Health Care Industry Trends 2017
Ready-to-Use Presentation Slides
1. Payment Reform
2. Provider Market
3. Purchaser Behavior
4. Provider Selection
Payment Reform

• Update on Value-Based Purchasing Program
• Update on Bundled Payments
• Update on Accountable Care Organizations
• MACRA
• Update on Policy Landscape
Update on Value-Based Purchasing Program

Continuum of Medicare Risk Models

<table>
<thead>
<tr>
<th>PCMH Payments</th>
<th>Bundled Payments</th>
<th>Shared Savings</th>
<th>Shared Risk</th>
<th>Full Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Comprehensive Primary Care Plus (CPC+)</td>
<td>• BPCI¹</td>
<td>• Medicare Shared Savings Program (MSSP) Track 1</td>
<td>• MSSP Track 1+⁴</td>
<td>• NGACO (100% share rate)</td>
</tr>
<tr>
<td></td>
<td>• CJR²</td>
<td></td>
<td>• MSSP Track 2</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The Oncology Care Model Two-Sided Risk Arrangement</td>
<td></td>
<td>• MSSP Track 3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• EPM³</td>
<td></td>
<td>• Next Generation ACO Model (NGACO) (80% share rate)</td>
<td></td>
</tr>
</tbody>
</table>

Alternative Payment Models

50%

HHS goal for percent of Medicare payment in alternative models by 2018

1) Bundled Payments for Care Improvement.
2) Comprehensive Care for Joint Replacement Model.
3) Episode Payment Models.
4) MACRA Final Rule established Track 1+ with details to follow, set to start in 2018.


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Readmissions, HAC Penalties Outweigh VBP Bonuses

Mandatory Risk Programs Taking a Toll on Providers

After Accounting for Penalties,¹ Few Receive VBP² Bonuses

- 3,087 hospitals in VBP program
- 1,700 hospitals received bonus payment
- 792 hospitals received net payment increases

Estimated Net Impact of P4P³ Programs, FY 2015

- 28% Hospitals receiving a net bonus or breaking even
- 50% Hospitals receiving net penalties between 0% and 1%
- 6.5% Hospitals receiving net penalties of 2% or greater


¹ Hospital-Acquired Condition Reduction Program, Hospital Readmissions Reduction Program.
² Value-Based Purchasing.
³ Pay-for-Performance.
Update on Bundled Payments

BPCI Participation Continues to Fluctuate

Total Number of BPCI\(^1\) Participants
As of October 2016

<table>
<thead>
<tr>
<th>Quarter</th>
<th>2013</th>
<th>2014</th>
</tr>
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<tbody>
<tr>
<td>Q4</td>
<td>450</td>
<td>342</td>
</tr>
<tr>
<td>Q3</td>
<td>6,000+</td>
<td>2,110</td>
</tr>
<tr>
<td>Q1</td>
<td>1,574</td>
<td>1,366</td>
</tr>
</tbody>
</table>

Types of Organizations Participating in BPCI\(^3\)
Episode Initiators as of October 2016

- Acute Care Hospitals: 55%
- Physician Practices: 19%
- PAC Providers\(^2\): 26%

Source:
- CMS, “Bundled Payments for Care Improvement (BPCI) Initiative: General Information,” January 2017
- Health Care Advisory Board interviews and analysis

\(^1\) Bundled Payments for Care Improvement Initiative.
\(^2\) Includes SNFs, HHA, Inpatient Rehabilitation Facilities, and Long-term Acute Care Hospitals.
\(^3\) Does not add to 100% because Awardees not initiating episodes in BCPI are not included.

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CMS Scaling Mandatory Bundled Payment Efforts

Unavoidable Episodic Price Cuts Expanding in Coming Years

**Comprehensive Joint Replacement (CJR)**

Covers the most common inpatient surgeries for Medicare beneficiaries: hip and knee replacements

- **$343M** Estimated savings to Medicare over the 5 years of the model
- **67** Geographic areas (MSAs) selected

**Episode Payment Models (EPM)**

Includes models for Acute Myocardial Infarction (AMI), Coronary Artery Bypass Graft (CABG); and Surgical Hip and Femur Fracture Treatment (SHFFT)

- **$170M** Estimated savings to Medicare over the 5 years of the model
- **98** Geographic areas (MSAs) selected

**Common Characteristics Across Both Bundles**

- **Retrospective Payment**
  - CMS makes FFS payment to providers separately, conducts annual reconciliation process

- **Comprehensive Episodes**
  - Participating hospitals accountable for all related Part A and B services 90 days post-discharge

- **Qualifies for APM Track**
  - New HIT requirements in 2018 allow bundles to count toward MACRA APM track

- **Targets PAC Spend**
  - Aimed at DRGs with a large portion of cost due to variation in PAC utilization

Source: Centers for Medicare and Medicaid Services; Health Care Advisory Board interviews and analysis.

1) MS-DRGs: 469, 470.
2) MS-DRGs: 280-282; 246-251; 231-236; 480-482.
3) Applies to AMI and CABG Models; SHFFT Model to be implemented in 67 CJR markets.
Potential Bundle Expansion in Future

Episodic Cost of Care for Most Commonly Selected Optional BPCI Bundles

<table>
<thead>
<tr>
<th>Condition</th>
<th>Reduction</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple pneumonia and respiratory infections</td>
<td>54%</td>
<td>$21,420</td>
</tr>
<tr>
<td>COPD, bronchitis, asthma</td>
<td>57%</td>
<td>$20,590</td>
</tr>
<tr>
<td>Sepsis</td>
<td>46%</td>
<td>$28,130</td>
</tr>
<tr>
<td>Cellulitis</td>
<td>59%</td>
<td>$19,230</td>
</tr>
<tr>
<td>UTI</td>
<td>64%</td>
<td>$22,200</td>
</tr>
</tbody>
</table>

1) Excluding orthopedic and cardiac conditions.
2) 180 participants.
3) 164 participants.
4) 143 participants.
5) 125 participants.
6) 122 participants.

CMS Looks to BPCI for Mandatory Bundle Expansion

“11 out of the 15 clinical episode groups analyzed showed potential savings to Medicare. Future evaluation reports will have more data to analyze individual clinical episodes within these and additional groups.”

Dr. Patrick Conway, Acting CMS Principal Deputy Administrator and CMO

BPCI Highlights Savings Through Reduced PAC Utilization

85% Of the increased savings from orthopedic bundles in BPCI as a result of reduction in SNF and IRF utilization

Incremental Growth in ACO Programs

Overall Participation Continues to Grow

Total ACO Participants at End of Each Performance Year

MSSP\(^1\) Continues to Grow Despite Mixed Results

19 ACOs Join in 2016, Few Generating Shared Savings in First Year

Medicare ACO Program Growth Continues
As of April 2016

- **Pioneer ACO**: 9
- **MSSP ACO**: 433
- **Total Medicare ACOs**: 442

MSSP ACOs Share in Savings
2015

- **Held Spending Below Benchmark, Earned Shared Savings**: 30%
- **Did Not Hold Spending Below Benchmark**: 48%
- **Reduced Spending, Did Not Qualify for Shared Savings**: 21%


1) Medicare Shared Savings Program.
2) Percentages may not add to 100 due to rounding.

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CMS Highlights
Positive Headlines

Total ACOs which earned savings grew by 4% from 2014 to 2015

Medicare saved $55M more in 2015 than 2014 for total savings of $466M

A Closer Look at ACO Program Generates Concern

Insufficient Savings
CMS owes $214M more in 2015 bonus payments than was generated in savings

Select Few Drive Savings
$458M out of 2015’s net MSSP savings attributable to just 10 ACOs

Benchmarking Suspect
Providers question accuracy of CMS’s benchmarking methodology

Experience Matters
Of ACOs that began in 2012, 42% generated savings above their MSR, 2 5% higher than those that started in 2013, 20% higher than those that began in 2014 or 2015

1) Net promoter savings
2) Minimum savings rate.

Mixed MSSP Results Inhibit Broader Participation

Proportion Earning Savings Has Remained Relatively Steady Over Time

*MSSP ACO Performance, 2012-2015*

MACRA Rewrites the Rules of Risk

Bipartisan Support at Center of MACRA Rollout

Legislation in Brief: MACRA

- Legislation passed in April 2015 repealing the Sustainable Growth Rate (SGR)
- CMS released final rule in October 2016 stipulating program to be implemented on Jan 1, 2017
- Created two payment tracks:
  - Merit-Based Incentive Payment System (MIPS)
  - Advanced Alternative Payment Model (APM)

Legislation Enjoyed Bipartisan Support

92-8 Senate vote on MACRA
392-37 House vote on MACRA

“This historic law has been a collaborative effort from the start. We are encouraged by this final rule and CMS’s commitment to ongoing collaboration with Congress and the health care community.”

Bipartisan Leaders from House Energy and Commerce Committee and Ways and Means Committee


1) Medicare Access and CHIP Reauthorization Act.
MACRA Solidifies Role of Traditional Medicare

Medicare ACOs Not Just a Stepping Stone to MA Risk

MA Contributes to APM Thresholds Beginning in 2021...

…But Providers Must Still Meet Traditional Medicare Threshold

Two Ways to Qualify for APM Track in 2021

MACRA and the Physician Employment Landscape

MACRA Potentially Accelerating End of Independent Physician Practice

**Clinicians Already Seek Hospital Employment**

- **86%**
  - Increase in hospital ownership of physician practices from 2012-2015

- **50%**
  - Increase in physicians employed by hospitals from 2012-2015

- **38%**
  - Of U.S. physicians are employed by a hospital or health system

**MACRA Potentially Accelerating Current Trend**

*Modern Healthcare CEO Survey*

*n = 106*

Due to the Requirements of MACRA, over the next few years we are likely to see:

- **91%**
  - Continued growth in employment with large practices and systems

- **73%**
  - Greater stress among physicians in all settings

- **52%**
  - More practices take on risk-based contracts

- **42%**
  - More physicians leave Medicare

The ACA at a Turning Point

Two Repeal Options on the Table

**Wholesale Immediate Repeal**
A full repeal of the ACA through a congressional vote in both the House and the Senate

**Piecemeal Change**
Changes to specific components of the ACA; most likely through budget reconciliation which only requires a majority vote in Congress

### Key Considerations of Each Approach

- **Wholesale Immediate Repeal**
  - Potentially requires filibuster proof majority in Senate
  - Must contend with Republican governors in states supporting Medicaid expansion
  - May have to contend with widespread industry pushback

- **Piecemeal Change**
  - Complicated by entangled ACA policies
  - Budget reconciliation options limit repeal to tax-related measures
  - Requires line-item specific transition planning

*Source: Advisory Board interviews and analysis.*
Election Results Calling Future Into Question

Possible Scenarios for Alternative Payment Model Continuum

Many Possible Scenarios

<table>
<thead>
<tr>
<th>Fully Repeal</th>
<th>Partially Repeal</th>
<th>Amend</th>
<th>Maintain</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All Reforms Eliminated</strong></td>
<td><strong>Payment Reforms Eliminated</strong></td>
<td><strong>Payment Reforms Revised</strong></td>
<td><strong>Status Quo Remains</strong></td>
</tr>
<tr>
<td>Both payment reform, MACRA repealed</td>
<td>Payment reform repealed, MACRA remain as-is, providers in MIPS track</td>
<td>Transition targets scaled back, individual programs eliminated or modified</td>
<td>Both payment reform, MACRA remain as-is</td>
</tr>
</tbody>
</table>


Source: Health Care Advisory Board interviews and analysis.
Provider Market

- Finances
- Volume Performance
- Mergers and Acquisitions
- Imaging Centers
- Ambulatory Surgery Centers
- Primary Care Network
- Telehealth
Health Spending on the Rise Again…

Bloomberg Businessweek
“U.S. Health-Care Spending Is on the Rise Again”

USA TODAY
“Health care spending growth hits 10-year high”

THE WALL STREET JOURNAL
“Health Spending Is Rising More Sharply Again”

Annual Growth in National Health Expenditures

…But Hospital Price Growth Down

Higher Spending Does Not Equate Price Growth for Hospitals

Annualized Hospital Price Growth, Jan. 2010-Jan. 2015

2016 Hospital Price Growth Down Across Medicaid and Medicare

(1.4%) Medicare price growth

(-2.2%) Medicaid price growth

2.2% Commercial price growth

Modest Growth Anticipated for the Near Term

Inpatient and Hospital Based Outpatient Volume Projections

### Inpatient Volume, CAGR\(^1\)

<table>
<thead>
<tr>
<th>Service</th>
<th>2015-2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>0.6%</td>
</tr>
<tr>
<td>Neurosurgery</td>
<td>2.9%</td>
</tr>
<tr>
<td>General Medicine</td>
<td>1.4%</td>
</tr>
<tr>
<td>Orthopedics</td>
<td>0.6%</td>
</tr>
<tr>
<td>General Surgery</td>
<td>0.8%</td>
</tr>
<tr>
<td>Neurology</td>
<td>0.8%</td>
</tr>
<tr>
<td>Cardiac Services</td>
<td>(2.7%)</td>
</tr>
</tbody>
</table>

### Hospital-Based Outpatient Volume, CAGR\(^1\)

<table>
<thead>
<tr>
<th>Service</th>
<th>2015-2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>2.0%</td>
</tr>
<tr>
<td>Oncology</td>
<td>1.7%</td>
</tr>
<tr>
<td>Radiology</td>
<td>1.4%</td>
</tr>
<tr>
<td>Cardiology</td>
<td>2.3%</td>
</tr>
<tr>
<td>E&amp;M</td>
<td>1.4%</td>
</tr>
<tr>
<td>General Surgery</td>
<td>2.2%</td>
</tr>
<tr>
<td>Orthopedics</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

1) Compound Annual Growth Rate

Source: Advisory Board Market Scenario Planner; Advisory Board research and analysis.
Volumes Continuing to Shift Outpatient

Medicare Volume Growth
Cumulative Percent Change


All Payer Volume Growth Projections¹
2015-2020

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

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# M&A Activity Still Strong

## Hospital and Health System M&A Activity

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deal Volume</th>
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<tbody>
<tr>
<td>2009</td>
<td>50</td>
</tr>
<tr>
<td>2010</td>
<td>66</td>
</tr>
<tr>
<td>2011</td>
<td>86</td>
</tr>
<tr>
<td>2012</td>
<td>89</td>
</tr>
<tr>
<td>2013</td>
<td>98</td>
</tr>
<tr>
<td>2014</td>
<td>95</td>
</tr>
<tr>
<td>2015</td>
<td>102</td>
</tr>
<tr>
<td>2016</td>
<td>101</td>
</tr>
</tbody>
</table>

## Number of Hospitals Part of a Health System

- **2004**: 2,668
- **2015**: 3,198

20% growth since 2004

## Merger and Acquisition Activity

- **$8.7B**: Value of hospital M&A transactions, 2015
- **86,000**: Increase in vertically-consolidated physicians, 2007-2013

Medicare Imaging Utilization Declining

Percent Change in Utilization of Imaging Services

Volumes of Service\(^3\) Per Medicare Beneficiary

MPFS 2006-2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>6.2%</td>
</tr>
<tr>
<td>2007</td>
<td>3.8%</td>
</tr>
<tr>
<td>2008</td>
<td>3.3%</td>
</tr>
<tr>
<td>2009</td>
<td>2.0%</td>
</tr>
<tr>
<td>2010</td>
<td>(2.5%)</td>
</tr>
<tr>
<td>2011</td>
<td>(2.3%)</td>
</tr>
<tr>
<td>2012</td>
<td>(3.2%)</td>
</tr>
<tr>
<td>2013</td>
<td>(1.0%)</td>
</tr>
<tr>
<td>2014</td>
<td>(1.1%)</td>
</tr>
</tbody>
</table>

1) Medicare Payment Advisory Commission.
2) Medicare Physician Fee Schedule.
3) Volume of services equals units of service multiplied by each service’s relative value unit (RVU) from the physician fee schedule.


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Outpatient Growth Outlook Remains Modest

Outpatient Volume Growth Projections
All Providers, by Modality 2015-2025

- CT: 6% 5 yr, 13% 10 yr
- MRI: 9% 5 yr, 17% 10 yr
- Ultrasound: 11% 5 yr, 16% 10 yr
- Mammography: 2% 5 yr, 4% 10 yr
- X-ray: 7% 5 yr, 11% 10 yr
- PET: 7% 5 yr, 18% 10 yr
- Nuclear Medicine: 8% 5 yr, 2% 10 yr

Source: Advisory Board Imaging Outpatient Market Estimator; Imaging Performance Partnership interviews and analysis.
ASC Growth at All-Time Low

Total Number of Medicare-Certified ASCs

<table>
<thead>
<tr>
<th>Year</th>
<th>Net percent growth from previous year</th>
<th>Total Number of Medicare-Certified ASCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>4.2%</td>
<td>4955</td>
</tr>
<tr>
<td>2009</td>
<td>2.2%</td>
<td>5064</td>
</tr>
<tr>
<td>2010</td>
<td>1.7%</td>
<td>5152</td>
</tr>
<tr>
<td>2011</td>
<td>1.5%</td>
<td>5228</td>
</tr>
<tr>
<td>2012</td>
<td>1.5%</td>
<td>5307</td>
</tr>
<tr>
<td>2013</td>
<td>1.1%</td>
<td>5364</td>
</tr>
<tr>
<td>2014</td>
<td>0.9%</td>
<td>5414</td>
</tr>
<tr>
<td>2015</td>
<td>0.9%</td>
<td>5464</td>
</tr>
<tr>
<td>2016</td>
<td>0.8%</td>
<td>5507</td>
</tr>
</tbody>
</table>

Expanding Network of Options Available

Providers Competing to Draw Patients Upstream

- Federally Qualified Health Center (FQHC)
- Ambulatory Care Options
- In-store Kiosk
- Remote Monitoring
- Virtual Visits
- Email
- Mobile Apps
- Freestanding Emergency Department
- Emergency Department (ED)
- Worksite Clinic
- High Acuity
- Low Acuity

Source: Market Innovation Center interviews and analysis.

1) Federally Qualified Health Center.
Investment in Outpatient Facilities Growing

Current Capital Outlays, Planned Projects Point to Sustained Growth

**Capital Allocation for Ambulatory Investments**

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent of Total Capital Outlays</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>20%</td>
</tr>
<tr>
<td>2014</td>
<td>27%</td>
</tr>
</tbody>
</table>

**Percent of Respondents with Outpatient Facility Projects Planned**

2015-2018, n= 31 Hospitals and Health Systems

- **Medical office building**: 84%
- **Primary care clinic**: 68%
- **Ambulatory surgical center**: 61%
- **Urgent care clinic**: 61%
- **Imaging center**: 45%
- **Retail clinic**: 23%

Source: 2015 Facility Planning Survey; Facility Planning Forum research and analysis.
Retail Clinics Expected to Continue Growing

Estimated Total Number of Retail Clinics in the US
2000-2016


Retailer

Operational Retail Clinics

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>+minute clinic</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Walgreens</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Little Clinic</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Walmart</td>
<td>103</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Target</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1) As of Nov. 2015
2) As of Jan. 2017 unless otherwise noted
3) As of July 2015
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Urgent Care Ripe for Consolidation and Diversification

Urgent Care Beginning to Offer Ongoing Primary Care Services

- **Urgent care and ongoing primary care**: 15%
- **Exclusively urgent care**: 87%

Continued growth likely in urgent care centers offering ongoing primary care to bolster referrals, relieve primary care offices, and manage population health.

---

**Operator**

<table>
<thead>
<tr>
<th>Operator</th>
<th>Operational Urgent Care Centers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concentra</td>
<td>300</td>
</tr>
<tr>
<td>U.S. HealthWorks</td>
<td>200</td>
</tr>
<tr>
<td>MedExpress</td>
<td>152</td>
</tr>
<tr>
<td>Doctors Express</td>
<td>170</td>
</tr>
<tr>
<td>NextCare</td>
<td>135</td>
</tr>
</tbody>
</table>

1) As of January 2017
2) As of January 2017

Telehealth Projected to Continue to Grow

Key Distinction Lies in Growth Rate Compared to Visit Volumes

Year-Over-Year Medicare Reimbursement for Telehealth Services¹

In millions of dollars

2014 Medicare reimbursements under its Part B telehealth benefit

Percent of total 2014 Medicare Part B reimbursements spent on telehealth services


1) CMS data.
2) 2015 HIS Analytics report.
Purchaser Behavior

- Commercial Payers
- Employers
- Medicare
- Coverage Expansion
Public Exchange Enrollment Falling Short of Targets

Group Market Longevity Limiting New Growth

Exchange Enrollment
2014-2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 2014</td>
<td>8.0M</td>
</tr>
<tr>
<td>Dec. 2015</td>
<td>6.3M</td>
</tr>
<tr>
<td>End of 2015 OEP</td>
<td>11.7M</td>
</tr>
<tr>
<td>Dec. 2015</td>
<td>8.2M</td>
</tr>
<tr>
<td>End of 2016 OEP</td>
<td>12.7M</td>
</tr>
<tr>
<td>Final 2016 Enrollment</td>
<td>10.0M</td>
</tr>
<tr>
<td>CBO Projection for Final Enrollment</td>
<td>16.0M</td>
</tr>
</tbody>
</table>

Smaller and Sicker Than Expected

<table>
<thead>
<tr>
<th>Stat</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>25M</td>
<td>Original CBO Projection for public exchange enrollment</td>
</tr>
<tr>
<td>28%</td>
<td>Proportion of total public exchange population made up of “young invincibles”</td>
</tr>
</tbody>
</table>

Employers Not Dropping Coverage
Concerns about employer-sponsored health insurance evaporating after the implementation of health reform have not materialized…as of now, the law has had little to no effect on employer-sponsored insurance.”

Kathy Hempstead
Robert Wood Johnson Foundation


1) Open Enrollment Period.
2) Drop-off due to individuals not paying premiums or voluntarily dropping coverage.
3) Enrollees aged 18-34.

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Increasingly Unstable Public Exchanges

Established Carriers Scaling Back, Co-ops Faltering

Some Insurers Reconsidering Participation

Aetna 11
State exchanges Aetna is departing in 2017

Humana 8
State exchanges Humana is departing in 2017

“
We cannot broadly serve [the exchange market] on an effective and sustained basis.”

Stephen J. Hemsley
CEO of UnitedHealth Group

Startup Ventures Largely Failing

Notable CO-OP failures:

To date, more than half a million Americans have lost coverage thanks to the failure of these co-ops.”

Adrian Smith
The Wall Street Journal

Difficulties Facing Exchange Plans

- Adverse selection
- Inaccurate risk adjustment
- Risk corridor underpayment
- Abuse of special enrollment period

Rate Increases and Reduced Competition

Subsidy Growth Likely to Stress Federal Budget

### 2017 Individual Marketplace Premium Increases

<table>
<thead>
<tr>
<th>Minimum</th>
<th>Average</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of August 30, 2016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Requested (All states)</th>
<th>Requested (Approved states only)</th>
<th>Approved (Approved states only)</th>
</tr>
</thead>
<tbody>
<tr>
<td>24.4%</td>
<td>29.9%</td>
<td>30.2%</td>
</tr>
<tr>
<td>66.4%</td>
<td>59.0%</td>
<td>58.6%</td>
</tr>
<tr>
<td>3.6%</td>
<td>3.6%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

### Subsidy Growth Tracks Premium Spikes

“More than eight in 10 marketplace enrollees won’t be directly affected by increases in [2017] premiums because they receive a government subsidy that will insulate them.”

*Kaiser Health News*

<table>
<thead>
<tr>
<th>Subsidy Growth</th>
<th>Minimum</th>
<th>Average</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tracks Premium Spikes</td>
<td>24.4%</td>
<td>59.0%</td>
<td>58.6%</td>
</tr>
</tbody>
</table>

![Image of graph with bars showing subsidy growth and premium spikes](image)

**Exclamation:**

- **36%** Of exchange regions will have only one participating insurer in 2017
- **5** State exchanges with only one participating insurer

Consumers Trade Low Premiums for High Deductibles

**Average Deductible for Exchange-Sold Health Plans**

<table>
<thead>
<tr>
<th>Metal Tier</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bronze</td>
<td>$2,907</td>
<td>$2,927</td>
<td>$5,181</td>
</tr>
<tr>
<td>Silver</td>
<td>$1,277</td>
<td>$1,198</td>
<td>$3,117</td>
</tr>
<tr>
<td>Gold</td>
<td>$1,198</td>
<td>$1,165</td>
<td>$2,907</td>
</tr>
<tr>
<td>Platinum</td>
<td>$347</td>
<td>$243</td>
<td>$5,081</td>
</tr>
</tbody>
</table>

**Exchange Enrollment, by Metal Tier**

- **Platinum**: 20%
- **Gold**: 7%
- **Silver**: 69%
- **Bronze**: 4%

Nearly 90% of exchange enrollees are in bronze or silver plans.

Consumer Purchase Decisions Driven by Price

Switching Rates Higher Than Expected

100%

0%

12%

Average annual switching among active employees with FEHBP\(^1\) coverage

43%

Returning federal exchange enrollees changing plans in 2016

Premium Increases the Primary Motivator

55%

Switchers who cited rise in monthly premiums among top three reasons for switching

Active Health Plan Shopping on the Rise

Percentage of those renewing coverage who actively shopped for plans

Percentage of those renewing coverage who switched plans

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Shopping</td>
<td>53%</td>
<td>70%</td>
</tr>
<tr>
<td>Switching</td>
<td>29%</td>
<td>43%</td>
</tr>
</tbody>
</table>


\(^1\) Federal Employee Health Benefits Plan.
Employers Turn to High-Deductible Health Plans

ESI Average Deductible for Single Coverage¹
By Plan Type, 2006-2015

Percentage of Covered Workers with Annual Deductible of $2,000 or More³
By Firm Size, 2006-2015

1) Among covered workers with a general annual health plan deductible.
2) Includes HDHP/SO.
3) For single coverage.


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Private Exchange Enrollment Growing Slowly

Private Exchange Enrollment Still Grows in 2016, But Lags Behind Initial Projections

Projected Private Exchange Enrollment Among Pre-65 Employees and Dependents

Price Cuts for Inpatient Reimbursements Continue

Hospitals Bearing the Brunt of Payment Cuts

Reductions to Medicare Fee-for-Service Payments

<table>
<thead>
<tr>
<th>Year</th>
<th>ACA IPPS(^1) Update Adjustments</th>
<th>ACA DSH(^2) Payment Cuts</th>
<th>MACRA(^3) IPPS Update Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>(4B)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>(14B)</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td>(24B)</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td>(29B)</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>(38B)</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td>(54B)</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td>(67B)</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td>(76B)</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td>(86B)</td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td></td>
<td>(94B)</td>
</tr>
</tbody>
</table>

New Proposals Continue to Emerge

President’s FY2016 Budget Proposal Includes Significant Cuts to Providers

- **$30.8B** Reduction in Medicare bad debt payments
- **$29.5B** Savings from moving to site-neutral payments
- **$14.6B** Cuts to teaching hospitals and GME payments
- **$720M** Cuts to critical access hospitals

Medicare Advantage Continues Record Growth

MA¹ Enrollment to Nearly Double by 2025

Total Enrollment and Percentage of Total Medicare Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Enrollment</th>
<th>MA Penetration (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>10.4M (13%)</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>16.8M (31%)</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>30.0M (40%)</td>
<td></td>
</tr>
</tbody>
</table>

MA Penetration Varies by State

Total MA Enrollment as a Percent of Total Medicare Population, 2016

- 0%-10%
- 10%-19%
- 20%-29%
- 30%-39%
- >40%

43 states currently have provider-led plans in their markets

69% of provider-led plans offer MA coverage options


1) Medicare Advantage.
2) As of 2014
Future of Medicaid Expansion Less Clear

Benefit of Expansion Clear for Hospitals, But Opposition Remains

31 States and DC Have Approved Expansion¹

As of October 2016


1) Montana’s expansion requires federal waiver approval.

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Millions of New Patients Insured Under ACA

US Adult Uninsured Rate

Q3 2013: 18.0%

Major ACA coverage expansion provisions took effect January 1, 2014

HHS estimate of adults gaining health insurance coverage as a result of the ACA

22M

Summer 2016 uninsured rate of 8.6% is the lowest in US history

Provider Selection

- Independent Physicians
- Patients
Independent Physicians

Referral Choice Criteria Different for PCPs, Specialists

Emerging and Traditional Differentiators for Physicians

The Extended Service Line Referral Pathway

- Consumer Interventions
- Value-Based Incentives
- Steerage Mechanisms

Sources of Influence

Traditional Differentiators
- Top-notch specialty capabilities and technology
- Superior specialist access
- Operations focused on specialist efficiency

Emerging Differentiators
- Comprehensive care continuum
- Highest value of care
- Superior patient access and experience

Sources: Service Line Strategy Advisor interviews and analysis.
Market Forces Turning Patients into Consumers

Characteristics of a Traditional vs. Retail Market

<table>
<thead>
<tr>
<th>Traditional Market</th>
<th>Retail Market</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Passive employer, price-insulated employee</td>
<td>Activist employer, price-sensitive individual</td>
<td>1. Growing number of buyers</td>
</tr>
<tr>
<td>Broad, open networks</td>
<td>Narrow, custom networks</td>
<td>2. Proliferation of product options</td>
</tr>
<tr>
<td>No platform for apples-to-apples plan comparison</td>
<td>Clear plan comparison on exchange platforms</td>
<td>3. Increased transparency</td>
</tr>
<tr>
<td>Disruptive for employers to change benefit options</td>
<td>Easy for individuals to switch plans annually</td>
<td>4. Reduced switching costs</td>
</tr>
<tr>
<td>Constant employee premium contribution, low deductibles</td>
<td>Variable individual premium contribution, high deductibles</td>
<td>5. Greater consumer cost exposure</td>
</tr>
</tbody>
</table>

Source: Health Care Advisory Board interviews and analysis.
Higher Deductibles Drive Increased Price Sensitivity

1) **Forgo Care?**

   Spending Reductions Following Implementation of High-Deductible Health Plans

   - **25%**  
     Reduction in physician office spending

   - **18%**  
     Reduction in ED spending

2) **Fail to Pay?**

   Households Without Enough Liquid Assets to Pay Deductibles

   - Mid-range deductible
     - 24%
   - Higher-range deductible
     - 35%

3) **Shop Carefully?**

   Consumers searching for price information before getting care

   - **56%**

   Consumers with deductibles higher than $3,000 who have solicited pricing information

   - **74%**

---

1) $1,200 Single; $2,400 Family.
2) $2,500 Single; $5,000 Family.

Inpatient Satisfaction Scores Miss Most Interactions

Scope and Investment Must Expand to Encompass Entire Experience

**Average Health System Interactions**

<table>
<thead>
<tr>
<th>Category</th>
<th>Interactions per year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INPATIENT VISITS</strong></td>
<td>17,000+</td>
</tr>
<tr>
<td><strong>AMBULATORY CARE</strong></td>
<td>350,000+</td>
</tr>
<tr>
<td><strong>PROVIDER SEARCH, SCHEDULING, COLLECTIONS</strong></td>
<td>2,500,000+</td>
</tr>
</tbody>
</table>

Source: Health Care Advisory Board interviews and analysis.
Consumers Prefer Convenient, Affordable Primary Care

### Average Utilities for Top Ten Preferred Primary Care Clinic Attributes

$n=3,873$

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Utility</th>
</tr>
</thead>
<tbody>
<tr>
<td>I can walk in without an appointment, and I’m guaranteed to be seen within 30 minutes</td>
<td>4.11</td>
</tr>
<tr>
<td>If I need lab tests or x-rays, I can get them done at the clinic instead of going to another location</td>
<td>3.98</td>
</tr>
<tr>
<td>The provider is in-network for my insurer</td>
<td>3.95</td>
</tr>
<tr>
<td>The visit will be free</td>
<td>3.94</td>
</tr>
<tr>
<td>The clinic is open 24 hours a day, 7 days a week</td>
<td>3.91</td>
</tr>
<tr>
<td>I can get an appointment for later today</td>
<td>3.70</td>
</tr>
<tr>
<td>The provider explains possible causes of my illness and helps me plan ways to stay healthy in the future</td>
<td>3.04</td>
</tr>
<tr>
<td>Each time I visit the clinic, the same provider will treat me</td>
<td>3.01</td>
</tr>
<tr>
<td>If I need a prescription, I can get it filled at the clinic instead of going to another location</td>
<td>3.00</td>
</tr>
<tr>
<td>The clinic is located near my home</td>
<td>3.00</td>
</tr>
</tbody>
</table>

Most Patients Are Not Loyal to PCP

Percent of Consumers Highly Loyal in Each of Three Loyalty Measures

If your primary care moved to another clinic or practice, how likely are you to follow him/her to another clinic or practice?

(On a scale of 0 to 10, with 0 being “definitely would not follow” and 10 being “definitely follow”)

How likely are you to stay with your primary care physician over the next 12 months?

(On a scale of 0 to 10, with 0 being “definitely not staying” and 10 being “definitely staying”)

How likely are you to recommend your primary care physician to friends or family members?

(On a scale of 0 to 10, with 0 being “not at all likely” and 10 being “extremely likely”)

9%

53%

36%

Source: 2015 Primary Care Physician Consumer Loyalty Survey, Market Innovation Center interviews and analysis.
Consumers Value Friend & Family Recommendations

Word-of-Mouth Most Frequently Cited Driver of Consumer Choice

60% of adults turn to family and friends for information or support on health issues.

72% of internet users look online for health information.

75% of self-referrers consult at least one source when finding a specialist.

>80% of Millennials have smartphones, and 25% read online reviews before looking for a provider.

35% of adults go online to figure out their medical condition.

Top Drivers of Consumer Choice

Percentage of Respondents Citing Driver as #1 Influence in Decision for Specialist

- **Friend or relative recommended:** 19%
- **Personal or previous relationship:** 15%
- **Affiliated with a hospital I like/trust:** 14%
- **Board or subspecialty certification:** 12%
- **Short distance:** 11%

Surgical Shoppers are Price Sensitive

Price and Travel Time Top Consumers’ Surgical Care Priorities

Average Relative Importance\(^1\) of Six Surgical Care Attributes

- **Cost of Surgery\(^2\)**
- **Travel Time to Hospital**
- **Referrer’s Recommendation**
- **Hospital Affiliation**
- **Location of Follow-Up Visit**
- **Quality of Surgeon**

- **Cost of care** is more important than the five other attributes combined; comprises more than half of consumers’ preference.
- **Travel time** is second most important and about twice as important as the next most important attribute, referrer’s recommendation.
- **Hospital affiliation** matters more than quality of the surgeon.

---

\(^1\) Relative importance depicts how much difference each attribute could make in the total utility of a product. That difference is the range in the attribute’s utility values for the five factors. We calculate percentages from relative ranges, obtaining a set of attribute importance values that add to 100 percent.

\(^2\) Includes cost of care and travel.

Consumers Prioritize Continuity, Price for Virtual Visits

### Average Utilities for Top Ten Preferred Urgent Care Virtual Visit Attributes

**n=2,429**

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Utility Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>The virtual visit will be with my regular provider</td>
<td>14.0</td>
</tr>
<tr>
<td>I can see a provider immediately</td>
<td>11.9</td>
</tr>
<tr>
<td>I will pay less out-of-pocket for the virtual visit than an office visit</td>
<td>11.6</td>
</tr>
<tr>
<td>I can schedule the virtual visit to be 15 minutes from now</td>
<td>10.6</td>
</tr>
<tr>
<td>I will know the exact cost of the virtual visit before I schedule it</td>
<td>8.6</td>
</tr>
<tr>
<td>The virtual visit is offered by my health insurance company</td>
<td>7.4</td>
</tr>
<tr>
<td>The virtual visit is offered by the hospital my regular provider is</td>
<td>6.3</td>
</tr>
<tr>
<td>associated with</td>
<td></td>
</tr>
<tr>
<td>The virtual visit will be with another physician in my regular provider’s</td>
<td>6.1</td>
</tr>
<tr>
<td>practice</td>
<td></td>
</tr>
<tr>
<td>The virtual visit will be with an advanced practitioner in my regular</td>
<td>6.0</td>
</tr>
<tr>
<td>provider’s practice, but not with my regular provider</td>
<td></td>
</tr>
<tr>
<td>I will pay the same amount out-of-pocket for the virtual visit as I would</td>
<td>5.2</td>
</tr>
<tr>
<td>for an office visit</td>
<td></td>
</tr>
</tbody>
</table>