

# Bending the Cost Curve

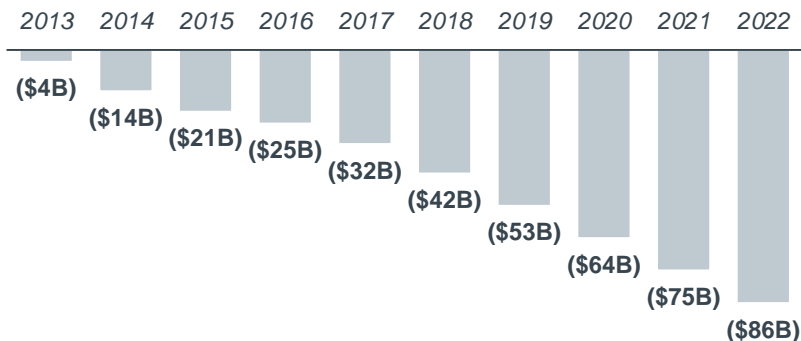
Population Health, Narrow Networks, and the Emergence of Consumerism

# Public-Payer Reimbursement Cuts Accelerating

## Medicare Payment Cuts Becoming the Norm

### ACA's Medicare Fee-for-Service Payment Cuts

*Reductions to Annual Payment Rate Increases<sup>1</sup>*



**\$260B**

Hospital payment rate cuts, 2013-2022

**\$56B**

Reduced Medicare and Medicaid DSH<sup>2</sup> payments, 2013-2022

**\$151B**

Reduced Medicare payments due to sequestration and 2013 budget bill

### Not the End of the Story

“Notwithstanding recent favorable developments... Medicare still faces a substantial financial shortfall that will need to be addressed with further legislation”

*Office of the Actuary, CMS*

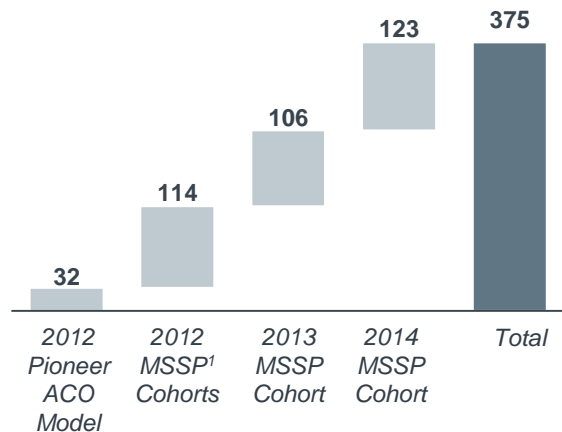
1) Includes hospital, skilled nursing facility, hospice, and home health services; excludes physician services.  
 2) Disproportionate Share Hospital.

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

# More Providers Taking the Hint

## Dismal Outlook for Fee-for-Service Motivating a Look at Risk-Based Options

### Medicare ACO Program Entrants



**1 in 10** 

Medicare FFS beneficiaries attributed to an ACO

### The Broader Picture

**626**

Total ACO count, including commercial and Medicaid ACOs, May 2014

**20.5M**

Americans enrolled in or attributed to Medicare, Medicaid, or commercial ACOs

**46M-52M**

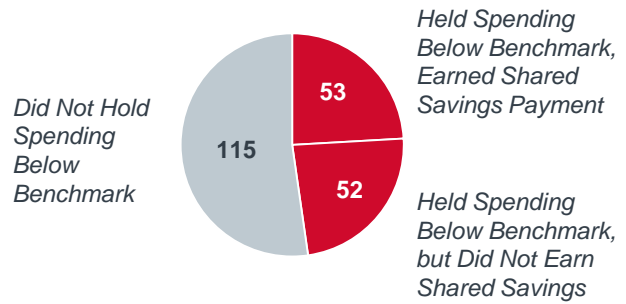
Patients treated by ACOs as of April, 2014

# Medicare Shared Savings Program a Mixed Bag

## Pending Program Updates Crucial for Future Participation

### Medicare Shared Savings Program ACO Performance

First Performance Year



**\$297M** Shared savings earned by MSSP ACOs in first performance year<sup>1</sup>

### Issues to Watch for in Updated Regulations



Will second-term ACOs really have to bear downside risk?



Will benchmarks be calculated differently?



Will the share of savings paid to ACOs be higher?



Will beneficiaries be attributed to ACOs prospectively?



Will ACOs have any ability to prevent network leakage?

1) Includes one participant's \$4M repayment of shared losses

# Commercial Insurance at a Crossroads

## Will Employers Maintain Coverage, and How?

### Spectrum of Options for Controlling Health Benefits Expense

*“Abdication”*

*“Activation”*



#### Drop Coverage

#### Shift to Private Exchange

#### Convert to Self-Funding

**Pros:**

- Escape from cycle of rising premium costs

**Cons:**

- Employer mandate penalty
- Labor market disadvantage

**Pros:**

- Responsiveness to employee preference
- Predictable, defined contributions

**Cons:**

- Disruption to benefit design
- Risk employees may underinsure

**Pros:**

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

**Cons:**

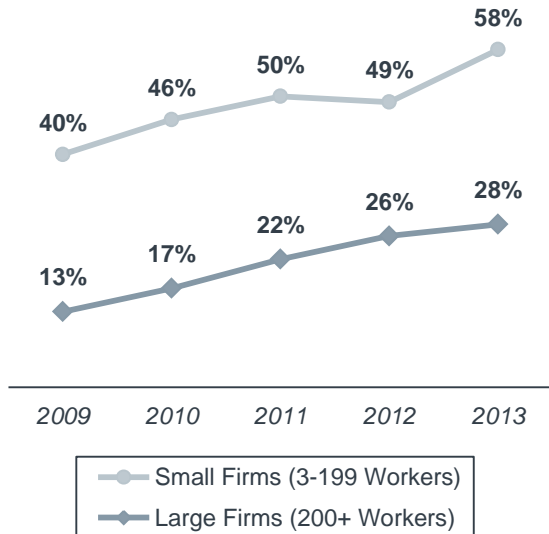
- Greater financial risk
- Network assembly challenging

# Patient Cost-Sharing Continues to Deepen

## Particularly Severe for Out-of-Network Care

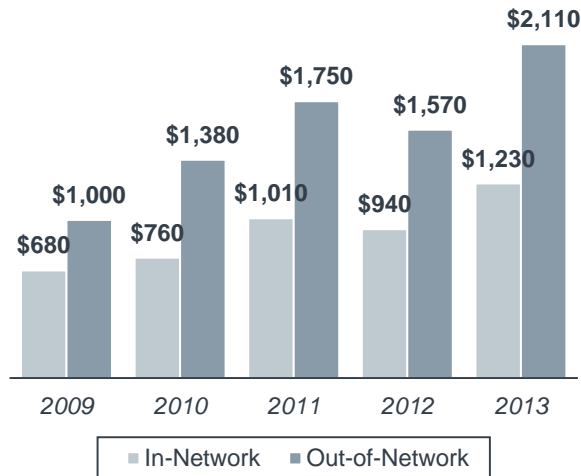
### Percent of Covered Workers Enrolled in a Plan with a \$1,000+ Deductible by Firm Size

Single Coverage



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

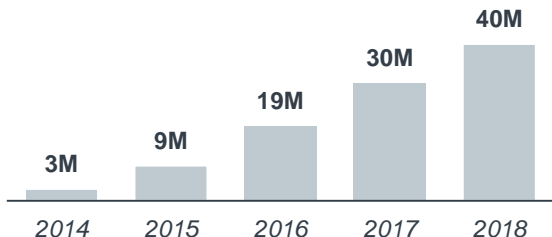
*n* = 1,100 employers



# Huge Growth Forecast for Private Exchanges

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

## Potential Growth Path for Private Exchange Enrollment



172

Private exchange operators as of October, 2014

## Prominent Employers Using Private Exchanges

For Active Employees:



For Retirees:

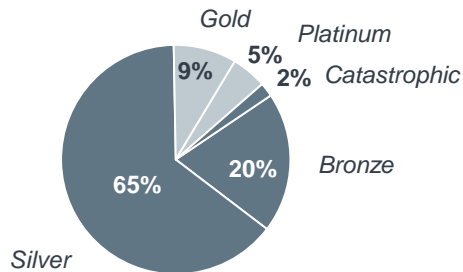
(Medicare Advantage, Medigap plans)



# Individuals Gravitating Toward Leaner Plans

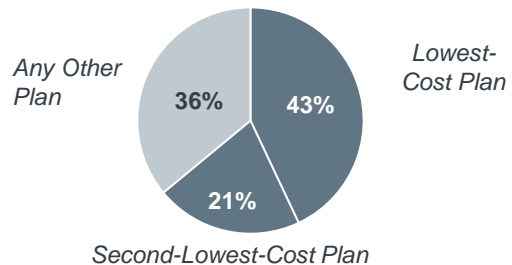
## Premium Sensitivity Manifest at Two Levels

### Level 1: Choice of Metal Tier



### Level 2: Plan Choice Within Metal Tier




All Metal Levels<sup>1</sup>



### Factors Influencing Metal Level

- |                         |                                  |
|-------------------------|----------------------------------|
| ✓ Deductible            | ✗ Non-Essential Services Covered |
| ✓ Copays                | ✗ Network Composition            |
| ✓ Out-of-Pocket Maximum | ✗ Negotiated Rates               |

### Premium Levers Beyond Benefit Design

-  Scope of Non-Essential Benefits
-  Negotiated Payment Rates to Providers
-  Utilization Patterns, Trends

1) Data from federally-facilitated exchanges only.



# High Deductibles Dominating Exchange Markets

## Aggressive Cost Sharing Potentially Troublesome for Provider Strategy

### Individual Deductibles Offered On Public Exchanges

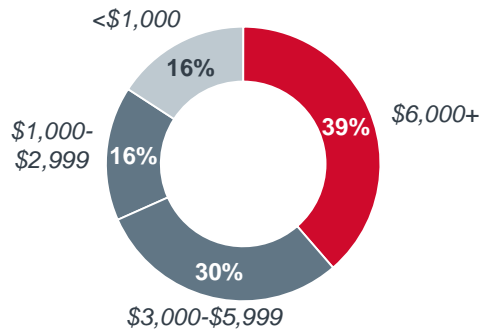
2014

**\$2,500**      **\$6,250**

Median

Maximum

### Individual Deductibles Chosen on eHealth Individual Marketplace



### Challenges for Providers



High out-of-pocket costs discourage appropriate utilization



Large patient obligations lead to more bad debt, charity care



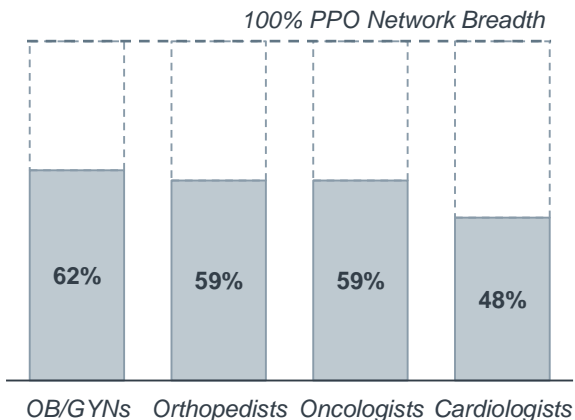
Price-sensitive patients more likely to seek lower-cost options

# Premium Sensitivity Supporting Narrow Networks

## Payers Betting Individual Consumers Value Affordability Over Broad Choice

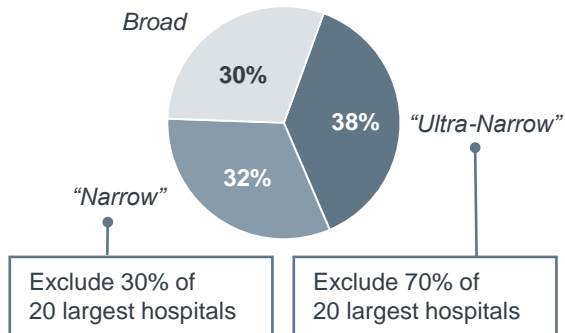
### Average Percent of PPO Network Specialists Included in Exchange Plan Networks<sup>1</sup>

Anthem BlueCross BlueShield, 2014



### Breadth of Hospital Networks in Exchange Plans

20 Urban Markets, December 2013



# 26%

Median premium reduction directly attributable to network narrowing<sup>2</sup>

1) "Pathway X" bronze plans compared to leading PPO plan offering across nine states.

2) Comparing products by the same carrier of the same tier, across 7 carriers.

# Some Providers Taking Lead in Network Assembly

## Intel-Presbyterian Partnership



Covered lives in contract



Projected savings, 2013-2017



### Narrowing of Health Plan Options

Intel reducing number of health plan options from 8 to 4; two remaining plans are narrow networks of PHS<sup>1</sup> providers



### Shared Accountability

Upside and downside risk for health care spending compared to projected target



### Customized Care Offerings

Addition of depression screening into customary provider workflow



### Infrastructure for Care Management

Conversion of Intel's on-site clinic into full service patient-centered medical home



## Case in Brief: Intel Corporation

- Large multinational employer headquartered in Santa Clara, California
- Entered into narrow-network contract with Presbyterian Healthcare Services, an 8-hospital system in New Mexico, for employees at Rio Rancho plant

1) Presbyterian Healthcare Services.

# All Signs Point to a Retail Market

## New Dynamics Unfamiliar in Health Care, But Not in Broader Economy

### Traditional Market

Passive employer,  
price-insulated employee



1

*Growing number of buyers*

Broad, open networks



2

*Proliferation of product options*

No platform for apples-to-apples plan comparison



3

*Increased transparency*

Disruptive for employers to change benefit options



4

*Reduced switching costs*

Constant employee premium contribution,  
low deductibles



5

*Greater consumer cost exposure*

### Retail Market



Activist employer,  
price-sensitive individual



Narrow, custom networks



Clear plan comparison  
on exchange platforms



Easy for individuals to  
switch plans annually

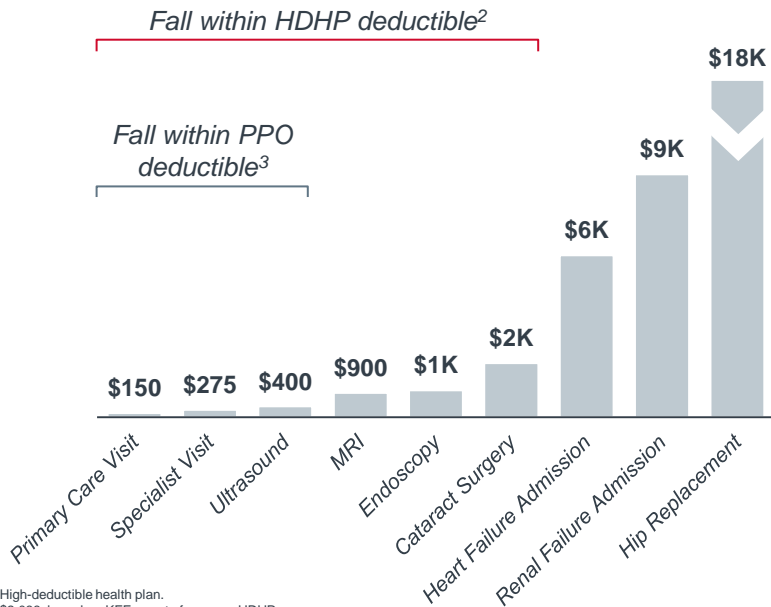


Variable individual  
premium contribution,  
high deductibles

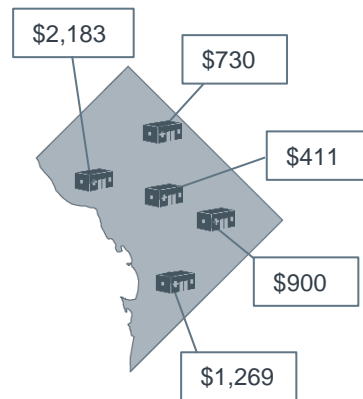
# Price Sensitivity at the Point of Care

## Cost-Conscious Behavior Affecting “Pillars of Profitability”

### Consumers Paying More Out-of-Pocket



### MRI Price Variation Across Washington, DC



- Price-sensitive shoppers will be acutely aware of price variation
- MRI prices range from \$400 to \$2,183

1) High-deductible health plan.

2) \$2,086; based on KFF report of average HDHP deductible.

3) \$733; based on KFF report of average PPO deductible.

# Walmart Bringing Everyday Low Prices to Health Care

## Low-Cost Access Potentially Just the Beginning

### Care Clinic Model



#### Pricing:

**\$4** For Walmart employees

**\$40** For Walmart customers

#### Hours:

Weekdays	Saturday	Sunday
8AM-8PM	8AM-5PM	10AM-6PM

#### Service:



- Two nurse practitioners provide primary care services on site
- Clinic refers to external specialists, hospitals as appropriate

### Probably Worth Paying Attention

“Our goal is to be the number one health-care provider in the industry.”

*Labeed Diab*  
President of Health & Wellness  
Walmart

**130M**  
Annual emergency department visits

**150M**  
Weekly visits to Walmart stores

# Massive Pricing-Based Disruption Possible

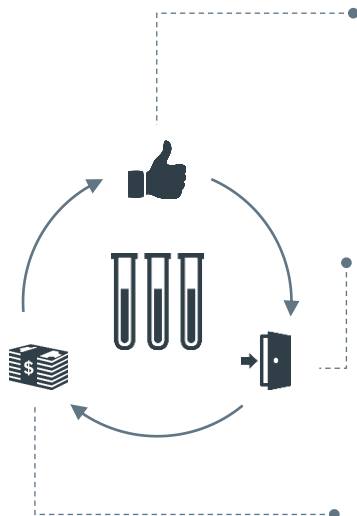
## Recognizing the Opportunity to Deliver Customer-Friendly Products

### A Truly Customer-Focused Business Model



#### Case in Brief: Theranos

- Private diagnostic lab testing company based in Palo Alto, California
- Efficiencies lead to lower price and faster result times
- Currently valued at \$9 billion
- Has raised \$400 million in venture capital



#### Improved Experience

- Requires 1/100 - 1/1,000 the amount of blood of veni-puncture
- Results available within hours, matching emergency “stat” times

#### Better Access

- Operates in 30 Walgreens; preparing for national roll-out
- Walgreens “wellness centers,” open evenings and weekends

#### Lower Price

- Priced half to one quarter of independent labs
- Set to never exceed half of Medicare reimbursement

# Providers Must Also Deliver on Ease of Access

## Winning Contracts By Meeting Access Demands



### Case in Brief: Providence-Swedish Health Alliance

- Alliance between Providence Health Systems, Swedish Health Services in Seattle, WA
- Awarded contract to serve as Boeing's narrow ACO network option

“[Geographic] access is critical. But we can't lose sight of the patient experience. Health care consumers need to see a positive change in *how* they are able to access healthcare.

*Chris Gorey  
Chief Marketing Officer  
Providence Health Systems*

### Boeing's Access Requirements



- Same-day PCP appointment (acute conditions)
- 3-day PCP appointment (any condition)
- 10-day specialist appointment
- Extended hours of operations
- Extended urgent care hours
- Centralized 1-800 number at ACO level with care navigators for triage and advocacy
- Member website
- Phone apps



# Convenience Consistently a Top Patient Priority

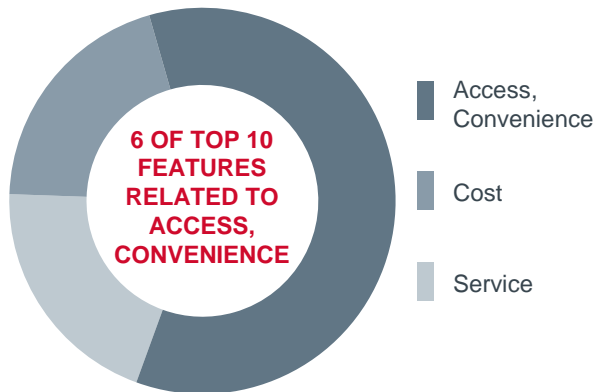
## Convenience Outranking Service and Cost

*Top Preferences for On-Demand Care*



### #1 out of 56

"Walking in without appointment and being seen within 30 minutes"



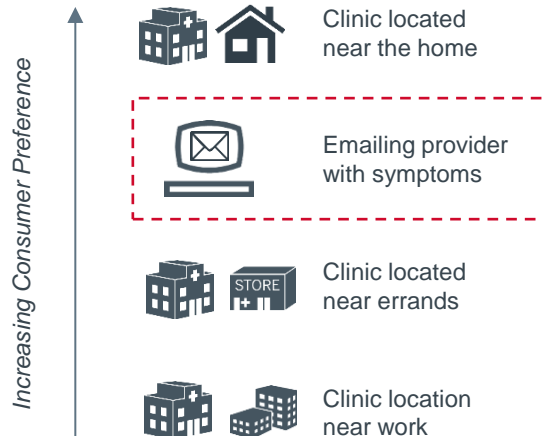
## How Convenient is Convenient?

*Consumers Want Virtual, 24/7 Access*



### #5 out of 56

"The clinic is open 24 hours, 7 days a week"





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