The Changing Landscape of Health Care and the Importance of Physician Engagement and Alignment

Jeff Moser
Vice President, Sg2

Agenda

The Changing Landscape of Health Care—Macro View
Forces at Work—Micro View
Health Spending Growth Has Dropped Below Economic Growth Again...

Growth in National Health Expenditures (NHE) and Gross Domestic Product (GDP), 1990–2012

Inpatient-Outpatient Demand Gap Continues to Grow

Sg2 Analytics

Adult Inpatient Forecast
US Market, 2013–2023

Millions

<table>
<thead>
<tr>
<th>Years</th>
<th>5-Year</th>
<th>10-Year</th>
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<tbody>
<tr>
<td>2013</td>
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<td>-3%</td>
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<tr>
<td>2018</td>
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<td>2023</td>
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Adult Outpatient Forecast
US Market, 2013–2023

Billions

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<tr>
<th>Years</th>
<th>5-Year</th>
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<tbody>
<tr>
<td>2013</td>
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<td>+17%</td>
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<tr>
<td>2018</td>
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<td>+7%</td>
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<tr>
<td>2023</td>
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<td>+13%</td>
</tr>
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</table>

Note: Forecast excludes 0–17 age group, psychiatry and obstetrics service lines. IP = inpatient; OP = outpatient.
Sources: Impact of Change® v13.5; NIS; PharMetrics; CMS; Sg2 Analytics, 2013.
Current Factors Behind Weak Inpatient Volumes

- Shift to observational status (NOTE: avg IP short stay reimbursement—$5,142 vs. $1,741 for observation!)
- Continued rise in deductibles, coinsurance
- Secular trend toward outpatient settings of care
- Job growth ≠ health benefits growth
- Practice pattern shift on the part of providers?

Growth in this environment is difficult but possible: the strongest, smartest organizations are growing and taking market share.

But It Differs by Service Line

### Sg2 Analytics

**Inpatient Service Line Growth Rates**

**US Market, 2013–2023**

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<tbody>
<tr>
<td>Orthopedics and Spine</td>
<td>13%</td>
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<td>Neurosciences</td>
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<td>Obstetrics</td>
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<td>Pediatrics</td>
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<td>Gen Med/Gen Surg</td>
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**Outpatient Service Line Growth Rates**

**US Market, 2013–2023**

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<td>Neurosciences</td>
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<td>Obstetrics</td>
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Note: All service lines exclude 0–17 year age group except for Pediatrics, which excludes age 18+. Cardiovascular includes cardiology and vascular. Gen Med/Gen Surg includes allergy and immunology, burns, dermatology, endocrinology, ENT, gastroenterology, general medicine and general surgery, infectious diseases, nephrology, neurology, obstetrics, pediatrics, plastics, pulmonary, rheumatology, urology, and urology. Orthopedics includes orthopedics, sports medicine, orthopedics surgery, and spine. Neurosciences includes brain/CNS. OP Pediatrics excludes psychiatry, gynecology and obstetrics; IP Pediatrics additionally excludes normal newborns and neonatology. Gen Med/Gen Surg = general medicine/general surgery; ENT = ear, nose and throat; CNS = central nervous system; CARE = Clinical Alignment and Resource Effectiveness. Sources: Impact of Change® v13.0; NIS; PharMetrics; CMS; Sg2 Analysis, 2013.
Value Is at the Forefront of the Health Care Discussion

Efficiency
- Well-Defined Care Paths
- Less Costly Sites of Care
- Coordinated Care
- Increased Access
- Predictive Care Paths

Quality and Safety
- Provider Error
- Unnecessary Care
- Readmissions
- Avoidable Conditions
- Lack of Care Coordination

Estimates suggest that as much as $700 billion a year in health care costs do not improve health outcomes.

—Peter Orszag, former director of the Congressional Budget Office

The Real Health Care Reform

Is About Long-term Changes in Payment Incentives
- Quality improvement
- Hospital-acquired conditions
- 30-day readmissions
- Potentially avoidable admissions
- Inappropriate site of care
- Trade-offs between payment models
  - Eg, bundled payment, partial capitation
- New care delivery models
  - Eg, accountable care organizations

The PPACA sets the foundation for payer and provider collaboration and coordination, but the future will play out in the private sector.

PPACA = Patient Protection and Affordable Care Act
Employers Are Testing Reference Pricing Strategies

Case Study

CalPERS and Anthem Blue Cross

SITUATION
- Hospital bills for hip and knee replacements ranged from $15,000 to $110,000.

SOLUTION
- Established a “reference price” for single joint, elective hip and knee replacements
- Set $30,000 benefit cap and made patients responsible for costs above the cap

RESULTS
- Cost for joint replacements decreased by 19%
- $5.5M in 2-year savings

Hospital Exchange Networks by Breadth

2014 Individual Exchange Market (Silver Tier)

Broad 30%
Narrow 32%
Ultra-Narrow 38%

Narrow and ultra-narrow hospital networks comprise 70% of all network configurations.

Note: Analyses based on 20 urban markets. Broad networks have less than 30% of the 20 largest hospitals by bed size not participating. Narrow networks have 30% to 69% of the 20 largest hospitals not participating. Ultra-narrow networks have at least 70% of the 20 largest hospitals not participating. The largest 20 hospitals represent approximately 80% to 85% of market beds on average. Source: McKinsey Center for US Health System Reform. Hospital Networks: Configurations on the Exchanges and Their Impact on Premiums. McKinsey and Co. December 14, 2013.
Silver Plan
- $2,000 deductible
- OOP cap: $6,400
- ED co-pay: $250
- Primary care co-pay: $45
- Imaging: $250 co-pay

Bronze Plan
- $5,000 deductible
- OOP cap: $6,400
- ED co-pay: $300
- Primary care co-pay: $60
- Imaging co-pay: 40%

New Players Seize the Opportunity of the Retail Health Care Market

Case Study

Walgreens

Walgreens and its employer peers have determined they can save money and offer competitive benefits packages on private exchanges.

WHY WALGREENS IS DIFFERENT
- Much larger than the other early movers (160,000 employees)
- Large fleet of highly educated, highly competitive workers (25,000 graduate-trained pharmacists)

WHY WALGREENS MATTERS
- Walgreens is seen as the “tipping point” for defined contribution in health insurance like IBM was for defined contributions in pensions in 2006.
- Others are likely to follow Walgreens’ lead.

EARLY RESULTS
- Moved to Aon Hewitt Corporate Exchange
- Self-insured to fully insured model
- 1.6% health benefits savings for 2014

### Consumer Pricing Is Hitting the Mainstream

**Cost Data From New Hampshire**

Outpatient Arthroscopic Knee Surgery

<table>
<thead>
<tr>
<th>Provider</th>
<th>Consumer Out-of-Pocket Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concord Ambulatory Surgery Center</td>
<td>$1,439</td>
</tr>
<tr>
<td>Mary Hitchcock Memorial Hospital</td>
<td>$1,979</td>
</tr>
<tr>
<td>Frisbie Memorial Hospital</td>
<td>$2,510</td>
</tr>
<tr>
<td>Valley Regional Hospital</td>
<td>$2,679</td>
</tr>
</tbody>
</table>


### Which Becomes Real When Put in Consumers’ Hands

**Insurers**
- Example: UnitedHealthcare

**Governments**
- Example New Hampshire

**Entrepreneurs**
- ClearCost Health
- CastLight Health
- GoodRx
- Healthcare Bluebook
- Medlio

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![Select Provider](https://via.placeholder.com/150)

**Select Provider**
- Lopez, Joshua D., DO
  - Family Medicine
  - San Jose, CA 95116 (22 mi)
  - Your estimate $30
- Zheng, Hui K., MD
  - Family Medicine
  - Fremont, CA 94536 (9 mi)
  - Your estimate $32
- Zheng, Hui K., MD
  - Family Medicine
  - Milpitas, CA 95035 (17 mi)
  - Your estimate $32
- Diamond, Andrew S., MD, PHD
  - Family Medicine, Internal Medicine
  - Burlingame, CA 94010 (55 mi)
  - Your estimate $45
- Siddiq, Simin X., MD
  - Family Medicine, Internal Medicine
  - San Ramon, CA 94583 (7 mi)
  - Your estimate $50
What’s Happening?  
The Emergence of a Retail Health Care Market

Old Wholesale Market

**HOW IT WORKS**
- Providers sell themselves to physicians and insurers.
- Employers make decisions on behalf of thousands of individuals and their families.

**IMPLICATIONS**
- Broad networks rule.
- Higher prices benefit payer and provider.

New Retail Market

**HOW IT WORKS**
- Providers sell themselves to patients and physicians.
- Individuals make decisions on benefits, providers, course of care.

**IMPLICATIONS**
- Individuals trade off price for narrow networks.
- Transparency (price and performance) changes the game.

ACOs Reach a Critical Mass, Now What?

**Number of Accountable Care Organizations Over Time**

<table>
<thead>
<tr>
<th>Year</th>
<th>Other</th>
<th>Insurer</th>
<th>Hospital System</th>
<th>Physician Group</th>
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<tr>
<td>Q4 2010</td>
<td>46</td>
<td></td>
<td>9</td>
<td>37</td>
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<tr>
<td>Q4 2011</td>
<td>39</td>
<td>9</td>
<td>146</td>
<td></td>
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<tr>
<td>Q4 2012</td>
<td>61</td>
<td>9</td>
<td>356</td>
<td></td>
</tr>
<tr>
<td>Q4 2013</td>
<td>15</td>
<td>9</td>
<td>606</td>
<td></td>
</tr>
</tbody>
</table>

Nationally, 6% of the population is estimated to be enrolled in an ACO.

ACO = accountable care organization
While All Pioneer ACOs Improved Quality, Not All Were Able to Lower Costs

First Year Pioneer ACO Cost Savings Results

- **44% Did Not Achieve Cost Savings**
- **56% Achieved Cost Savings**

Among the 14 without cost savings:
- 3 were IDNs
- 7 were physician groups
- 4 were health system and physician group partnerships

Among the 18 with cost savings:
- 10 were IDNs
- 5 were physician groups
- 3 were health system and physician group partnerships


What Is Population Health and Should We Do It?

**POPULATION HEALTH MANAGEMENT**
A sophisticated care delivery model that involves a systematic effort to assess the health needs of a target population and proactively provide services to maintain and improve the health of that population.

**Degree of Complexity**
- ACO
- Clinical integration program
- Disease-specific capitation
- Bundled episodes (pre- and post-care included)
- Bundled episodes (inpatient only)
- P4P/Value-based purchasing
- Inpatient case rates (MS-DRGs)

**Scope of Risk**
- Fee for service
- Insurance product
- Population Health
Providers Will Be Asked to Be More Accountable and Take on More “Risk”

What is the cost per patient to manage back pain?

\[
\text{Cost} = \frac{\text{# Conditions}}{\text{Person}} \times \frac{\text{# Episodes}}{\text{Person}} \times \frac{\text{# Services}}{\text{Condition}} \times \frac{\text{Cost}}{\text{Episode}} \times \frac{\text{Cost}}{\text{Service}}
\]

Providers Will Be Asked to Be More Accountable and Take on More “Risk”

Performance Risk

Actuarial Risk

What is the cost per patient to manage back pain?

How many people have back pain? How many acute episodes do they have? Conservative management vs surgical intervention Expensive implant or less-costly implant


Agenda

Demand and the Changing Landscape of Health Care—Macro View

Forces at Work—Micro View
Market Forces Are Accelerating Physician and Hospital Relationships

- New payment models
- Decreasing payments from Medicare FFS and Prospective Payment System
- Increased financial incentives for high-quality care
- Payer negotiations
- Increasing overhead costs (e.g., HIT), lost revenue during transition
- Physicians are increasingly seeking financial security and better work-life balance.

FFS = fee for service; HIT = health information technology.
Sources: Sg2 Analysis, 2014; PricewaterhouseCoopers (PwC) Health Research Institute, 2010.

We Have to Redesign the Work

Printed with permission of Philips Medical Systems.
Primary Care Is An Important Strategic Priority for Hospital Success...

Old

Primary care is a cost center, but a necessary one to drive referrals.

New

How can we expand primary care to prevent downstream costs?

How do we configure our primary care network?

What is the right mix of physician employment and alignment?

...Yet It Faces a Multitude of Challenges That Hinder Its Success

Supply Constraints:
Primary care physicians are opting and aging out of practice.

Demand Considerations:
Millions of Americans will gain health insurance through HIX and Medicaid expansion.
PCPs Will Require the Support of PCTs (Primary Care Teams)

The primary care team will see you now…

- RN Care Coordinators
- Clinical Pharmacists
- Behavioral Health Specialists
- Select Specialists
- Community Health Workers
- Advanced Practitioners

Improve Care Coordination With Disease Management, Team-Based Care

Dreyer Medical Clinics, Advocate, Illinois

**Situation**
Diabetes patients not optimally managed

**Solution**
Create pharmacist-run management program
- Provide diabetes, hyperlipidemia medication management
- Pharmacists have prescriptive authority, titrate medications

**Results**
- Diabetes patients showed improved outcomes.
- Physician workload reduced, providing more time with other patients.

Sources: Sg2 Interview With Dreyer Medical Clinic, March 2012; Padygra RS et al. J Manag Care Pharm 2011;17:456-462.
Invest in Team-Based Partnerships to Manage High Utilizers

Case Study

Spectrum Health, Grand Rapids, MI
Center for Integrative Medicine

- Identified 950 patients at 2 hospitals responsible for:
  - 20,000+ total visits
  - $40 million to $50 million in costs
- Center assumed responsibility for these patients; transitioned them to PCMH.
- Each patient received medical case management, social services, and psychiatric evaluation and treatment.

Virtual Visits Will Become a Common and Central Component of Patient Care

mHEALTH AND THE E-PATIENT

Today
70% of patients are comfortable communicating with physician via texting, email or video instead of in person. (Cisco study 2013)

Tomorrow
“Within 10 years, face-to-face visits will be the exception rather than the rule.”
—Eric Dishman, Intel Fellow
Sg2 forecast: By 2023, 17% of all E&M visits will occur virtually.

Sg2 Forecast, Virtual E&M Visit Volumes
US Market, 2013–2023

Note: Volumes exclude obstetrics and psychiatry. E&M = evaluation and management. Sources: Impact of Change v13.0, PharMetrics; E&M; Sg2 Analysis, 2013.
New Technologies Improve Engagement and Outcomes

Case Study
MEDICATION MANAGEMENT EXAMPLE

TAKEAWAY
New ways to engage patients will drive new business opportunities.

GlowCap, Vitality Inc
- $80 cell-connected bottle cap and reminder light
- Reminds patients to take meds with flashing lights or music, email message, automated phone call, text message
- Real-time progress reports for patients, caregivers and physicians
- Automated refill button

Results
Partners HealthCare’s hypertension study
- Control group: +71% adherence
- GlowCap reminders: +98% adherence
- GlowCap reminders and $ incentive: +99% adherence


Today, Virtual Visits Offer Cost Savings and High Resolution Rates

mHEALTH AND THE E-PATIENT
HealthPartners, virtuwell Online Clinic, Minnesota
- Online clinic provides 24-hour online care for 40 simple conditions.
- Model combines interview algorithms, clinician phone interactions and advanced practitioner review.
- Average cost per episode is $88 less than traditional settings.
- 94.2% of users would “Yes, Definitely” recommend service to a friend.

Cost per Episode for Most Common virtuwell Conditions

<table>
<thead>
<tr>
<th>Condition</th>
<th>virtuwell</th>
<th>Non-virtuwell</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acute sinusitis</td>
<td>$87.70</td>
<td>$166.60</td>
<td>$78.90</td>
</tr>
<tr>
<td>Lower genitourinary infection</td>
<td>$74.36</td>
<td>$201.97</td>
<td>$127.61</td>
</tr>
<tr>
<td>Conjunctivitis</td>
<td>$61.30</td>
<td>$130.30</td>
<td>$69.01</td>
</tr>
</tbody>
</table>

To Compete, Take a Broader View of Your Channel Strategy

Sample Data for Ambulatory Volumes and Share

- **Retail Clinics**
  - Q1 2013: Vol ↑1%, Share 2%
  - 2013-2023 Forecast: Vol ↑12%, Share 10%

- **Physician Office**
  - Q1 2013: Vol 4%, Share 2%
  - 2013-2023 Forecast: Vol 15%, Share 10%

- **Diagnostic/Imaging Centers**
  - Q1 2013: Vol ↑1%, Share 2%
  - 2013-2023 Forecast: Vol ↑1%, Share 10%

- **Urgent Care Centers**
  - Q1 2013: Vol 3%, Share 0%
  - 2013-2023 Forecast: Vol 14%, Share 0%

- **SNF**
  - Q1 2013: Vol 1%, Share 1%
  - 2013-2023 Forecast: Vol 1%, Share 1%

- **Home Care**
  - Q1 2013: Vol 1%, Share 0%
  - 2013-2023 Forecast: Vol 1%, Share 0%

- **OP Rehab**
  - Q1 2013: Vol 1%, Share 0%
  - 2013-2023 Forecast: Vol 1%, Share 0%

SNF = skilled nursing facility; OP = outpatient. Sources: Health Intelligence Company, LLC; Sg2 Ambulatory Market Share v1.0; Sg2 Analysis, 2014.

Growth Lies in Granularity: By Clinical Service, Zip Code and Site of Care

Sources: Impact of Change® v12.0; NIS; Sg2 Analysis, 2012.

Blues Colorectal Cancer Ambulatory Share by Provider
City of Dallas, TX, January-December 2012

Blues Colorectal Care Ambulatory Volumes by Sg2 Procedure Groups
City of Dallas, TX, January-December 2012

- 3.5% Diagnostics
- 4.4% Procedures
- 20.8% Oncology Services
- 68.4% Total Blues

Sources: Impact of Change® v12.0; NIS; Sg2 Analysis, 2012.
Strategies for Growth in a Tough Market

#1 Access new insured lives through PPACA.
#2 Build a deep understanding of your retail health customer.
#3 Evolve your service line organization.
#4 Work your primary care strategy.
#5 Take a broader view of channel strategy.
#6 Incorporate new sites into your System of CARE.
#7 Extend your System of CARE through tele-everything.
#8 Serve the needs of employers directly.
#9 Drive in-migration and reach via regional networks.
#10 Where appropriate seek scale via mergers and acquisitions.

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