foe to Friend?," 2013; Ritchie J, "After a stall, Kroger could add clinics," Cincinnati Business Courier, July 5, 2013; Robeznieks A, "Retail clinics at tipping point," Modern Healthcare, May 4, 2013; Health Care Advisory Board interviews and analysis.

Providers Expanding the Applications of Virtual Care

From Administrative Transactions to Real-Time Care Delivery



A Fast-Emerging Market Segment

\$13.7B

Estimated revenue from virtual visits in 2018, up from \$100M in 2013

220%

Projected increase in households using virtual care between 2013-2018

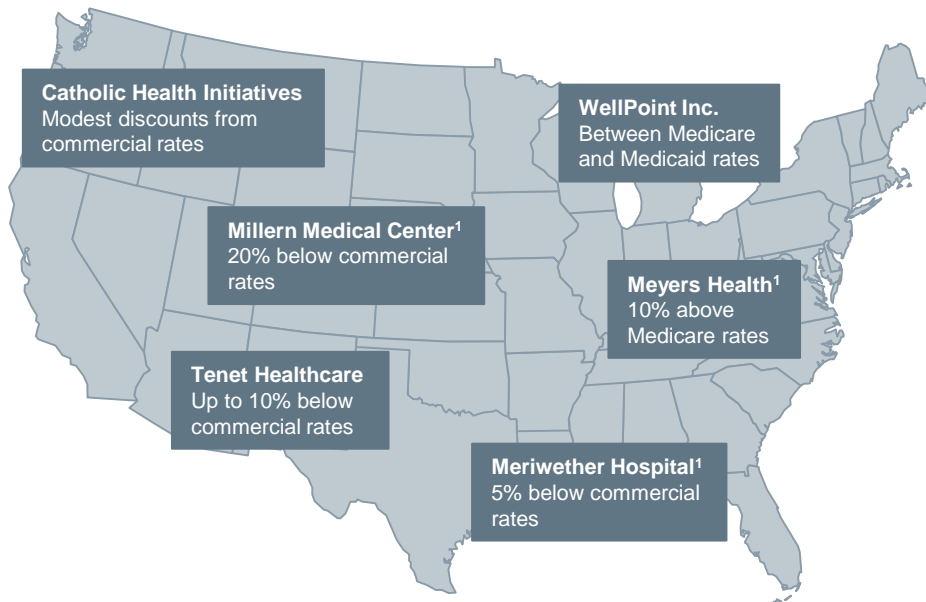


Purchaser Behavior

- Commercial Payers
- Employers
- Medicare
- Coverage Expansion

Seeing Price Cuts On Most Exchange Plans

Anticipated Provider Reimbursement Rates for Exchange Plans



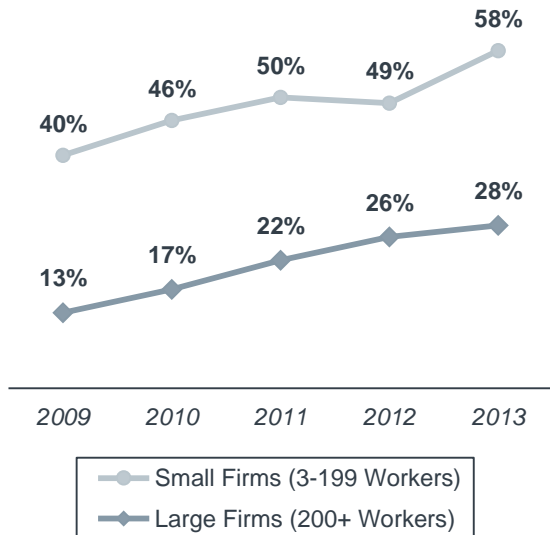
Source: Mathews AW and Kamp J, "Another Big Step in Reshaping HealthCare," Wall Street Journal, February 28, 2013, available at: www.online.wsj.com; Health Care Advisory Board interviews and analysis.

Employer Shifting Risk by Increasing Cost-Sharing

Particularly Severe for Out-of-Network Care

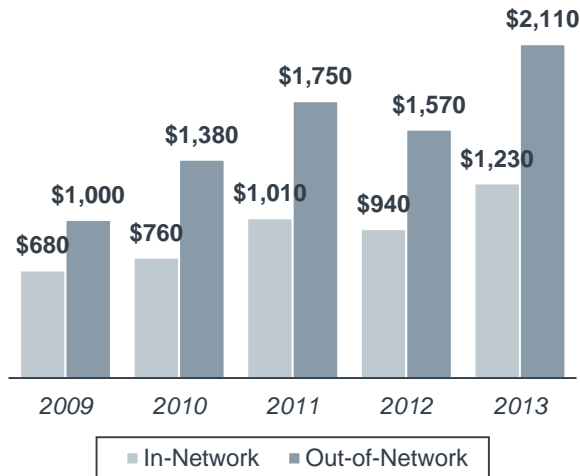
Percent of Covered Workers Enrolled in a Plan with a \$1,000+ Deductible by Firm Size

Single Coverage



Average In- and Out-of-Network Deductibles for Group Plans

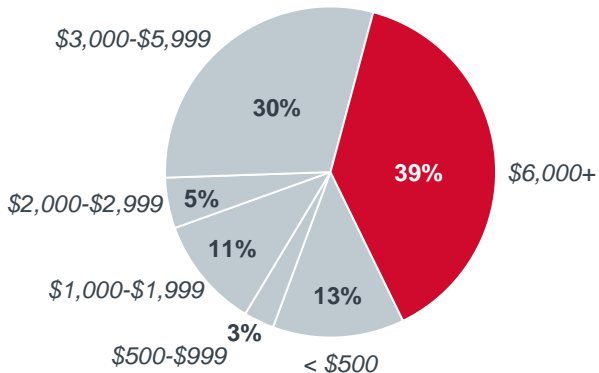
n = 1,100 employers



Public HIX Participants Choosing High Deductibles

Annual Deductibles of Individual Plans Selected on eHealth

October 2013 – March 2014



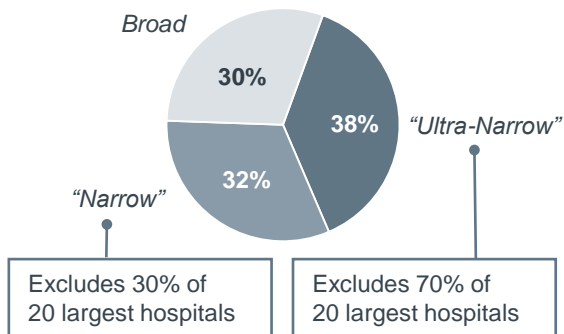
Source: Breakaway Policy Strategies, "Eight Million and Counting: A Deeper Look at Premiums, Cost Sharing and Benefit Design in the New Health Insurance Marketplaces," May 2014; eHealth, "Health Insurance Price Index Report for Open Enrollment and Q1 2014," May 2014; Health Care Advisory Board interviews and analysis.

Public Exchange Plans Mainly Narrow Network

Payers Responding to Anticipated Premium Sensitivity

Majority of Public Exchange Plans Exclude >30% of Largest Hospitals

20 Urban Markets, December 2013



Source: Gottleib S, "Hard Data on Trouble You'll Have Finding Doctors in Obamacare," Forbes, March 8, 2014, www.forbes.com; McKinsey & Company, "Hospital Networks: Configurations on the Exchange and Their Impact on Premiums," December 2013; Medical Group Strategy Council interviews and analysis.

Traditional Employer Coverage Eroding

Will Employers Maintain Coverage, and How?

Spectrum of Options for Controlling Health Benefits Expense

“Abdication”

“Activation”



Drop Coverage

Shift to Private Exchange

Convert to Self-Funding

Pros:

- Escape from cycle of rising premium costs

Cons:

- Employer mandate penalty
- Labor market disadvantage

Pros:

- Responsiveness to employee preference
- Predictable, defined contributions

Cons:

- Disruption to benefit design
- Risk employees may underinsure

Pros:

- Close control over network design
- Exemption from minimum benefits requirements

Cons:

- Greater financial risk
- Network assembly challenging

Employers' Alternatives to Providing Coverage

Several Strategies to Avoid ACA Mandate Penalties...



Cut jobs to remain under 50 FTEs¹



Convert full-time employees to part-time status



Hire all new employees at part-time status

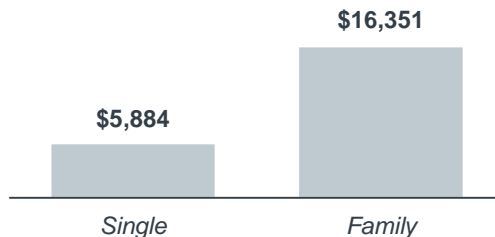


Split into smaller companies with fewer than 50 FTEs

...Though Some May Consider Penalty a More Economical Option



Average Cost of 2014 Employer-Sponsored Insurance

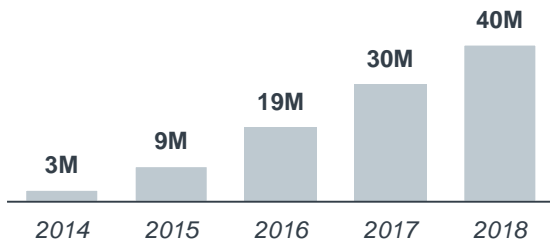


1) Full-time equivalents.

Huge Growth Forecast for Private Exchanges

Low-Wage Employers Most Active Today, but Skilled Industries in the Wings

Potential Growth Path for Private Exchange Enrollment



172
Private exchange operators as of October 2014

Prominent Employers Using Private Exchanges

For Active Employees:

Walgreens

petco 

SEARS

Olive Garden
ITALIAN RESTAURANT

For Retirees:

(Medicare Advantage, Medigap plans)

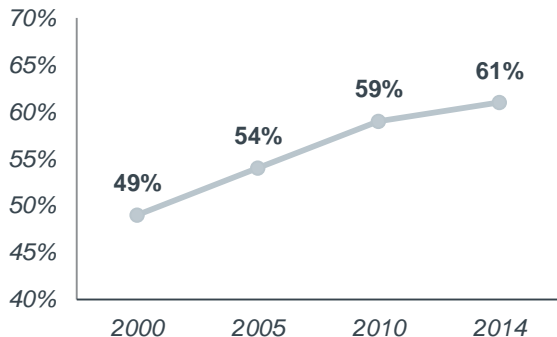
IBM



CATERPILLAR®

Self-Funding Strategies Steadily Gaining Ground

Percentage of Covered Workers in Self-Funded Plans



ACA Benefits Standards Avoidable Through Self-Funding



Essential Health Benefits



Guaranteed Issue and Renewability



Modified Community Rating

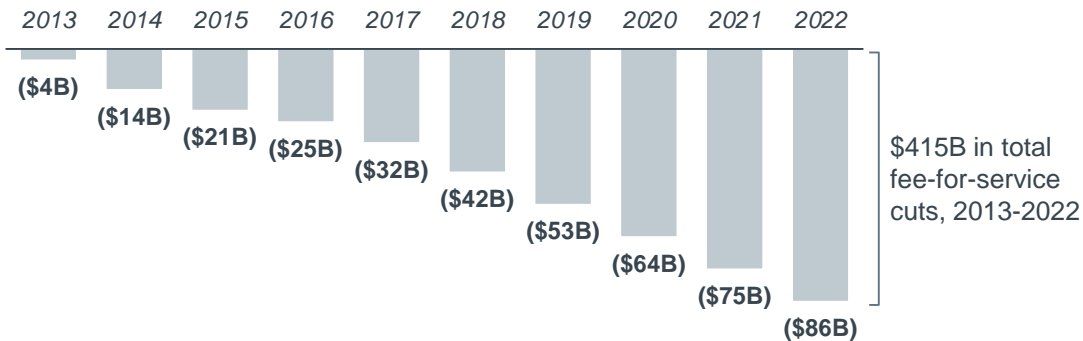


Medical Loss Ratio Requirements

Medicare FFS Payment Cuts Continue

ACA's Medicare Fee-for-Service Payment Cuts

Reductions to Annual Payment Rate Increases¹



\$260B

Hospital payment
rate cuts,
2013-2022

\$56B

Reduced Medicare
and Medicaid DSH²
payments, 2013-2022

\$151B

Reduced Medicare payments
due to sequestration and
2013 budget bill

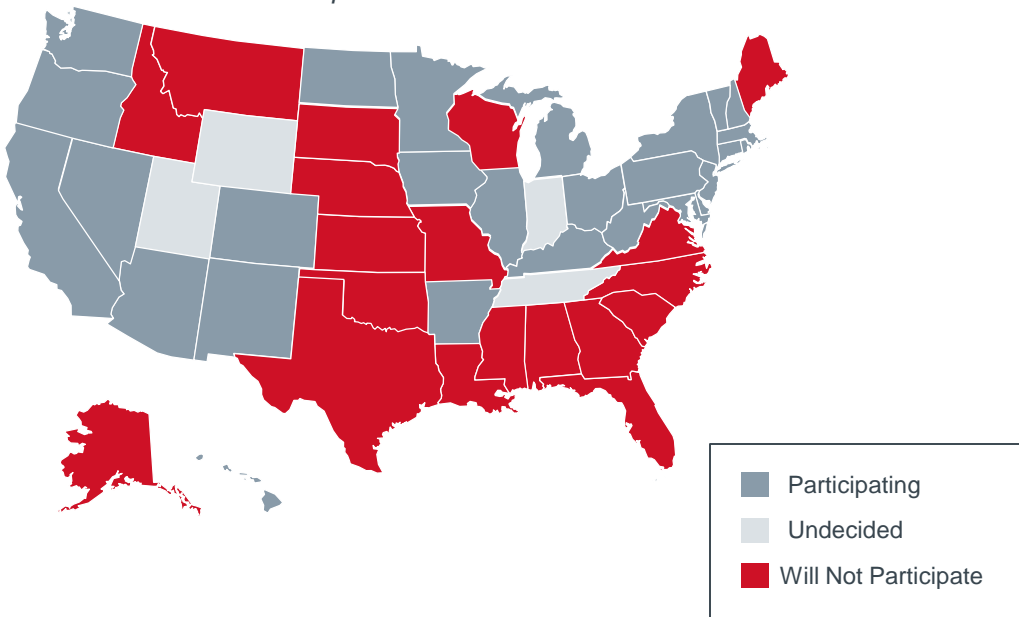
1) Includes hospital, skilled nursing facility, hospice, and home health services; excludes physician services; annual reductions rounded.
2) Disproportionate Share Hospital.

Source: CBO, "Letter to the Honorable John Boehner Providing an Estimate for H.R. 6079, The Repeal of Obamacare Act," July 24, 2012; CBO, "Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act," September 12, 2011; CBO, "Bipartisan Budget Act of 2013," December 11, 2013, all available at: www.cbo.gov; Health Care Advisory Board interviews and analysis.

Majority of States Expanding Medicaid

State Participation in Medicaid Expansion

September 2014

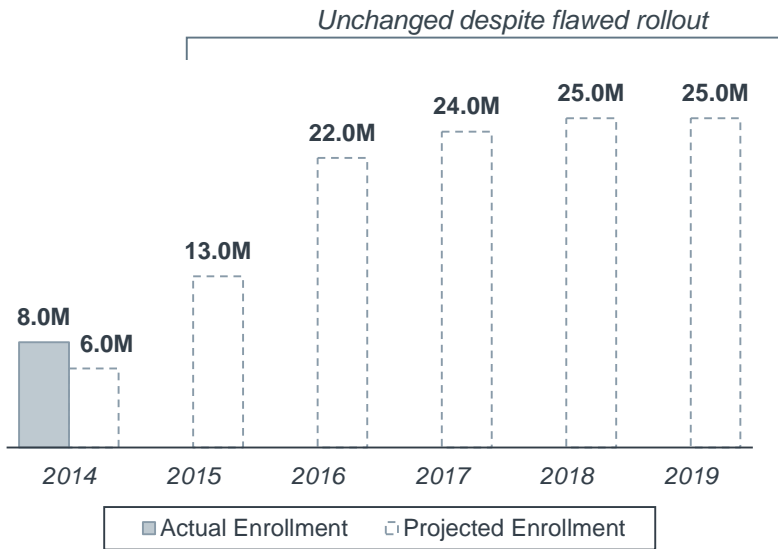


Public Exchange Enrollment Exceeds 8 Million

Bumpy Rollout Did Not Dampen Projections

Projected and Actual Enrollment in Qualified Health Plans

2014-2019



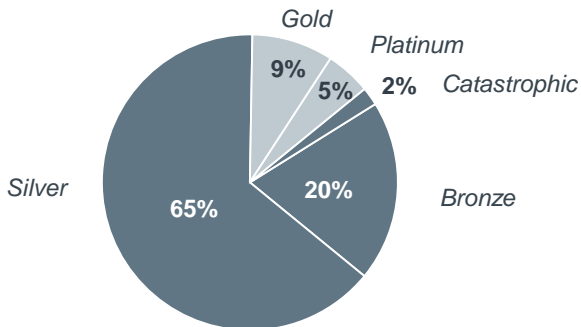
Source: Radnofsky L and Nelson CM, "Obama Says Health-Insurance Enrollees Reach 8 Million," Wall Street Journal, April 17, 2014, available at: www.wsj.com; CBO, "The Budget and Economic Outlook: 2014 to 2024," February 2014, available at: http://www.cbo.gov/sites/default/files/cbofiles/attachments/45010-Outlook2014_Feb.pdf; Demko P, "UnitedHealth to Expand Exchange Presence as Profits Dip," ModernHealthcare, April 17, 2014, available at: www.modernhealthcare.com; Cheney K and Norman B, "Insurers See Brighter Obamacare Skies," Politico, April 15, 2014, available at: www.politico.com; Health Care Advisory Board interviews and analysis.

Individuals Gravitating Toward Leaner Plans

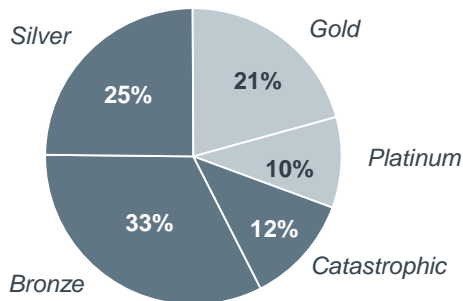
Metal Tiers of Plans Chosen on Public Exchanges

October 2013 to April 2014

All Enrollees



Enrollees Without Premium Subsidies



Source: HHS, "Health Insurance Marketplace: Summary Enrollment Report for the Initial Annual Open Enrollment Period," May 1, 2014; HHS, "Health Insurance Marketplace Premiums for 2014," September 2013; Health Care Advisory Board interviews and analysis.

Exchanges 2015: What to Watch

Second Round of Open Enrollment Will Reveal True Dynamics

Trends to Watch:



1 Enrollment

- Are the technical glitches really fixed?
- Will higher individual mandate penalties change anyone's mind?
- Will the young and healthy turn out in force?

2 Choice and Mobility

- How will automatic reenrollment affect consumer behavior?
- Will last year's bargain hunters regret choosing high deductibles and narrow networks?
- Can plans that raise premiums maintain market share?

3 Market Reaction

- How aggressively will providers court the newly insured?
- Will employers dump workers onto the exchanges?



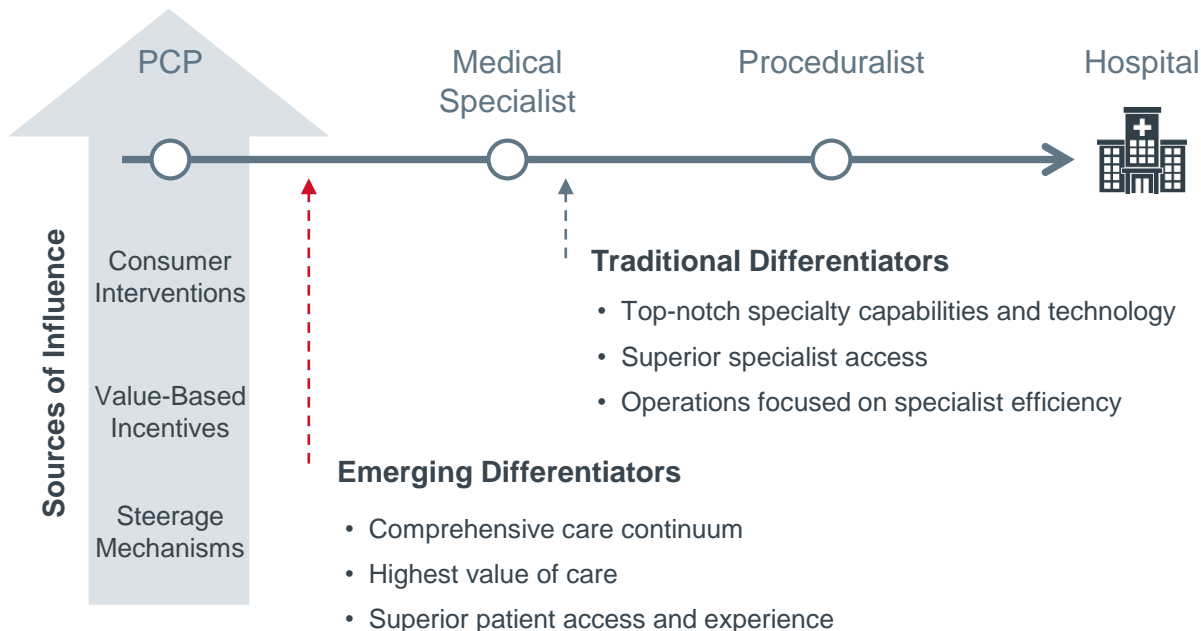
Provider Selection Trends

- Independent Physicians
- Patients

Referral Choice Criteria Different for PCPs, Specialists

Emerging and Traditional Differentiators for Physicians

The Extended Service Line Referral Pathway

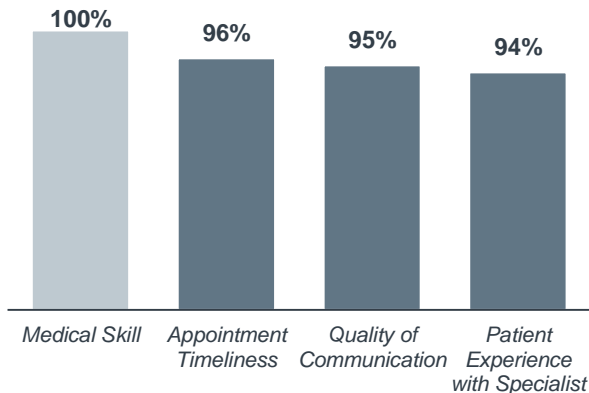


What PCPs Value Most for Referrals

Referrals Hinge on Accessibility and Communication

Top Four Factors When Choosing a Specialist

Rated as Moderate or Major Importance¹
n = 553



PCPs' Referral Decision Factors Compared to Specialists'

1.5x

PCPs 1.5 times more likely to refer based on physician communication than specialists

2x

PCPs two times more likely to refer based on timely availability of appointments than specialists

1) Top four factors (out of 17 options) rated by PCPs as either a moderate or major factor in their specialty referral decision

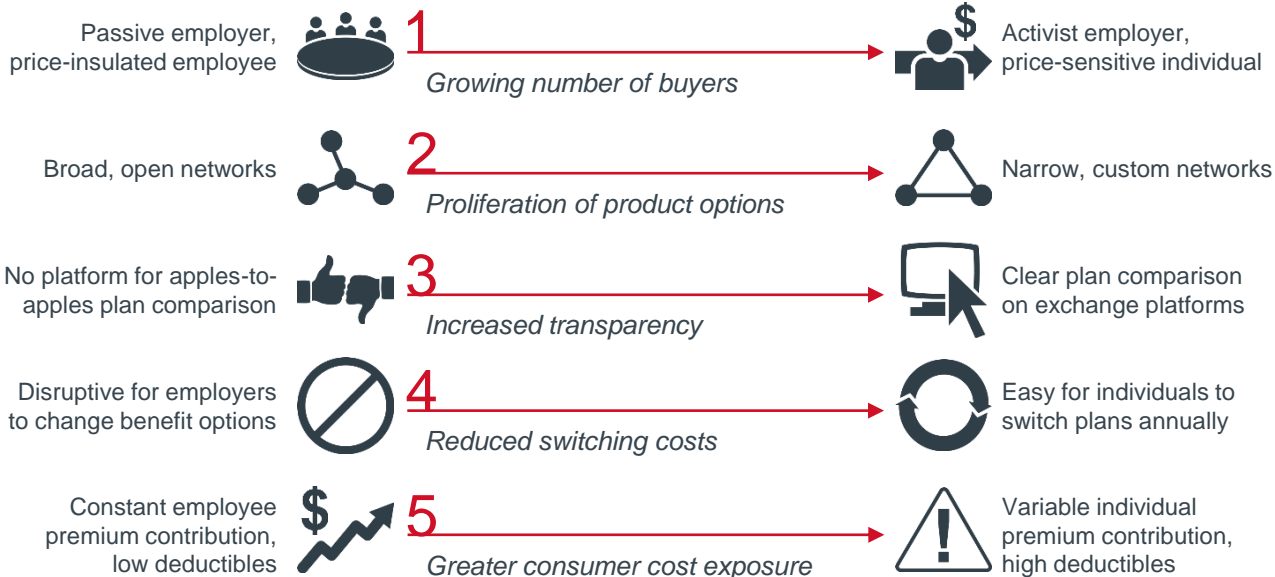
Market Forces Turning Patients into Consumers

Catalyzing a Shift in Network Demands

Characteristics of a Traditional vs. Retail Market

Traditional Market

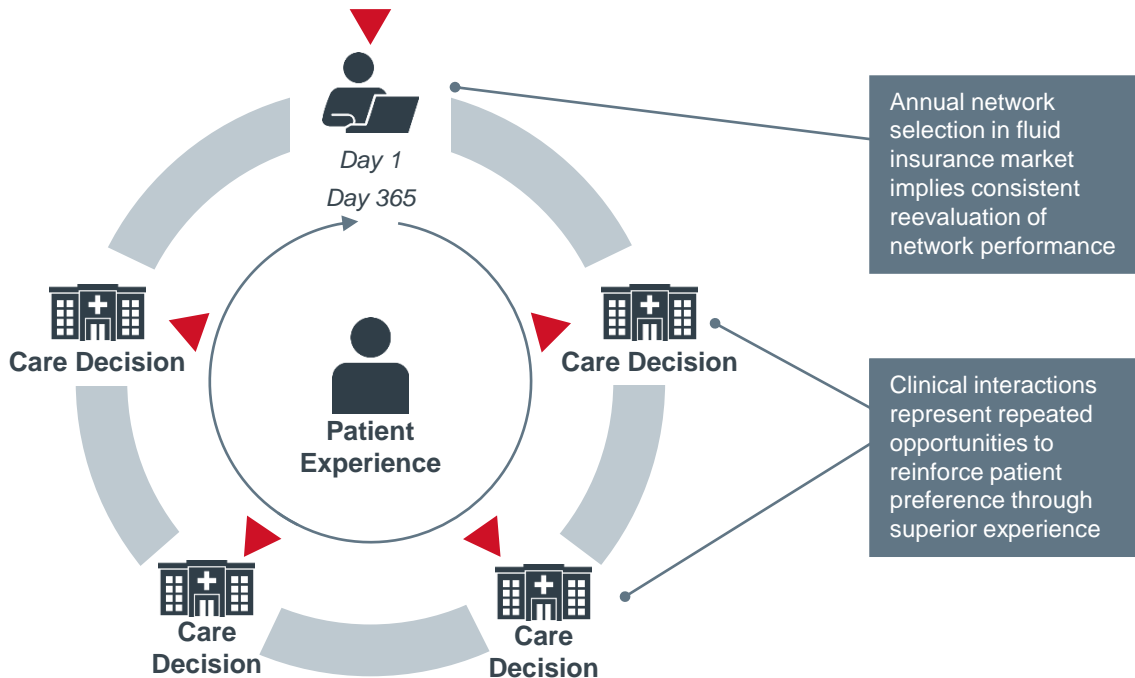
Retail Market



Welcome to the Renewals Business

Patient Experience Vital For Securing Purchaser Choice Year Over Year

Network Selection and Ongoing Experience



Consumers' Top 10 Primary Care Clinic Attributes

Prioritizing Convenience and Affordability

Average Utilities for Top Ten Preferred Primary Care Clinic Attributes

n=3,873



Patient Preferences for Online Care Growing

Survey Finds Email Visits Preferred to Clinic Near Errands or Work

Preference for Location of Services



Clinic located
near work



Clinic located
near errands



Emailing provider
with symptoms



Clinic located
near the home

Increasing Consumer Preference →



Young, Wealthy, Busy—Strongest Potential Telehealth Targets¹

54%

Of 18-29 yrs olds

49%

Of those making
>\$71K per year

53%

Of those working
>35 hours per week

1) Based on proportions of respondents interested in telehealth.

Consumers Seeking Accurate Estimates

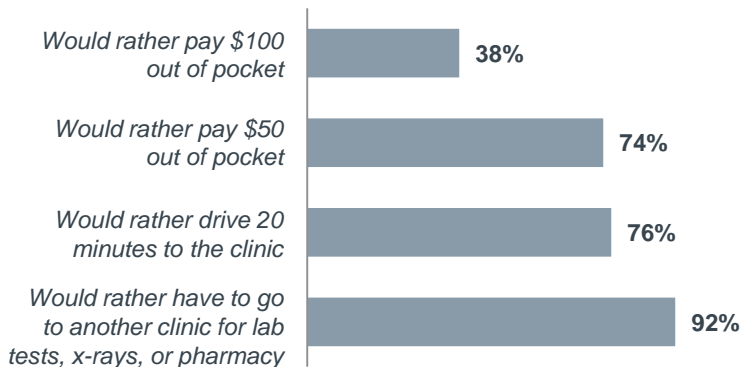


Primary Care Consumer Survey Results

55th

Rank, out of 56 attributes, of “not knowing how much the visit would cost until receiving the bill”

Compared to Not Knowing How Much the Visit Costs Until Receiving the Bill:



Marketing and Planning Leadership Council

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Alicia Daugherty

LEGAL CAVEAT

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