



Health Care Reform Beyond the ACA

The Next Generation of Medicare Risk, High Deductibles, and Physician Integration

Hancock, Daniel, Johnson, & Nagle PC
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Health Care Reform Beyond the ACA

The Next Generation of Medicare Risk,
High Deductibles, and Physician Integration

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The best practices are the ones that work for **you.**SM

 research

 technology

 consulting

Road Map

6

1 A New Turning Point for Health Care Reform

2 Reflecting on the First Era of Health Care Reform

3 Adapting Provider Strategy to New Market Realities

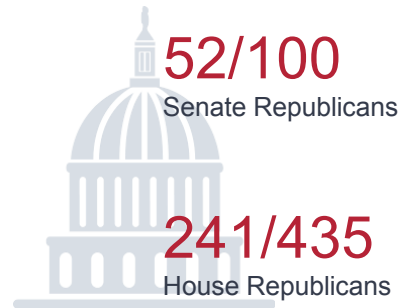
Congratulations, Mr. President

Trump Wins in Stunning Upset

Congress and Executive Branch Now in Republican Control



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Source: Health Care Advisory Board interviews and analysis.

Health Care Tops the Day One Agenda

Trump Takes Aim at ACA with Executive Order on First Day in Office

“

“To the maximum extent permitted by law, the (Secretary) and the heads of all other executive departments and agencies (agencies) with authorities and responsibilities under the Act shall exercise all authority and discretion available to them to **waive, defer, grant exemptions from, or delay the implementation of any provision or requirement of the Act** that would impose a fiscal burden on any State or a cost, fee, tax, penalty, or regulatory burden on individuals...”

Executive Order

Released by the White House, Office of the Press Secretary, January 20, 2017

”

Executive Order Does:

- ✓ Signal Trump administration's commitment to ACA repeal
- ✓ Point to potential for future executive action to weaken ACA¹

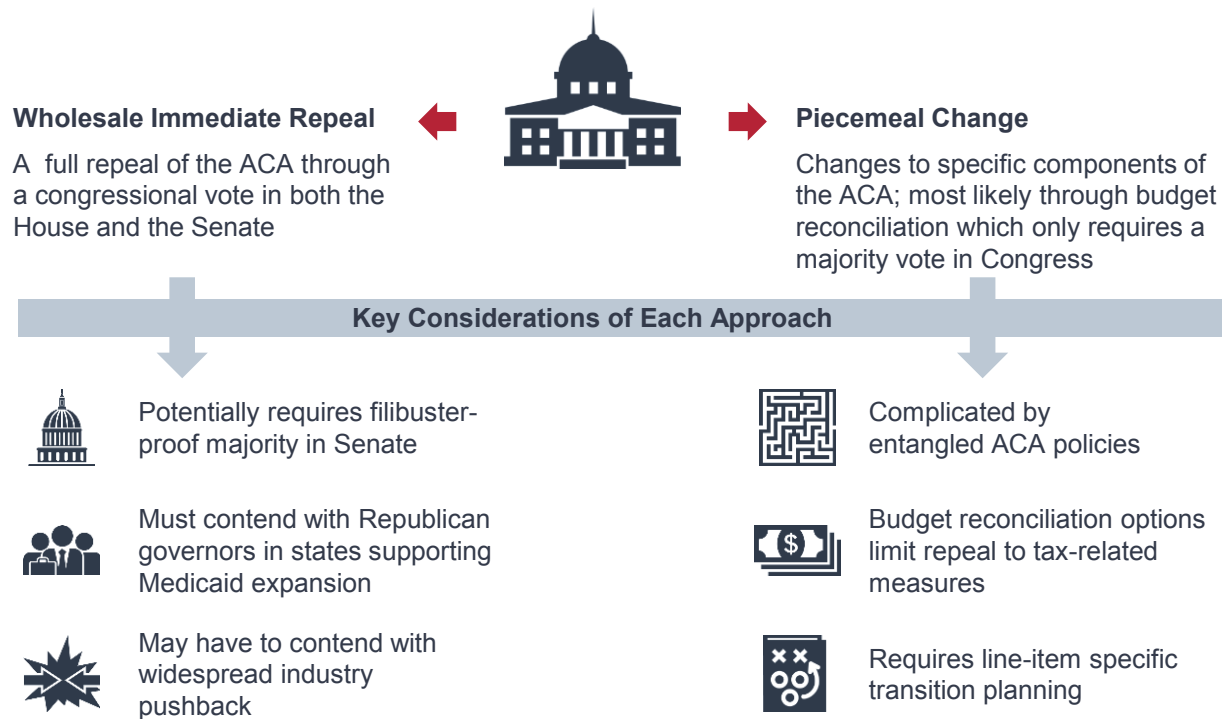
Executive Order Does Not:

- ✗ Immediately repeal any elements of the ACA
- ✗ Provide authority to ignore or alter portions of the ACA that are set in law

1) Possible administrative changes include broadening exemptions to and/or reducing enforcement of the individual and employer mandates, reducing essential health benefits requirements, and granting states greater flexibility in administering Medicaid and/or regulating insurance markets.

The ACA at a Turning Point?

Two Repeal Options on the Table for Congress



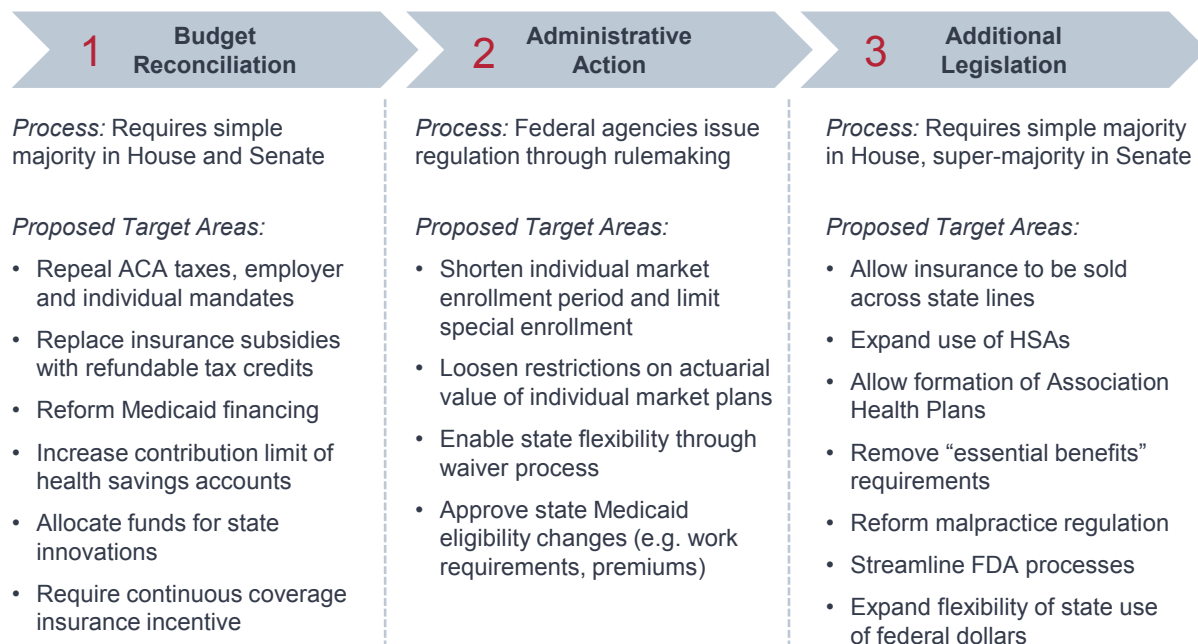
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Source: Health Care Advisory Board interviews and analysis.

An Ambitious Three-Part Agenda

GOP Outlines Three Phases to Health Care Reform

A Three-Pronged Approach to Repeal and Replace the ACA



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Source: The White House, “Three-Pronged Approach to Repeal and Replace Obamacare,” March 13, 2017; Health Care Advisory Board interviews and analysis.

House Passes the American Health Care Act

Reconciliation Bill Would Drastically Cut Spending, Reduce Coverage



Legislation in Brief: American Health Care Act

- Reconciliation bill proposed by House Republicans on March 6th that would repeal or modify many elements of the ACA, while leaving others intact
- Following series of amendments, passed by the House on May 5th
- Bill's major goals are to:
 - Repeal ACA's taxes
 - Reform the individual insurance market
 - Remake the Medicaid financing model

Bill Passes House with Razor-Thin Margin



217-213

Final House vote on AHCA;
required 216 votes to pass

CBO's¹ Projected Impact of the AHCA

 **\$150B**
Decrease in
federal deficit

 **24M**
Increase in number
of uninsured

1) Congressional Budget Office projections as of March 13, 2017; does not include MacArthur and Upton amendments.

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Source: House Ways and Means Committee, available at: <https://waysandmeans.house.gov/american-health-care-act/>; House Energy and Commerce Committee, available at: <https://energycommerce.house.gov/news-center/press-releases/energy-and-commerce-republicans-release-legislation-repeal-and-replace>; Health Care Advisory Board interviews and analysis.

Heavy Focus on Medicaid, Individual Markets

Key Elements of the American Health Care Act



Repeals ACA Taxes

- Beginning in 2017, eliminates ACA taxes on health plans, medications, HSAs, medical devices, tanning services, investment income, etc.
- Delays implementation of the Cadillac Tax until 2026



Reforms Individual Market

- Eliminates individual mandate as of December 31, 2015
- Requires penalties for not maintaining continuous coverage
- In 2020, replaces subsidies with age-based tax credits



Reforms Medicaid Financing

- Freezes expansion, ends enhanced match after 2020
- Reverses DSH cuts¹, provides funding for safety net providers
- Shifts Medicaid to block grant and/or per capita cap in 2020²

MacArthur Amendment Boosts State Flexibility on Key Insurance Market Regulations

Health Status Underwriting

States may allow insurers to charge more based on pre-existing conditions^{3,4,5}

Age-Ratio Pricing Bands

States may create pricing bands with age-ratios greater or less than the AHCA's 5:1

Essential Health Benefits

States may define the categories and benefits insurers must provide

1) Restores funding in 2018 in non-expansion states and 2020 in expansion states.

2) Block grant option only available for traditional adult and children populations.

3) Only permitted for individuals who fail to maintain continuous coverage.

4) Contingent on state demonstration of plan to provide additional financial assistance for high-risk individuals.

5) Includes funding to help states support high-risk individuals: \$1.7B annually from 2018-2026 plus any unappropriated dollars from Patient and State Stability Fund; Upton amendment provides additional \$8B.

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Source: House Ways and Means Committee, available at: <https://waysandmeans.house.gov/american-health-care-act/>; House Energy and Commerce Committee, available at: <https://energycommerce.house.gov/news-center/press-releases/energy-and-commerce-republicans-release-legislation-repeal-and-replace>; Health Care Advisory Board interviews and analysis.

A More Limited Scope Than Previous Proposals

Notable Components of Past Proposals Left Out of Current Bill

Noteworthy Absences from AHCA

Proposed Bill Does Not Target:

Insurance Market Protections	Payment Reform	Medicare	Employer Health Benefits	Drug Spending
Dependent eligibility until 26	Center for Medicare & Medicaid Innovation (i.e., no impact on funding)	Medicare payment (i.e., no repeal of ACA payment cuts)	Tax exclusions for employer-sponsored insurance	Medicare Part D (i.e., no move to Medicare bidding system)
	Medicare Shared Savings Program	Medicare coverage (i.e., no shift to premium support)		Restrictions on drug importation
	MACRA			
				

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Source: Health Care Advisory Board interviews and analysis.


Far From a Done Deal

Senate Likely to Make Significant Changes

Major Roadblocks Remain in Senate

 **Ensuring Compliance with Reconciliation Rules**
Senate parliamentarian must strike any AHCA provisions that she determines do not meet rules of budget reconciliation¹

 **Overcoming Thinner Voting Margin**
GOP can only afford to lose 2 votes; potentially gives moderates greater influence and ability to dial back coverage losses

 **Awaiting Pending CBO Score**
Senate must extend voting timeline until CBO scores final, amended bill

“

Senate Promises Longer Timeline, Signals Prospect for Significant Change

“There will be no artificial deadlines in the Senate. We’ll move with a sense of urgency but we won’t stop until we think we have it right”

Sen. Lamar Alexander (R-Tenn.)

“Any bill that has been posted less than 24 hours, going to be debated three or four hours, not scored? Needs to be viewed with suspicion.”

Sen. Lindsay Graham (R-S.C.)

“The bill that passed out of the House is most likely not going to be the bill that is put in front of the president”

*Mick Mulvaney,
Director, Office of Management and Budget*

1) Provisions may only impact spending, revenues, or the federal debt limit.

Regulatory Agenda Taking Center Stage

Administration Has Considerable Leeway to Impact ACA Implementation

Meet the Key Players

HHS Secretary: Tom Price



- Six-term Representative from Georgia; retired orthopedic surgeon
- Sponsor of the Empowering Patients First Act
- Confirmed by 52-47 vote

CMS Administrator: Seema Verma



- National health policy consultant from Indiana
- Helped shape Medicaid expansion in IN, OH, KY, TN
- Confirmed by 55-43 vote

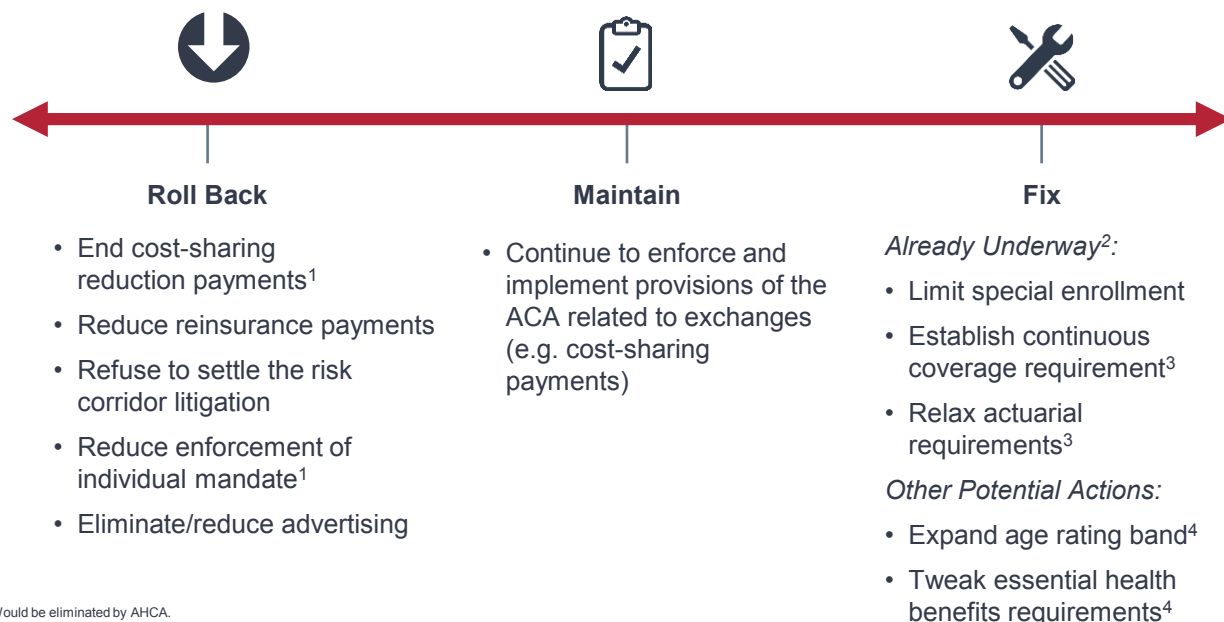
Potential Administrative Actions

- ☐ End cost-sharing reduction payments
- ☐ Delay Cadillac Tax
- ☐ Eliminate, delay, or modify Innovation Center programs (e.g., CJR)
- ☐ Limit special enrollment periods
- ☐ Reduce enforcement of insurance mandates
- ☐ Narrow scope of essential health benefits
- ☐ Allow Medicaid work requirements through 1115 waivers
- ☐ Allow Medicaid premiums, others forms of cost-sharing through 1115 waivers
- ☐ Eliminate contraception requirement

Individual Market Hangs in the Balance

Future of Public Exchanges May Depend on GOP Actions and Inactions

Administration Has a Spectrum of Options for How to Manage Exchanges



1) Would be eliminated by AHCA.

2) Through market stabilization rule finalized on April 13, 2017.

3) Would be enforced by AHCA.

4) Would be implemented by AHCA.

Medicaid to Remain a Top Priority

Waivers Will Allow Continued Innovation and Experimentation

State Flexibility Through Waivers Likely to Intensify Competing Medicaid Philosophies

Coverage Model



Cost Containment Model



State-Run Entitlement (*Pre-ACA Status Quo*)

Cover low-income/vulnerable as defined on state-by-state basis, so long as certain federal minimum standards are met



Expansive Entitlement (*Democrats' Vision*)

Cover anyone not eligible for Medicare, covered by an employer, and unable to afford individual coverage



Limited Safety Net (*Republicans' Vision*)

Cover truly low-income/vulnerable, provides temporary coverage for unemployed adults (e.g., contingent on work requirements)



Payer-Led Managed Care

Capitate payments to private managed care organizations
e.g., *Florida State Medicaid Managed Care*



Provider-Led Care Management

Incentivize provider to control utilization, coordinate care
e.g., *Oregon's CCOs*



Consumer-Driven Health Care

Encourage consumers to be cost-conscious, prioritize high-value care
e.g., *Indiana's HIP 2.0*

The Next Era of Health Care Reform

Four Key Principles Guiding GOP Reform Efforts

1

Reduce Federal Entitlement Spending

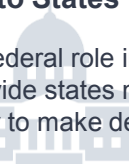
Focus more aggressively on reducing federal health care spending



2

Devolve Health Policy Control to States

Reduce federal role in health care; provide states more autonomy to make decisions, cut spending



3

Embrace Free Markets and Consumer Choice

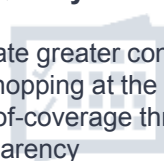
Use free-markets to promote private sector competition in payer, provider markets



4

Promote Transparency of Cost and Quality

Mandate greater consumer choice and shopping at the point-of-care and point-of-coverage through improved transparency



Post-Acute Care: Four Primary Forces at Play

Providers Must Respond to Essential Challenges in Order to Succeed

1

Transitioning to
Value-Based
Payments

2

Operating in
Narrowed
Acute/Post-Acute
Networks

3

Responding to the
Rise in Patient Acuity

4

Navigating Third
Party Vendors

Road Map

1

A New Turning Point for Health Care Reform

2

Reflecting on the First Era of Health Care Reform

3

Adapting Provider Strategy to New Market Realities

Hope and Change, Eight Years On

Surely President Obama's Signature Achievement

A Grand Promise for Change



“The bill I’m signing will set in motion reforms that generations of Americans have fought for and marched for and hungered to see.”

*Barack Obama,
on the Affordable Care Act,
March 23, 2010*

“This is a big [expletive] deal”


*Joe Biden,
on the Affordable Care Act,
March 23, 2010*


Evaluating the ACA Against its Intentions


Major Reform Goals



Obama-era Enabling Legislation

 **February 17, 2009:**
Health Information Technology for Economic and Clinical Health (HITECH) Act

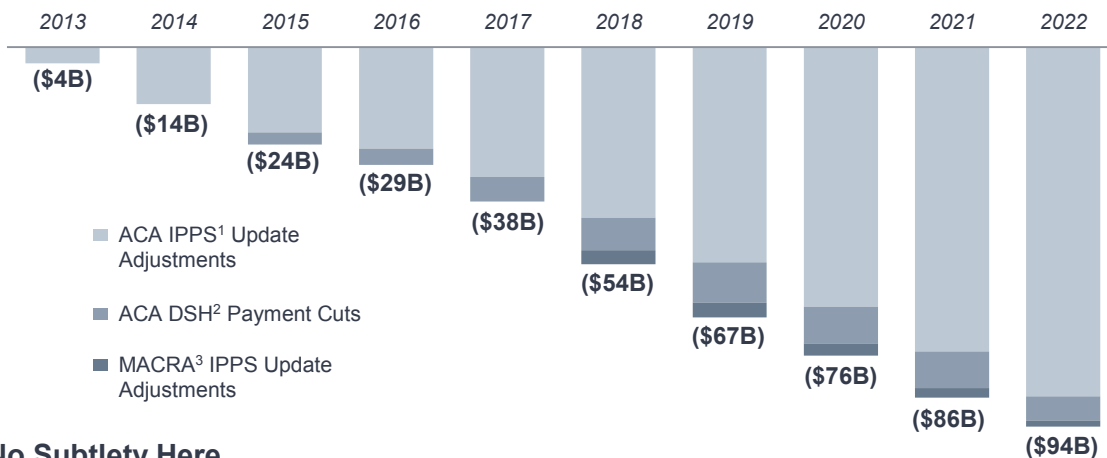
 **March 23, 2010:**
Patient Protection and Affordable Care Act

 **April 16, 2015:**
Medicare Access and CHIP Reauthorization Act (MACRA)

Kicking the Legs Out From Under Fee-for-Service

Policymakers' Intention to Migrate Payment Perfectly Clear

"Productivity" Adjustments and Other Cuts



No Subtlety Here

“Providers should compare ACO earnings not with what they could earn in today’s fee-for-service payment environment but **with what they could expect to earn in the future if they didn’t participate in such alternative payment models.**”

CMS Officials

1) Inpatient Prospective Payment System.
2) Disproportionate Share Hospital.
3) Medicare Access and CHIP Reauthorization Act.

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Source: CBO, "Letter to the Honorable John Boehner Providing an Estimate for H.R. 6079, The Repeal of Obamacare Act," July 24, 2012; CBO, "Cost Estimate and Supplemental Analyses for H.R. 2, the Medicare Access and CHIP Reauthorization Act of 2015; The Daily Briefing, "How to Understand Last Week's Big Budget Deal," November 2, 2015; Budget of the United States Government (Proposed) FY 2016; Pham H, et al., "Medicare's Vision for Delivery-System Reform – The Role of ACOs," *New England Journal of Medicine*, September 10, 2015; Health Care Advisory Board interviews and analysis.

MACRA Rewriting the Rules of Risk

Bipartisan Support at Center of MACRA Rollout

Legislation in Brief: MACRA¹

- 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.

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Source: CMS, "CY 2016 Physician Fee Schedule Final Rule," Oct 30, 2016, available at: www.federalregister.gov; Health Care Advisory Board interviews and analysis.

No Dodging Downside Risk in Many Major Markets

Unavoidable Episodic Price Cuts Expanding in Coming Years

CMS Rapidly Scaling Mandatory Bundled Payment Efforts to New Conditions, Markets

Comprehensive Joint Replacement (CJR)



Covers the most common inpatient surgeries for Medicare beneficiaries: hip and knee replacements¹

\$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)²

\$170M

Estimated savings to Medicare over the 5 years of the model

98

Geographic areas (MSAs) selected³



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

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.

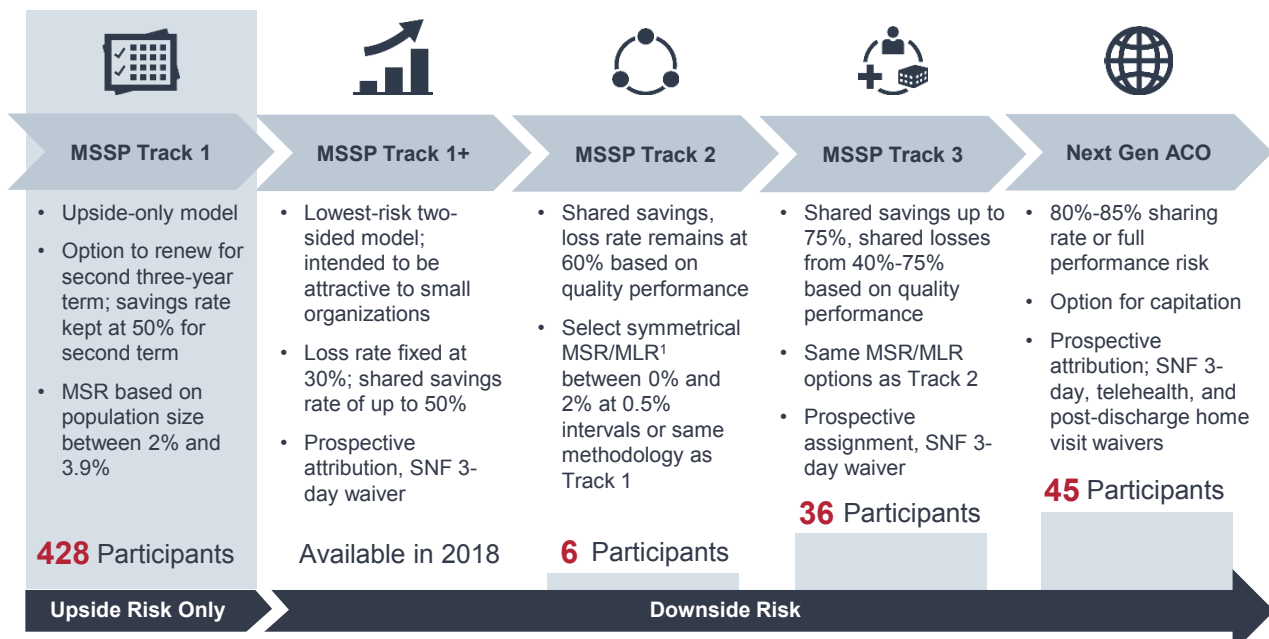
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Source: Centers for Medicare and Medicaid Services; Health Care Advisory Board interviews and analysis.

Medicare Shared Savings a Slow Transition to Risk

Overwhelming Majority of ACO Participants Still in Shallow Water

Continuum of Medicare Risk Models



1) Minimum savings rate/minimum loss rate.

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Source: CMS, "New Hospitals and Health Care Providers Join Successful, Cutting-Edge Federal Initiative that Cuts Costs and Puts Patients at the Center of Their Care," January 11, 2016; Becker's Hospital Review, "River Health ACO drops out of Next Generation program," February 12, 2016; CMS, "Next Generation Accountable Care Organization Model (NGACO Model)," January 11, 2016; CMS, "Open Door Forum: Next Generation ACO Model", March 17, 2015; Becker's Hospital Review, "River Health ACO drops out of Next Generation program," February 12, 2016; Health Care Advisory Board interviews and analysis.

ACO Program Expands Amidst Mixed Results

CMS Bullish Despite Lack of Net Program Savings

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 MSR¹, 5% higher than those that started in 2013, 20% higher than those that began in 2014 or 2015

1) Minimum savings rate.

Source: Centers for Medicare and Medicaid Services; Muhlestein, D et al. "Medicare Accountable Care Organization Results for 2015: the Journey to Better Quality and Lower Costs Continues," *Health Affairs*, Sep. 2016; Health Care Advisory Board interviews and analysis.

Unintended Consequence: Reinvigoration of MA

Medicare Advantage Growth Continues

Potential Advantages of MA over MSSP



Control Over Network, Benefit Design

64% of beneficiaries choose HMO plans, offering improved utilization management, network control, benefits customization



Opportunity to Tailor Risk

Contracts can be structured to include varying levels of provider payment risk, quality incentives



Straightforward Patient Identification

List of enrollees simpler, more immediate than MSSP attribution models

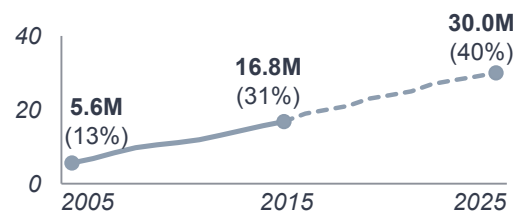


Full Upside Potential

Control of whole premium dollar creates clear incentive for total cost management

MA Enrollment to Nearly Double by 2025

Total Enrollment and Percentage of Total Medicare Population



Provider Sponsorship of Medicare Advantage Plans, 2016

37%
Of existing
MA plans¹

58%
Of new
MA plans¹

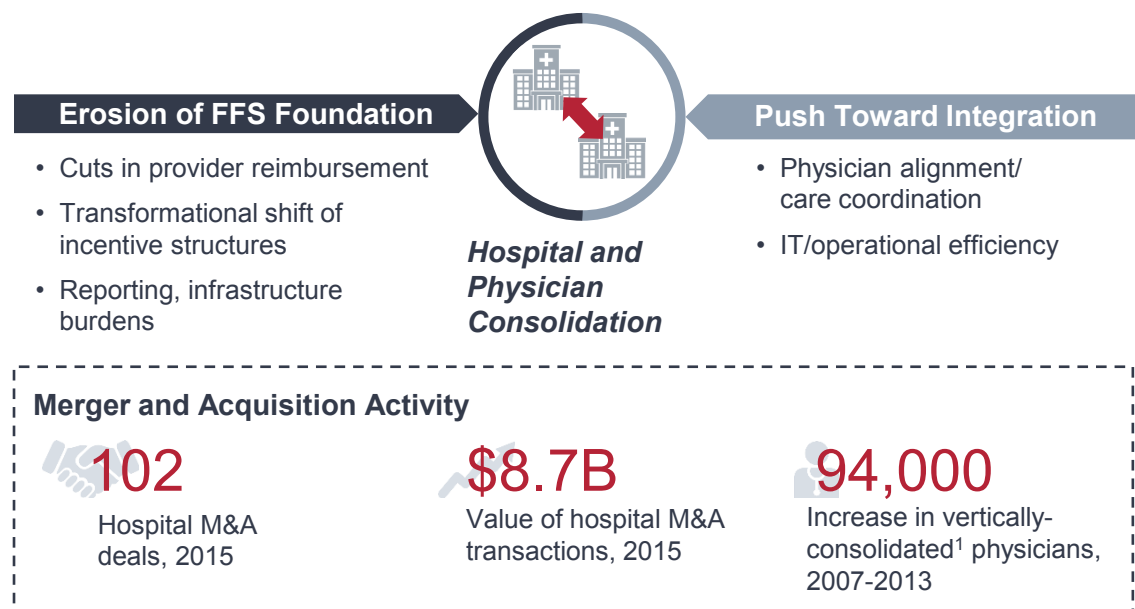
1) MA plan refers to a Medicare Advantage Organization, the entity that has contracted with CMS to sell Medicare Advantage products.

Source: Jacobson, G et al., "What's In and What's Out? Medicare Advantage Market Entries and Exits for 2016," *Kaiser Family Foundation*, October 13, 2015; Carpenter, E., "Nearly 60 Percent of New Medicare Advantage Plans Are Sponsored By Healthcare Providers," *Avalere*, January 2016, Health Care Advisory Board interviews and analysis.

M&A on the Rise

Eroding Prices, Demands for Integration Driving Many to Seek Scale

Two Priorities of Transition to Value Drive Toward Consolidation



1) Acquired or employed directly by hospitals or health systems.

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Source: PricewaterhouseCooper, "Analysis and trends in US health services activity 2015 and 2016 outlook," February 2016, available at: www.pwc.com; Becker's Hospital Review, "6 forecasts for healthcare M&A in 2016," February 24, 2016, available at: www.beckershospitalreview.com; GAO, "Increasing Hospital-Physician Consolidation Highlights Need for Payment Reform," December 18, 2015, available at: <http://www.gao.gov/products/GAO-16-189>; Health Care Advisory Board interviews and analysis.

Regulators Challenging Recent Consolidation

But FTC's Assertiveness Under New Administration Uncertain

FTC Delivering on Earlier Threats

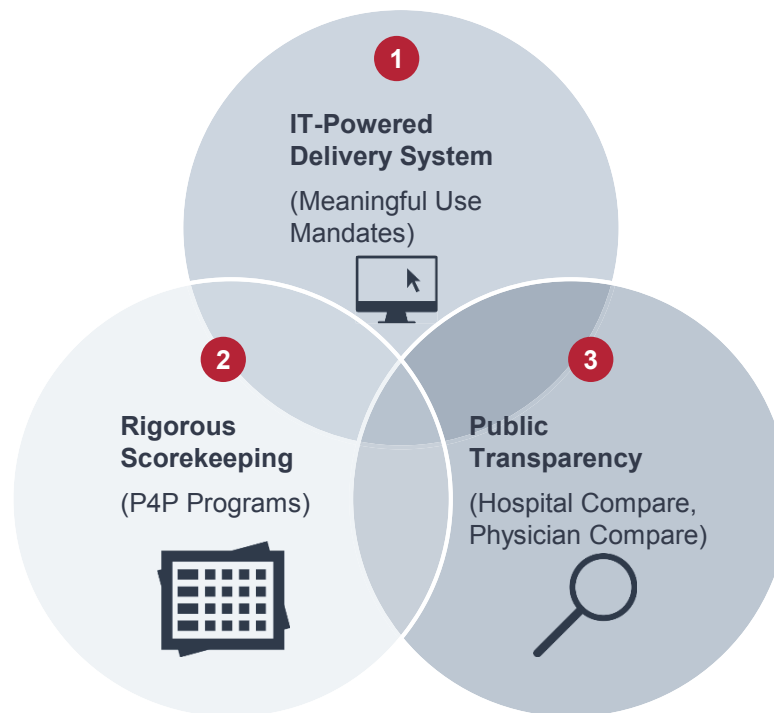


Source: Schencker L, "FTC challenges Northshore, Advocate mega-merger in Illinois," December 18, 2015; Schorsch K, "FTC expert warns of \$45 million cost increase at Advocate-NorthShore hearing," *Modern Healthcare*, April 14, 2016; Schencker L, "FTC moves to block Penn State Hershey merger with PinnacleHealth," December 8, 2015; Federal Trade Commission, "FTC Challenges Proposed Merger of Two West Virginia Hospitals," November 6, 2015, available at: www.ftc.gov; <https://www.ftc.gov/news-events/press-releases/2015/11/ftc-challenges-proposed-merger-two-west-virginia-hospitals>; Health Care Advisory Board interviews and analysis.

Metrics and Transparency Drive Quality Approach

Emphasis on Collection, Reporting of Performance Data

Information-Focused Approach to Quality Improvement



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Source: Health Care Advisory Board interviews and analysis.

IT-Powered Delivery System

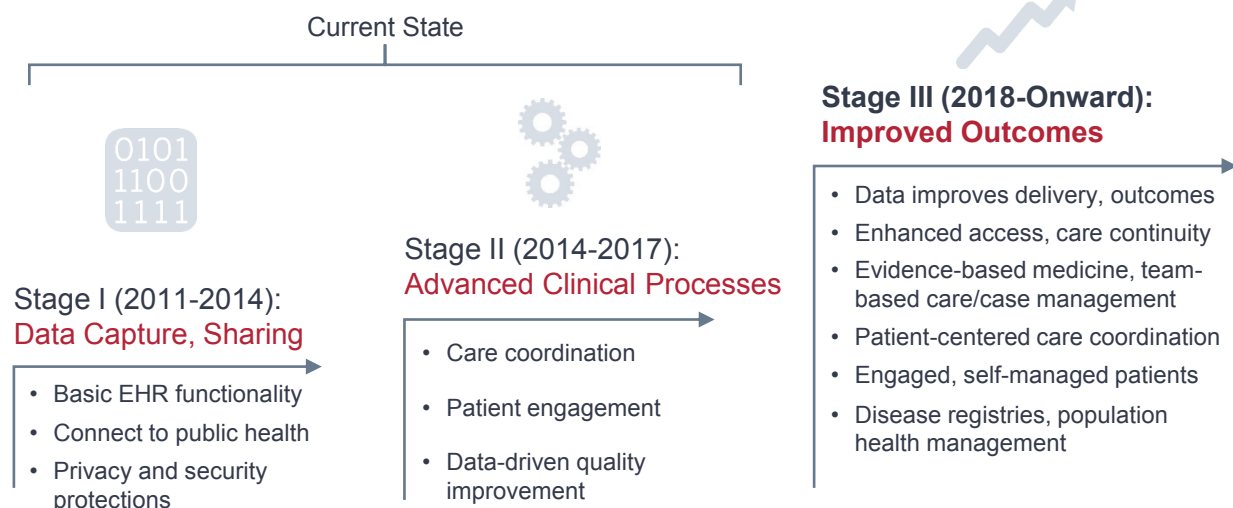
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Laying the Groundwork for Performance Management

Today's Focus on Connectivity; Quality Impact Still Over the Horizon

“Over the past five years, we’ve more than doubled the adoption of electronic health records for physicians. So that means they can track what’s going on better and make fewer mistakes.”

President Obama, 2013



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Source: Health Care IT Advisor, “Meaningful Use ‘Crash Course,’” 2016, available at: www.advisory.com; Health Care Advisory Board interviews and analysis.

Multiple Initiatives to Measure and Incent Quality

Rapid Proliferation of Metrics

Hospital Readmissions Reduction Program

- Reimbursement penalty based on excessive 30-day readmission rates
- 1%-3% hospital inpatient Medicare payments at risk

Hospital Value-Based Purchasing Program

- Pay-for-performance based on success against variety of value measures
- Only 792 hospitals out of 3,087 received bonuses in 2015

Hospital-Acquired Conditions Program

- Reimbursement penalty targeted hospitals with higher rates of HACs
- 25% of hospitals mandated to face penalty

Other CMS Programs

700+
Measures in the
CMS Measures
Inventory

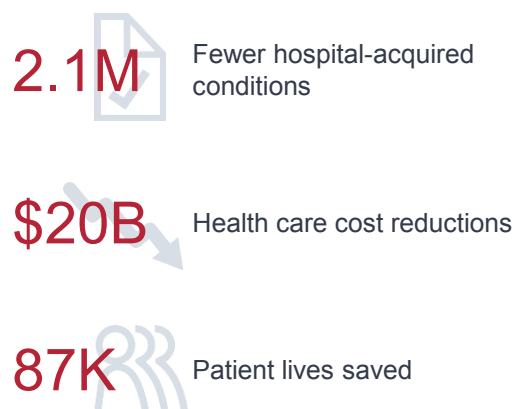
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Source: CMS, "CMS Measures Inventory," accessed December 8, 2016, available at: www.cms.gov; Health Care Advisory Board interviews and analysis.

Having a Measurable Impact on Quality

CMS Estimates of ACA's Impact on Quality

2010-2014



“These results represent **real people** who did not die or suffer infections or harm in the hospital.”

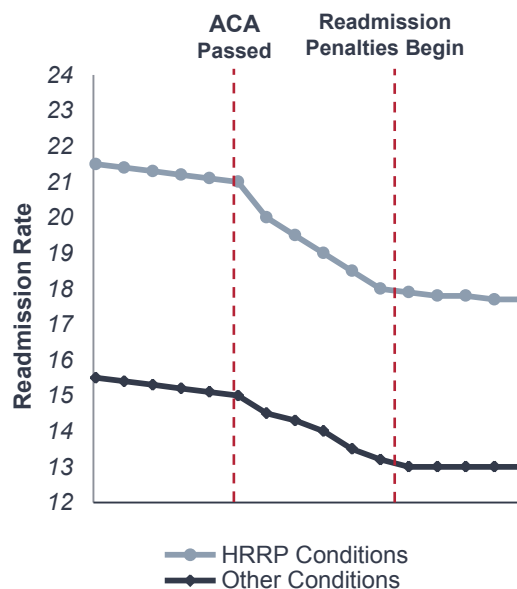
Patrick Conway, MD
Chief Medical Officer, CMS

1) Hospital Readmissions Reduction Program; focuses on heart attack, heart failure, pneumonia, COPD, and elective hip or knee replacement.

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Hospital Readmissions

HRRP¹ and all-causes, 2010-2014

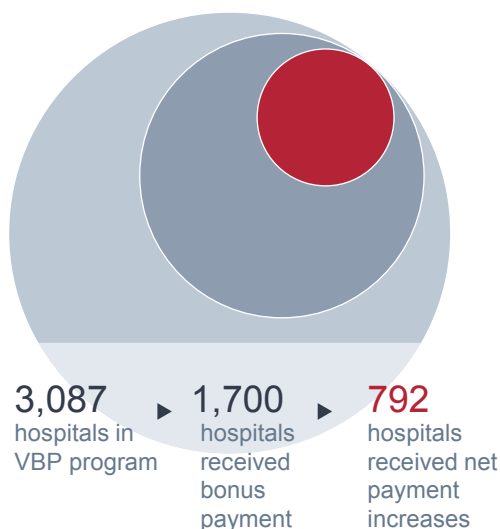


Source: Commins J, "HACs Plummet 17%, Save \$20B Under Obamacare," *HealthLeaders Media*, December 2, 2015; Boccuti C. and Casillas, G., "Aiming for Fewer Hospital U-turns: The Medicare Hospital Readmission Reduction Program," *The Kaiser Family Foundation*, Sep. 30, 2016; Health Care Advisory Board interviews and analysis.

Creating Winners and Losers

Readmissions, HAC Penalties Outweighing VBP Bonuses

After Accounting for Penalties¹,
Few Receive VBP² Bonuses



- 1) Hospital-Acquired Condition Reduction Program, Hospital Readmissions Reduction Program.
2) Value-Based Purchasing.
3) Pay-for-Performance.

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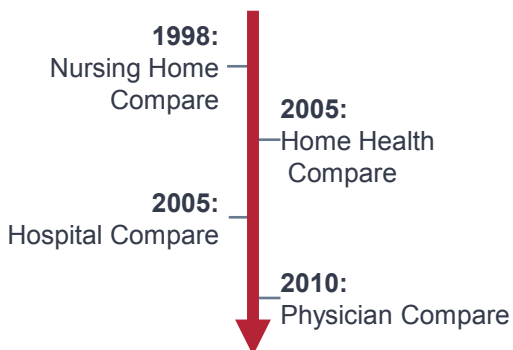
Source: Rau J, "1,700 Hospitals Win Quality Bonuses From Medicare, But Most Will Never Collect," *Kaiser Health News*, January 22, 2015, available at: kaiserhealthnews.org; Health Care Advisory Board interviews and analysis.

Public Transparency

Scant Efforts Toward Meaningful Transparency

Compare Websites Not Hitting the Mark

Establishment of Compare Websites



Difficult to Use...

“Historically, the Compare websites have conveyed **few conceptual clues** to help orient lay users to the sites' overall purpose and content.”

L&M Policy Research and Mathematica Policy Research



...And Little Used

Hospital, Physician Compare users

10M Annually

Healthgrades users

8.9M Monthly

Source: Findlay SD "Consumers' Interest in Provider Ratings Grows, and Improved Report Cards and Other Steps Could Accelerate their Use," *Health Affairs* 35 no. 4 (2016): 688-696; L&M Policy Research and Mathematica Policy Research, *Quality Reporting on Medicare's Compare Websites: Lessons Learned from Consumer Research, 2001-2014*. December 2015: Health Care Advisory Board interviews and analysis.

Expanding Coverage by Reforming Existing System

Correcting for the Deficiencies of the Market



Insurer Regulations

- Essential health benefits
- Guaranteed issue
- Dependent coverage to age 26
- Community rating



Medicaid expansion

- Intended to apply to all adults under 138% of federal poverty level
- Supreme Court decision gave states option not to expand



Employer mandate

Intended to prevent dumping into new safety nets



Individual mandate

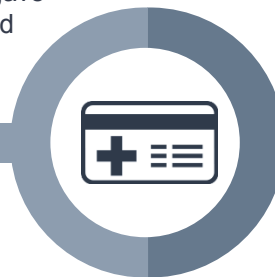
Intended to preserve quality of risk pools



Exchange subsidies

- Commercial insurance sold on consumer-facing marketplaces
- Subsidies for those between 100%-400% of federal poverty line

Above-Market Supply



Above-Market Demand

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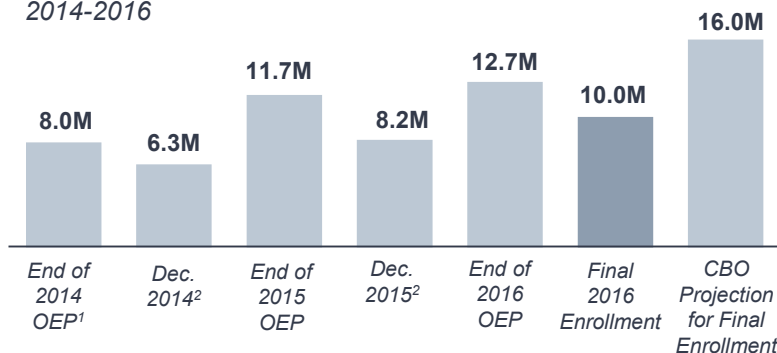
Source: Health Care Advisory Board interviews and analysis.

Public Exchange Enrollment Falling Short of Targets

Group Market Longevity Limiting New Growth

Exchange Enrollment

2014-2016



Smaller and Sicker Than Expected

25M

Original CBO Projection for public exchange enrollment

28%

Proportion of total public exchange population made up of "young invincibles"³

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.

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
Guidance when you need it most

“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:



70%

of CO-OPs
closed as of
Aug 2016

“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

Source: Smith A “ObamaCare’s Cascading Co-op Failures” *The Wall Street Journal*, Nov. 2015; Blase B et al. “The Affordable Care Act in 2014: Significant Insurer Losses Despite Substantial Subsidies” Mercatus Center, George Mason University; Sachdev A, “Blue Cross Parent Lost \$1.5 Billion on Individual Health Plans Last Year” *Chicago Tribune*, Mar. 2016; Commonwealth Fund, “Why Are Many CO-OPs Failing? How New Nonprofit Health Plans Have Responded to Market Competition,” Dec. 2015; The Hill, “Frustration mounts over ObamaCare co-op failures,” Aug. 2016; Health Care Advisory Board interviews and analysis.

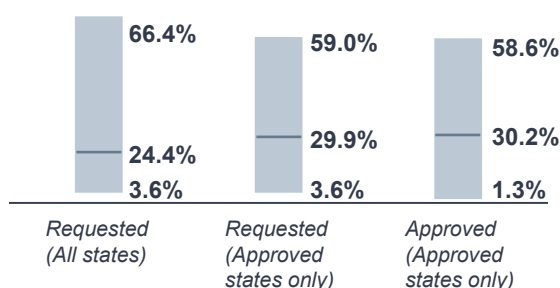
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Rate Increases and Reduced Competition

Subsidy Growth Likely to Stress Federal Budget

2017 Individual Marketplace Premium Increases

Minimum, Average, Maximum
As of August 30, 2016



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



36% Of exchange regions will have only one participating insurer in 2017

5 State exchanges with only one participating insurer

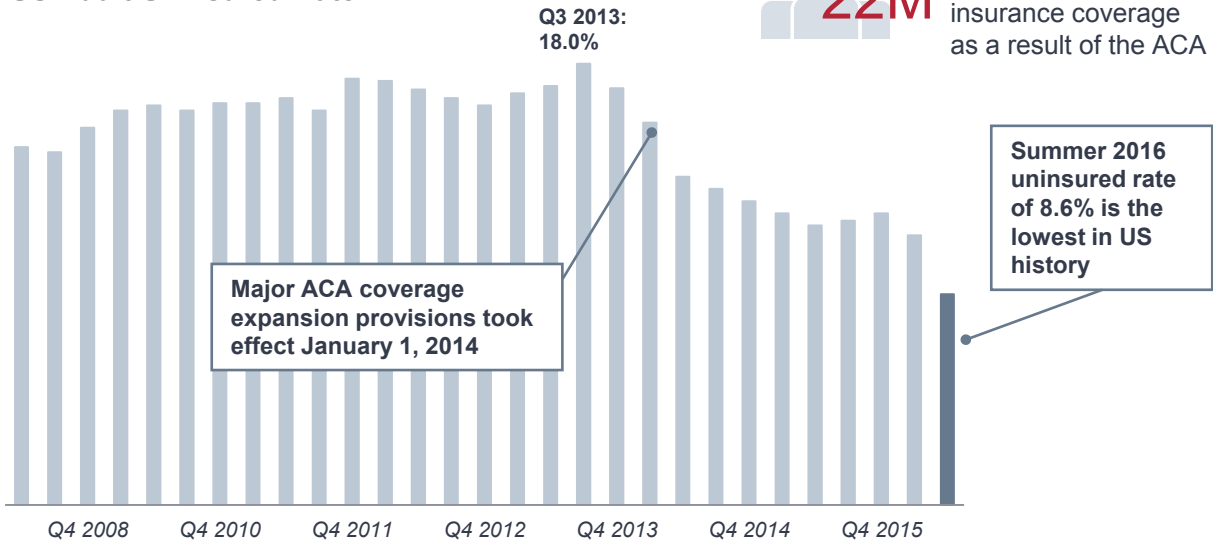
Source: Tracer, Z, “UnitedHealth to quit 22 U.S.-organized state health markets,” *Chicago Tribune*, April, 2016; Tracer, Z, “Aetna to Quit Most Obamacare Markets, Joining Major Insurers,” *Bloomberg*, Aug. 2016; Castellucci, M, “One-third of ACA exchanges will lack competition in 2017,” *Modern Healthcare*, Aug. 2016; Herman, B, “Humana dumps ACA plans as feds blast its Aetna deal,” *Modern Healthcare*, Jul. 2016; Gaba C, “Avg. Indy Mkt Rate Hikes: 24.1% Requested (all states); 29.6% Requested (11 states); 30.0% APPROVED (11 states),” Aug. 2016; Health Care Advisory Board interviews and analysis.

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Coverage Expansion Impact Unmistakable

“Universal Coverage” Still a Distant Goal, but Millions More Now Covered

US Adult Uninsured Rate

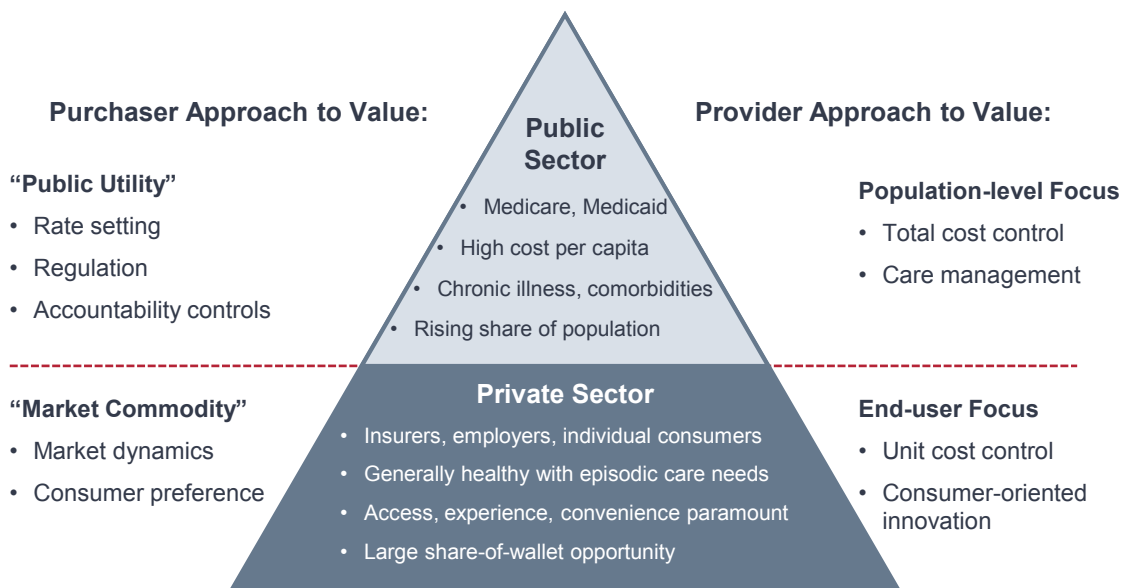


Source: Gallup, “U.S. Uninsured Rate at 11.0%, Lowest in Eight-Year Trend,” April 7, 2016, available at: www.gallup.com/poll/190484/uninsured-rate-lowest-eight-year-trend.aspx; Gallup, “U.S. Uninsured Rate 11.9% in Fourth Quarter of 2015,” January 7, 2016, available at: www.gallup.com/poll/188045/uninsured-rate-fourth-quarter-2015.aspx; Health Care Advisory Board interviews and analysis.

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Serving Two Masters

Public, Private Markets Demanding Different Value in Different Ways

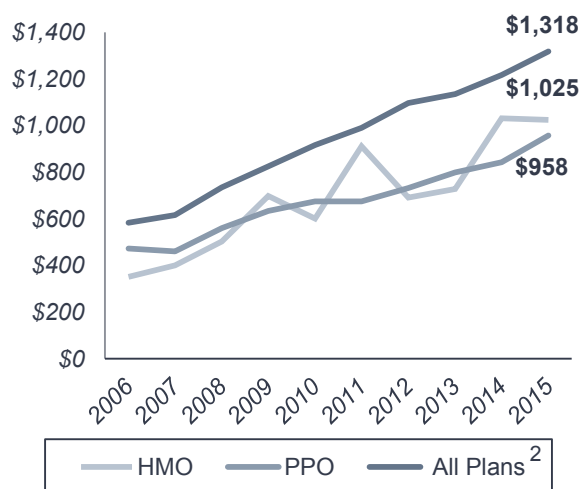


Onboarding Risk, then Offloading to Employees

Employers Increasingly Turning to High-Deductible Plans

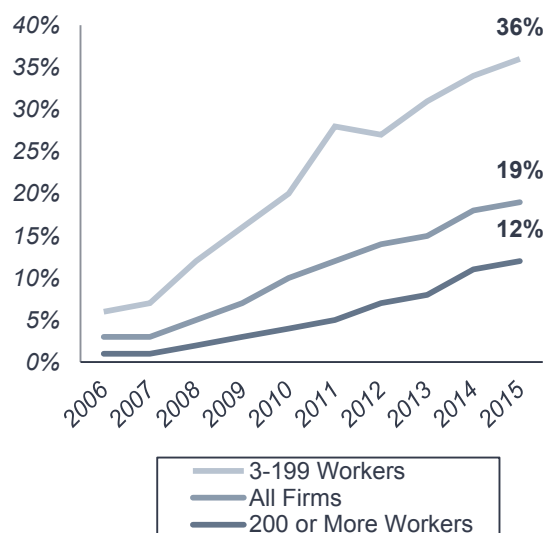
ESI Average Deductible for Single Coverage¹

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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Source: Kaiser Family Foundation and Health Research & Educational Trust, "Employer Health Benefits 2015 Annual Survey"; Health Care Advisory Board interviews and analysis.

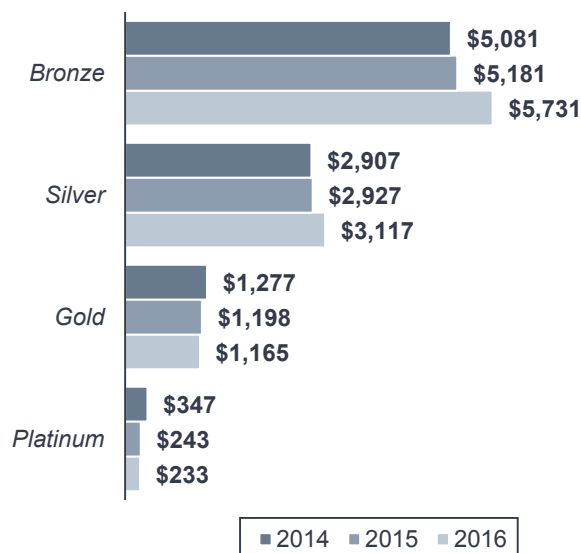
Financial Exposure

Many Apparently Willing to Bear Point-of-Care Costs

Consumers Electing to Bear Very High Cost Exposure

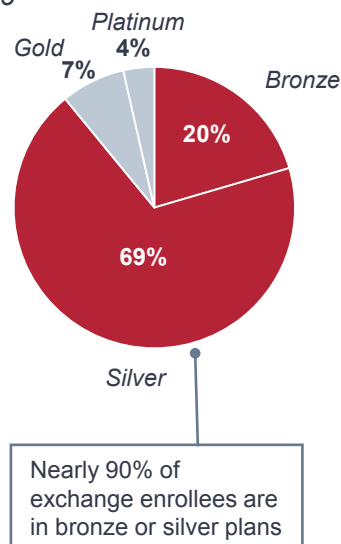
Average Deductible for Exchange-Sold Health Plans

2014-2016



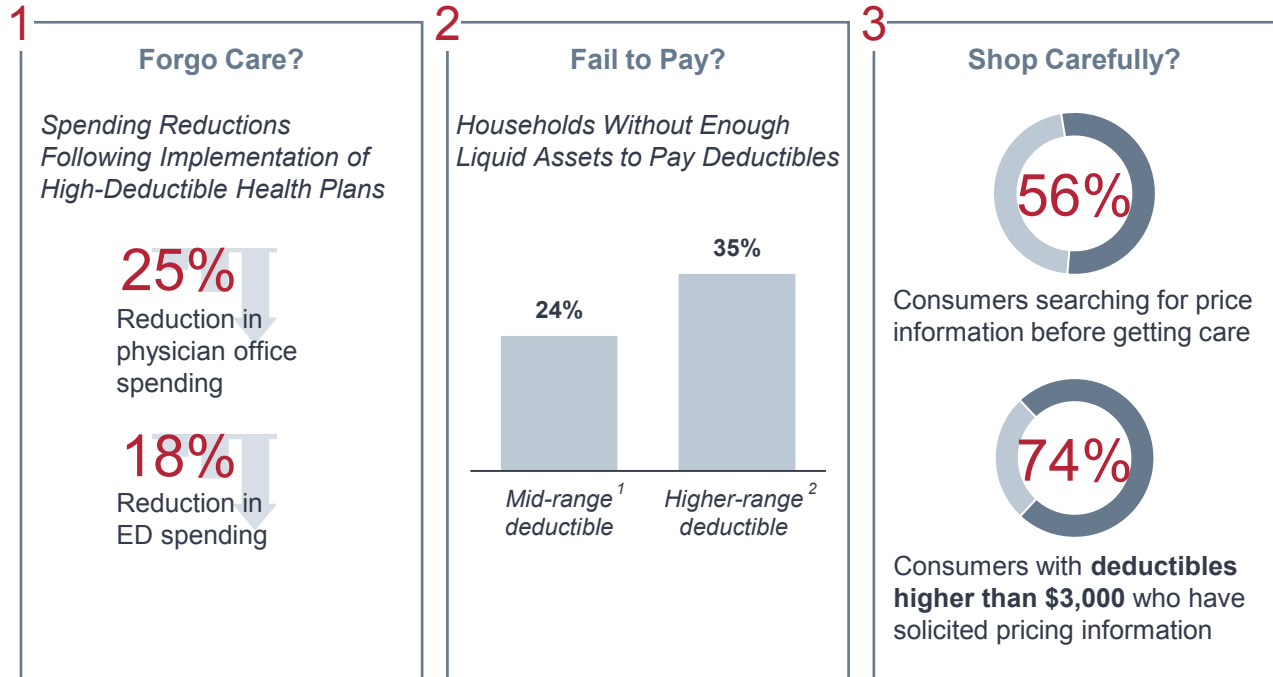
Exchange Enrollment, by Metal Tier

2015



Higher Deductibles Driving Increased Price Sensitivity

Consumer Responses Generally Dangerous for Provider Economics



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

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Source: Brot-Goldberg Z et al., "What Does a Deductible Do? The Impact of Cost-Sharing on Health Care Prices, Quantities, and Spending Dynamics," The National Bureau of Economic Research, October 2015, available at: <http://www.nber.org>; Altman D, "Health-Care Deductibles Climbing Out of Reach," *Wall Street Journal*, March 11, 2015, available at: www.blogs.wsj.com; Health Care Advisory Board interviews and analysis.

Radical Transparency

Living Under a Microscope

Consumers Have Access to More Information than Ever Before

Transparency Comes to California

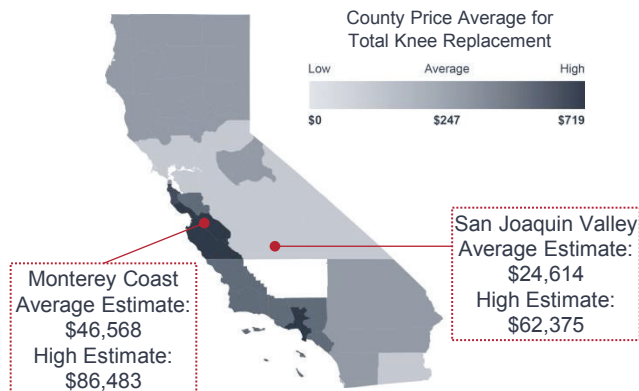


September 21, 2015

Attention Shoppers: New Calif. Website Details Costs, Quality of Medical Procedures

Where You Live Matters

What you pay may differ based on where you live



Sample Transparency Sites



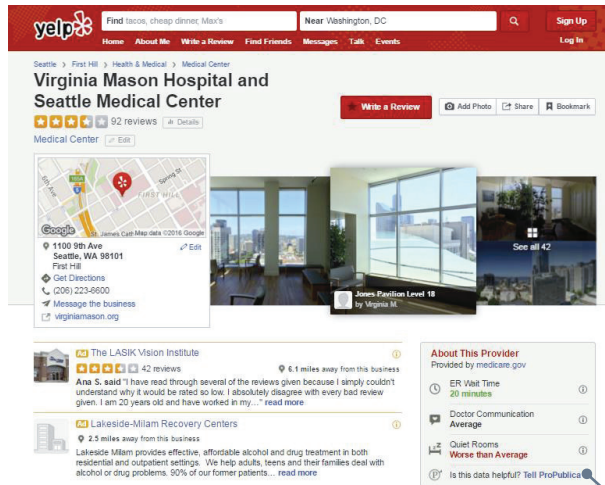
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Source: Ostrov BF, "Attention Shoppers: New Calif. Website Details Costs, Quality of Medical Procedures," *Kaiser Health News*, available at: <http://khn.org/news/attention-shoppers-new-calif-website-details-costs-quality-of-medical-procedures>; Health Care Advisory Board interviews and analysis.

Turning to Unlikely (and Uncomfortable) Sources

Crowdsourced Reviews Getting More Reliable



“Now the millions of consumers who use Yelp... will have even more information at their fingertips when they are in the midst of the most critical life decisions, like which hospital to choose for a sick child or which nursing home will provide the best care for aging parents.”

Jeremy Stoppelman, CEO
Yelp



Acclaimed news source partners with review website with more than 85 million monthly users



Incorporates Medicare data on more than 25 thousand facilities, including 4,600 hospitals

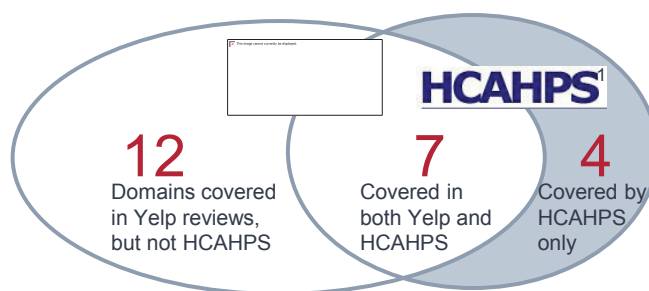
ProPublica compiles and provides Yelp with Hospital Compare metrics on ER wait time, doctor communication and room noise levels

Source: “Yelp’s Consumer Protection Initiative: ProPublica Partnership Brings Medical Info to Yelp” Yelp, Official Blog, August 5, 2015; <https://www.yelpblog.com/2015/08/yelps-consumer-protection-initiative-propublica-partnership-brings-medical-info-to-yelp/>; Health Care Advisory Board interviews and analysis.

Just What Consumers Are Looking For

Yelp Reviews Capture Surprisingly Detailed Picture of Consumer Experience

Topic Domains Addressed by Yelp, HCAHPS



Study in Brief: Yelp Reviews Of Hospital Care Can Supplement And Inform Traditional Surveys Of The Patient Experience Of Care

- Published in Health Affairs, April 2016
- Analysis of 16,862 hospital Yelp reviews, HCAHPS scores for 1,352 hospitals
- Moderate correlation found between Yelp, HCAHPS scores

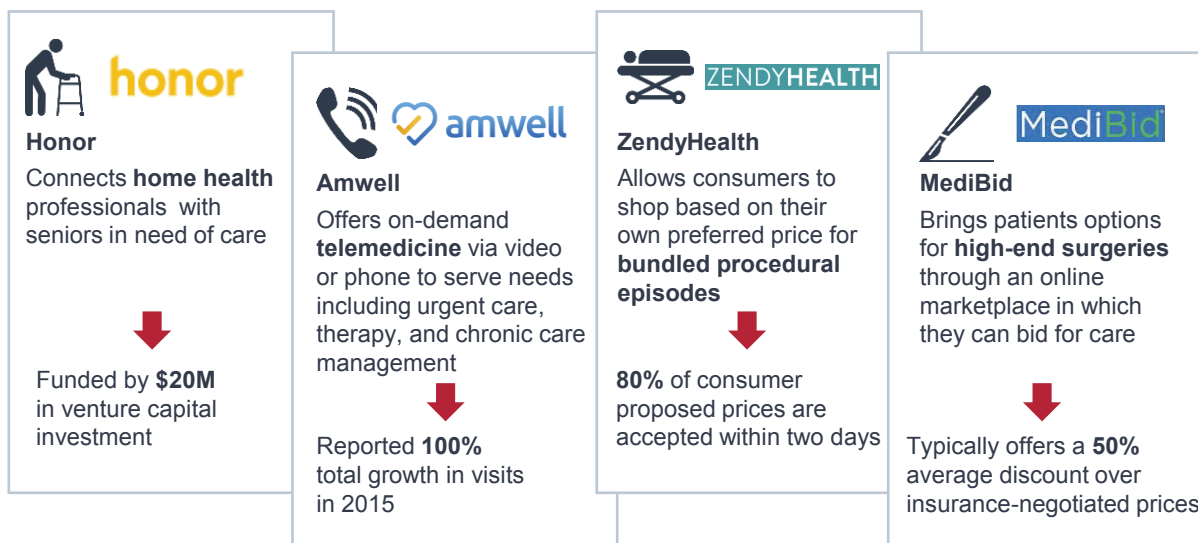
Topics Covered in Yelp Reviews Without Clear HCAHPS Analogue

- | | | |
|--------------------------|-----------------------|--|
| • Cost of hospital visit | • Amenities | • Quality of nursing |
| • Insurance and billing | • Scheduling | • Quality of staff |
| • Ancillary testing | • Compassion of staff | • Quality of technical aspects of care |
| • Facilities | • Family member care | • Specific type of medical care |

Online Marketplaces Flourishing

New Exchanges Enabling Consumers to Shop for Range of Services

Consumer-Oriented Marketplaces Span a Variety of Health Care Needs



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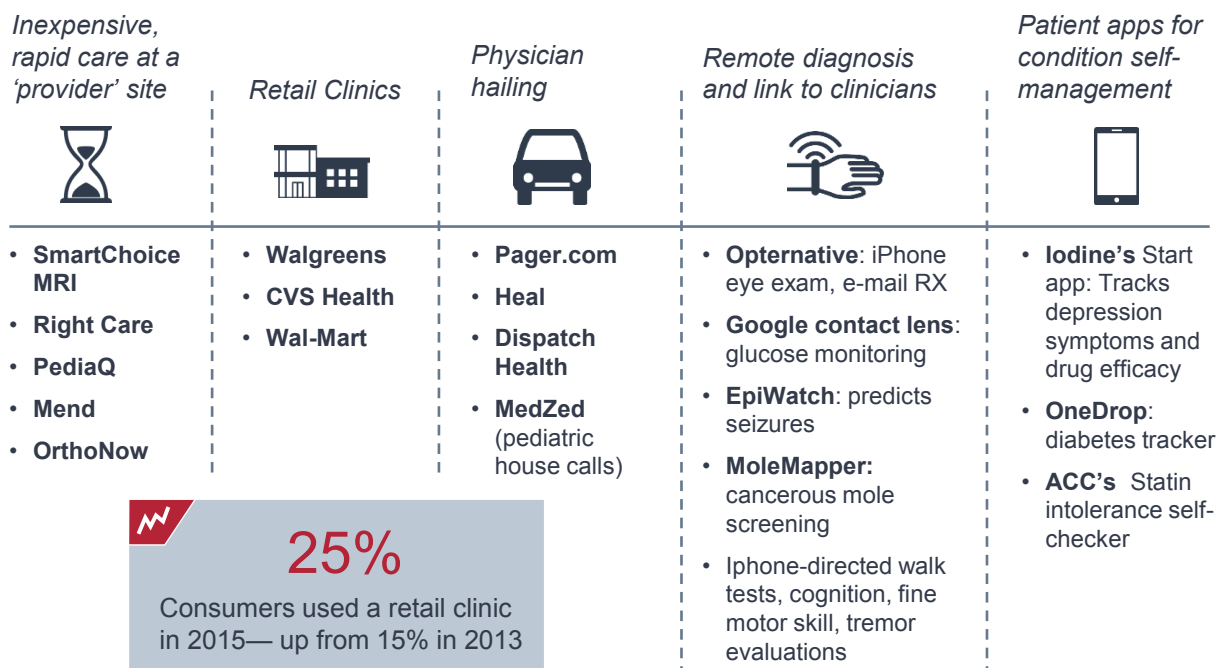
Source: Honor, www.joinhonor.com; Amwell, <https://amwell.com>; ZenzyHealth, <https://zenzyhealth.com>; MediBid, www.mediBid.com; Health Care Advisory Board interviews and analysis.

Non-Hospital Innovators

50

Innovations Crowding Onto the Field

Disruptive Services and Tech for Consumer Use (Existing and In Development)



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Source: Oliver Wyman, "The New Front Door to Health Care Is Here," 2016, available at <http://www.oliverwyman.com>; Health Care Advisory Board interviews and analysis.

1

A New Turning Point for Health Care Reform

2

Reflecting on the First Era of Health Care Reform

3

Adapting Provider Strategy to New Market Realities

Path Forward Not Dependent on Politics

No-Regrets Priorities for Next Era of Health Care Reform



Accessibility

- **Multi-channel navigation platform**, including search, price estimation, and triage/scheduling helps streamline transactions
- Development of **diverse network of access points** (e.g. urgent care, retail, enhanced access to specialty care, primary care) to meet varied consumer access demands



Reliability

- **Organization-wide commitment** and investment in service delivery and quality improvement drives broad engagement in delivering superior outcomes
- **High-reliability approach** to both service delivery and clinical quality ensures baseline of performance



Affordability

- Willingness to **partner with lower-cost providers** offers patients affordable options, helps prevent markets from becoming overbuilt
- When markets are already overbuilt, commitment to **scale back excess capacity** ensures affordability in the long-term



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