Bending the Cost Curve in Healthcare

Lifespan

Delivering health with care.™

Timothy J. Babineau, MD
President and CEO, Lifespan
November 24, 2014

Drivers of High Healthcare Costs

- Americans use a higher proportion of expensive medicine
  - Americans use more expensive medical technologies and costly procedures despite visiting doctors and hospitals less often
  - For ex MRI usage is 46.3/1,000 lives in OECD vs. 97.7/1,000 in U.S.
- Physician, facility and drug costs are high
  - Average unit costs are the highest in the world
  - Even the lowest cost unit prices exceed all other countries

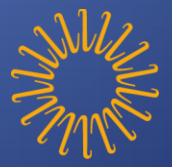
Adapted, in part, from:
Miller Center, University of Virginia
State Health Care Cost Containment Commission.
January, 2014

Lifespan
Delivering health with care.™

Drivers of High Healthcare Costs

- Consumers do not weigh costs when making healthcare decisions.
  - Other than insurance premiums and out-of-pocket expenses, consumers pay virtually no attention to the cost of care.
- Care is fragmented and uncoordinated
  - U.S. healthcare is fragmented resulting in unnecessary and redundant services, errors, hospitalizations, delays in treatment and waste.

Adapted, in part, from:
Miller Center, University of Virginia
State Health Care Cost Containment Commission.
January, 2014



Lifespan
Delivering health with care.™

Drivers of High Healthcare Costs

- Administrative Expenses are high
  - Billing and insurance related activities in the U.S. are the most expensive in the world because they are
    - Complicated, numerous, and unique to the plan
    - Each part of the "system" requires their own administrative processes and personnel.
- Fee-for-Service payment model promotes fragmentation and higher spending.
  - Many experts believe that our predominant fee-for-service model encourages providers to maximize the amount and cost of services delivered.

Adapted, in part, from:
Miller Center, University of Virginia
State Health Care Cost Containment Commission.
January, 2014

Lifespan
Delivering health with care.™

Drivers of High Healthcare Costs

- Unhealthy lifestyle choices and behaviors add to health burdens
  - Unhealthy behaviors in the U.S. cause most chronic illnesses (i.e. heart disease, stroke, cancer, diabetes, arthritis etc.) and cause approximately 70 of all deaths. Many are preventable.

Adapted, in part, from:
Miller Center, University of Virginia
State Health Care Cost Containment Commission.
January, 2014

Lifespan
Delivering health with care.™

Drivers of High Healthcare Costs

- Historically, provider consolidation has increased market power and prices.
  - To date, most consolidations have created dominant market share and placed upward pressure on the price of services.
- End-of-life care in the United States is very expensive
  - Americans consume a significant share of their lifetime medical costs in the last year of their lives.
    - Oftentimes because of unnecessary, unwanted and inappropriate care and services.

Adapted, in part, from:
Miller Center, University of Virginia
State Health Care Cost Containment Commission.
January, 2014

Lifespan
Delivering health with care.™

Rhode Island has a few unique challenges

- RI is ranked 44th nationally in expenditures per capita
- If RI were at the national median for expenditures there were would be a potential for $1.5b savings annually ($8.8b spent in 2009).
- Costs ultimately drive premiums.

Lifespan

Delivering health with care.™

Cost are affected by Health Status and Efforts to Improve Outcome

Health Status:

- Smoking 15th
- Obesity 33rd
- Asthma 53rd
- Disabled 25th
- Cancer 47th
- Diabetes 28th
- Mental Health 37th

Results:

- Life Expectancy 38th
- Infant Mortality 22nd
- Death Rate 21st
- Cancer DR 37th
- Heart Dis. DR 27TH

Rank Legend

1 - 9 =
10-21 =
22-28 =
29-40 =
41-54 =

Note, The Higher the Rank the worse the prevalence.

Measuring true “costs” can be a challenge

- Tracking the “cost” of high deductible plan
- Cost shifting to the patient?
  - Possible treatment barriers ultimately resulting in more expensive care down the road
  - Increased provider “costs” because of bad debt collection efforts
  - Claims data may be confounded by these effects.

Lifespan

Delivering health with care.™

Evidence of Coordinated care lowering costs in scant at present

- Cautionary Tale….
  - OneCare Initiative in Massachusetts to redesign service delivery and payment for the healthcare of 95,000 disabled low income adults have created $$ millions in losses for the companies providing the care and the state has agreed to share in the losses for the next 2 years.

"Program for needy patients struggles Costs high in state, enrollment low for unique One Care initiative". **Boston Globe. November 10, 2014.**

Lifespan
Delivering health with care.™

Efforts underway at Lifespan

Lifespan

Delivering health with care.™

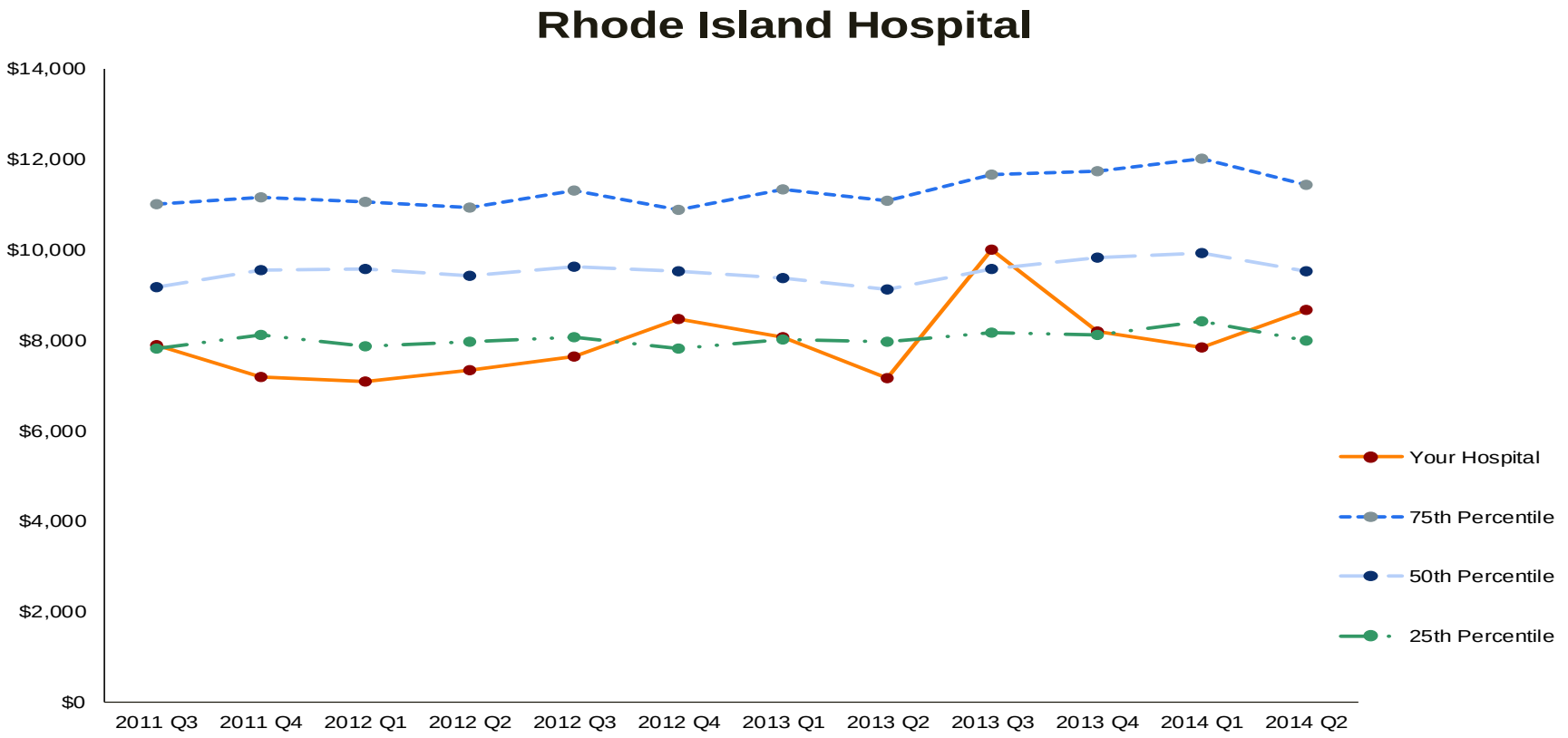
Comparison (Rhode Island Hosital) to COTH peers

CHART 10

CMI Adjusted Expense per Adjusted Discharge

Benchmarked against Median Teaching Hospital • Twelve Most Recent Quarters

AAMC



Source: AAMC•COTH Quarterly Survey of Hospital Operations & Financial Performance

Lifespan

Delivering health with care.™

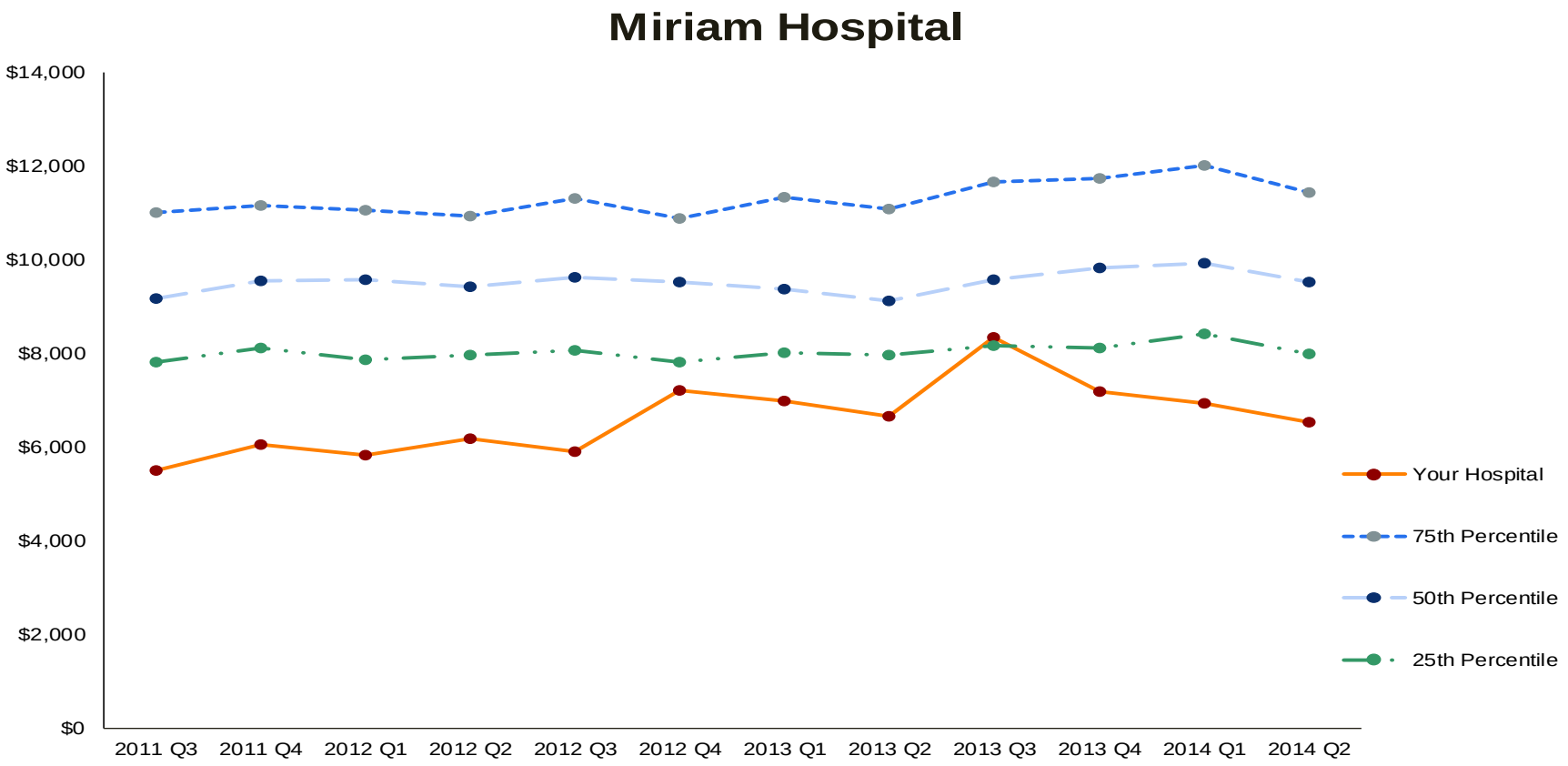
Comparison (The Miriam Hospital) to COTH peers

CHART 10

CMI Adjusted Expense per Adjusted Discharge

Benchmarked against Median Teaching Hospital • Twelve Most Recent Quarters

AAMC



Source: AAMC•COTH Quarterly Survey of Hospital Operations & Financial Performance

Lifespan

Delivering health with care.™

Lowering Our Cost Profile

- Lifespan Operational Improvement Plan (LORI)
  - 36-month plan---$150 million target.
    - Using tools of Lean and 6-sigma
  - Through first 18 month, **implemented $77million in targeted cost reductions**
  - Supply Chain improvements
  - Centers of Excellence Consolidation
    - Eliminate redundancy and duplication through the system

Lifespan
Delivering health with care.™

Lifespan Health plan

- **Total cost of $140,000,000** for 2015 – employees contribute 20% on average (10,600 employees, 25,000 covered lives)
- **Working premium increases**
  - **2.6% for 2013,**
  - **0.0% for 2014**
  - **0.0% for 2015**
    - **significantly below market increases**

Lifespan

Delivering health with care.™

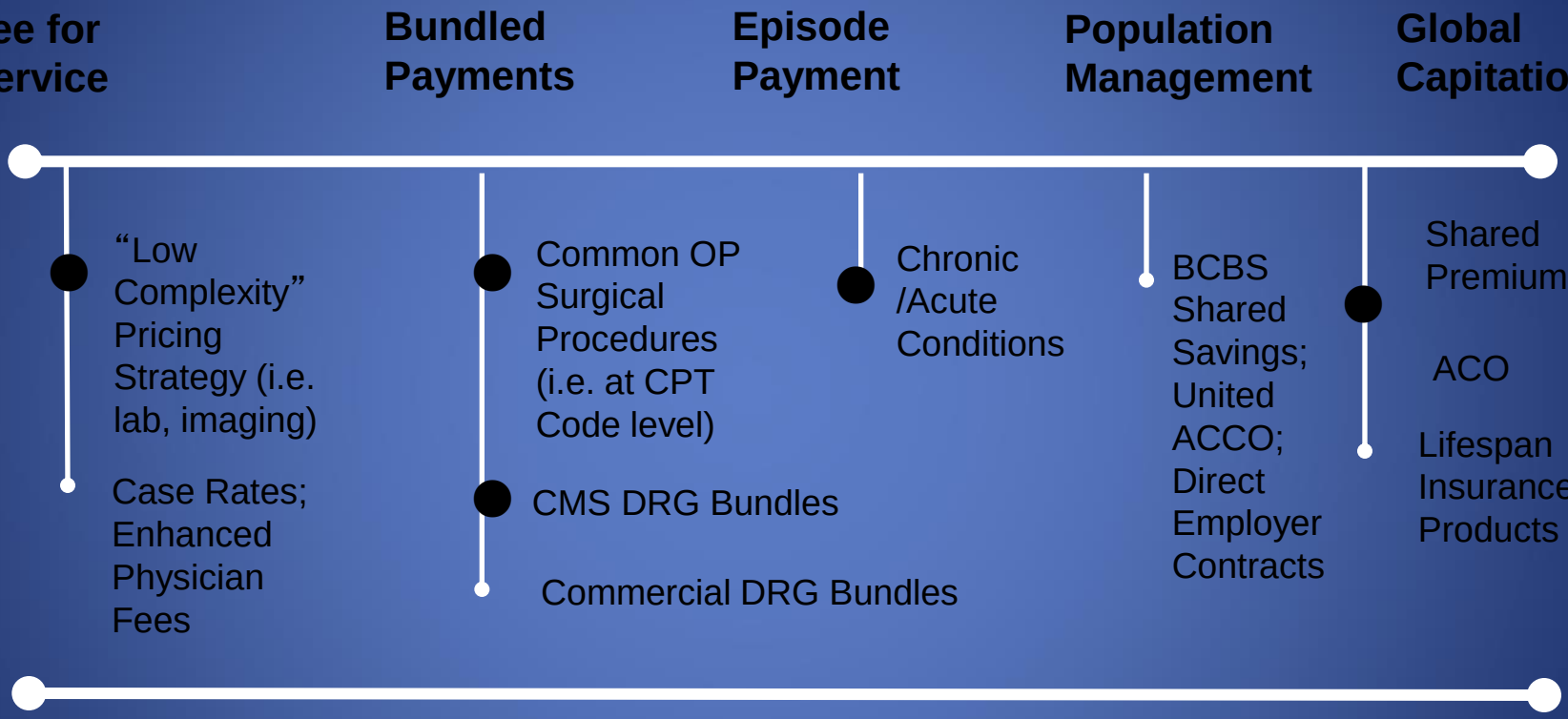
Lifespan Health plan: Key New Features

- Lifespan Health Tier 1 network
  - high quality doctors, nurses, hospitals, pharmacy, and other medical providers
  - low co-pays for Lifespan Health Tier 1 providers and primary care.
- Generous behavioral/mental health benefits
- Many no cost wellness programs
- Lifespan Healthy Rewards $300 incentive per adult for achievement of healthier BMI and not using tobacco products
- Introducing tobacco use surcharge of $600 per contract for 2015

Lifespan

Delivering health with care.™

New Models of Care Supported by New Models of Payment



Business Intelligence; Data Warehouse; Patient/Physician Portal; Care Coordination

Lifespan

Delivering health with care.™

Lifespan Strategic $$$ Investments: Capabilities Required for Clinical Integration

Clinical Integration/New Models of Care

Contracting

- Payer-specific strategy
- Uniform as much as possible
- Long term vs. Short-term
- Duration of Contract
- Delegated Services
- Case Management
- Disease Management
- Claims
- Commitment to Provide Data
- Physician Attribution Methodology
- Prospective or Retrospective
- Quality scores

IT Infrastructure/Technical Integration

- Data collection
- Normalization/ standardization
- Clinical and Financial
- Ambulatory and Acute
- Integration with existing systems

Care Delivery Model

- Agree upon guidelines
- Clinical governance
- Acute and ambulatory handoffs
- Integration of existing programs
- Roles and Responsibilities: Care coordinators, Quality Analysts, Physicians, Office Staff

Organizational Structure & Planning

- Legal entity
- Financial structure
- New vs. existing
- Single or multiple
- Financial analysis and Planning
- Roles and responsibilities
- Communications
- Retraining
- Organizational incentive alignment

Data Management & Analytics

- Roles and responsibilities
- Defined regular vs. ad hoc reporting
- Clinical and financial
- Regulatory vs. Operational

Provider Alignment

- Value Proposition
- Which physicians
- Incentives
- Reporting
- Participation Agreement
- Payment distribution
- Organizational transformation
- Non-Compliance process

Lifespan

Delivering health with care.™