Health Policy

Reports from the Front Lines of Health Care Transformation

How Providers are Navigating the Transition from Volume to Value

February 5, 2016
## Trusted Advisor to America’s Leading Health Systems

### Research and Insights

<table>
<thead>
<tr>
<th>Memberships Offering Strategic Guidance and Actionable Insights</th>
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<tr>
<td>- Dedicated to the most pressing issues and concerns in health care</td>
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<td>- 300+ industry experts on call</td>
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<td>- 200+ customizable forecasting and decision-support tools</td>
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### Performance Technologies

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<tr>
<th>National Peer Collaboratives Powered by Web-Based Analytic Platforms</th>
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<td>- Leading provider: Over 65% of inpatient admissions in the United States flow through our technology platforms</td>
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<td>- Over 3 million user sessions annually</td>
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<td>- Key challenges addressed: margin improvement, physician alignment, payer contracting, quality improvement, and patient experience</td>
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### Consulting and Management

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<th>Seasoned, Hands-On Support and Practice Management Services</th>
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<td>- 3,600+ years of “operator” experience in hospital and physician practices</td>
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<td>- Principal terrains: growth, margins, physician alignment, and the transition to value</td>
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<td>- Range of engagements from strategy to best practice installation to interim management to fully managed services</td>
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### Talent Development

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<th>Partnering to Drive Workforce Impact and Engagement</th>
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<td>- Impacted the achievement of 88,000+ executives, physicians, clinical leaders, and managers</td>
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<td>- 19,500+ outcomes-driven workshops tailored to partners’ specific needs</td>
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### Survey Solutions

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<th>Customized strategies for improving employee and physician engagement</th>
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<td>- National health care-specific benchmarking database of 880,000 respondents</td>
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### Numbers

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<th>4,200+ Hospitals and health care organizations in our membership</th>
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<tr>
<td>2,500+ Health care professionals employed</td>
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<tr>
<td>2,000+ Hospitals using our performance technologies</td>
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<table>
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<th>238,000+ health care leaders served globally</th>
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<td>$700+ million in realized value per year</td>
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<tr>
<td>2,300+ engagements completed</td>
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<tr>
<td>8,400+ employee-led improvement projects</td>
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## Providers Trying to Balance Strategies In Transition

**Absent Full Shift, Focusing on Network Optimization, Patient Loyalty**

### Old World

- Providers paid for furnishing service
- Payment based on individual services, volume
- Focus on broad network and acceptance of price growth
- Patients insulated from cost; passive recipients of care
- Scale and share
- Limited data available to patients and providers

### Murky Middle

1. **Modest performance risk**
2. **Rewards for efficiency, quality**
3. **More active purchasers**
4. **Price-sensitive patients**
5. **Building “systemness”**
6. **Refining data, analytics**

### New World

- Provider payment tied to level of performance
- Total cost-based payment to providers
- More selective networks based on performance, price
- Patients exposed to increased cost sharing; shopping for value
- Geographic footprint and clinical scope
- Expanding use of multiple data sources

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Source: Advisory Board interviews and analysis.
Interest in New Payment Models Outpacing Adoption

Providers See Endgame But Struggle With Transition

Wide-Range of Value-Based Models Emerging

Adoption of Value-Based Models Growing...

744
Total ACOs as of Jan. 2015

23%
Traditional Medicare beneficiaries in ACO as of Jan. 2016

40%
Commercial market payments reported to be “value-oriented” in 2014

But Progress Remains Slow in Some Markets

64
Medicare ACOs with two-sided risk in 2016

53%
Value-oriented payments “at risk” in commercial market in 2014

4
States with ACO penetration of greater than 15% in 2015

1) Based on survey responses from 39 health plans, representing 65 percent of commercially insured lives.

Medicare Advantage Offers Attractive Market Entry Point

Attractive Elements of MA Contracts

- **Greater Control Over the Network**
  64% of beneficiaries choose HMO plans, offering improved utilization management and network control

- **Fewer Patient Identification Issues**
  Providers can target patients who are enrolled in the plan with lower levels of churn than in MSSP

- **Greater Opportunity to Tailor Risk**
  Carrier contracts can be structured to include varying levels of provider payment risk and quality incentives

- **Customized Cost Target Development**
  Providers can determine the cost target as part of negotiations with the plan, perhaps using the MLR

70% of new MA plans approved since 2008 are provider-sponsored
18% of MA enrollees chose a provider-sponsored MA plan in 2014 (about 2.8M enrollees)
91% of MA plans receiving 5-stars in 2013 were provider-sponsored

Transition to Risk Slowed by Market Considerations

Both Providers and Payers Facing Challenges on Path to Risk

Provider Considerations

- Conflicting incentives with FFS
- Minimal model alignment across payers
- Unavailability of risk-contracting in commercial markets
- Uncertainty of long-term viability of risk-based models

Payer Considerations

- Perception that providers unprepared to assume risk
- Concerns about providers becoming insurers
- Complexity of administering risk-based models
- Added complexity of brokers slowing the transition

Source: Advisory Board interviews and analysis.
Certainty Key To Confidence In Path Forward

Outcome Dependent on Several Unresolved Questions

**Public Payers**
- How will MACRA fit into the transition to risk-based models?
- What will be the fate of diverse, numerous payment models?
- How do integrated care strategies fit into overall market regulation?

**Private Payers**
- Will plans expand the availability of risk-based contracts?
- Can commercial payment models align with public payers and at what pace?
- Will employers move towards active purchasing or defined contribution models?

**Beneficiaries**
- How will beneficiaries manage greater exposure to cost of care?
- What incentives are necessary to engage patients as partners in care management?
- Will patients be willing to trade off choice for lower price, perceived quality?

**Providers**
- Can providers find necessary alignment across models, incentives?
- Will providers be able to develop capabilities to take on full insurance risk?
- Will providers have access to data necessary to manage patients?

Source: Advisory Board interviews and analysis.