

The Evolution of Value-based Healthcare

Miriam Sznycer-Taub, Senior Consultant, Advisory
Board Research

FACULTY DISCLOSURE

The faculty reported the following financial relationships or relationships to products or devices they or their spouse/life partner have with commercial interests related to the content of this CE activity:

Miriam Sznycer-Taub: nothing to disclose

Learning objectives:

1. Identify the forces destabilizing provider economics.
2. Discuss new delivery models that are emerging due to the evolution of value-based care.
3. Describe the strategies both the private and public sector are employing to bend the health care spending curve.

A Royal Pricing Problem

▶ **\$2,700**

Average cost of labor and vaginal delivery in **NHS¹ hospital**, 2015



▶ **\$8,900**

Estimated cost of delivering **royal baby** in private room at St. Mary's Hospital in London



▶ **\$10,800**

Average cost of labor and vaginal delivery in a **U.S. hospital**, 2015



▶ **≈\$1M**

Approximate cost to rent private floor at Lenox Hill Hospital in Manhattan for birth of **Beyoncé and Jay-Z's first child**



Unpacking U.S. health care spending



Utilization levels comparable,
if not better in U.S.

#8 U.S. ranking on number of hospital
discharges per 1,000 among
11 highest-income countries

#9 U.S. ranking on average length
of inpatient stay among
11 highest-income countries

Prices, administrative costs elevating spending



Physician salaries

Average generalist salary more than **double**
in U.S. than in other high-income countries



Pharmaceuticals

U.S. drug spending per capita more than
triple that of other high-income countries



Administrative costs

Percentage of spending on administration
upwards of **eight times** greater in the U.S.

Price scrutiny back with a vengeance

Two areas of health care spending occupying most of the spotlight

1 DRUG PRICES

NPR

“As Drug Costs Soar, People Delay Or Skip Cancer Treatments”

The New York Times

“Drug Goes From \$13.50 a Tablet to \$750, Overnight”



\$329B

Total prescription drug expenditures, 2016

≈21%

Percentage of industry EBITDA¹ in pharma and biotech, 2016

2 HOSPITAL PRICES

Vox

“She didn’t get treated at the ER. But she got a \$5,751 bill anyway”

STAT

“An outrageous hospital charge: I paid \$710 for an hour of babysitting”



\$1.1T

Total hospital expenditures, 2016

≈22%

Percentage of industry EBITDA in inpatient acute care, 2016

Source: Szabo L, “As Drug Costs Soar, People Delay or Skip Cancer Treatments,” NPR, March 15, 2017; Pollack A, “Drug Goes from \$13.50 a Tablet to \$750, Overnight,” The New York Times, September 20, 2015; Kliff S, “She Didn’t Get Treated at the ER. But She Got a \$5,751 Bill Anyway,” Vox, May 1, 2018; Cortes A, “An Outrageous Hospital Charge: I Paid \$710 For an Hour of Babysitting,” STAT, April 12, 2017; CMS, National Health Expenditure Data; Singhal S, Latko B, and Martin C, “The Future of Healthcare: Finding the Opportunities That Lie Beneath the Uncertainty,” McKinsey&Company, January 2018; Health Care Advisory Board interviews and analysis.

Sheer size of health spending drawing new interest

Silicon Valley tries its hand at health care

Apple



“Health Records” allows iPhone users to manage their own medical records



Launching employee onsite clinics focused on population health

Alphabet Inc.



Cityblock Health provides care to low-income, urban patients



Verily exploring move into Medicaid managed care space

Uber & Lyft



Offering non-emergency medical transportation for patients



Providers can book and reimburse rides on behalf of patients



Amazon eyeing health care industry

“Hard as it might be, **reducing healthcare’s burden on the economy** while improving outcomes for employees and their families would be worth the effort. Success is going to require talented experts, a beginner’s mind, and a long-term orientation.”

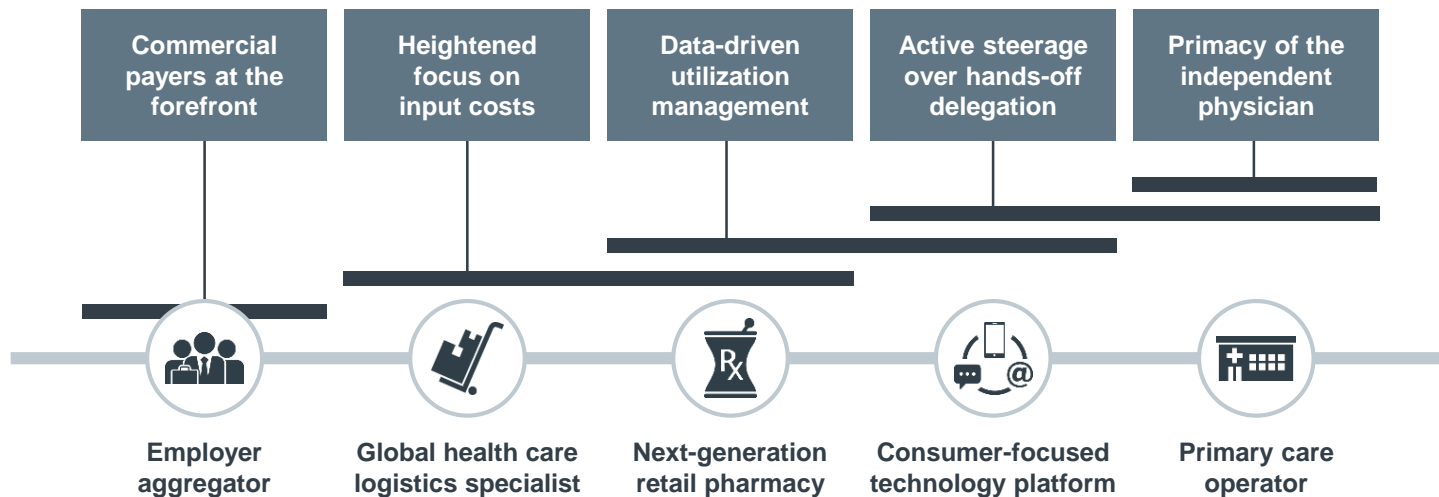
Jeff Bezos, CEO, Amazon

Source: Business Wire, “Amazon, Berkshire Hathaway and JPMorgan Chase & Co. to partner on U.S. employee healthcare,” January 30, 2018; Bennett J, “Be Afraid: Healthcare Feels the Amazon Effect,” Forbes, January 30, 2018; The New York Times, “Hearing Amazon’s Footsteps, the Health Care Industry Shudders,” October 27, 2017; The Economist, “Apple and Amazon’s Moves in Health Signal a Coming Transformation,” February 3, 2018; Scott D, “Why Apple, Amazon, and Google Are Making Big Health Care Moves,” Vox, March 6, 2018; Health Care Advisory Board interviews and analysis.

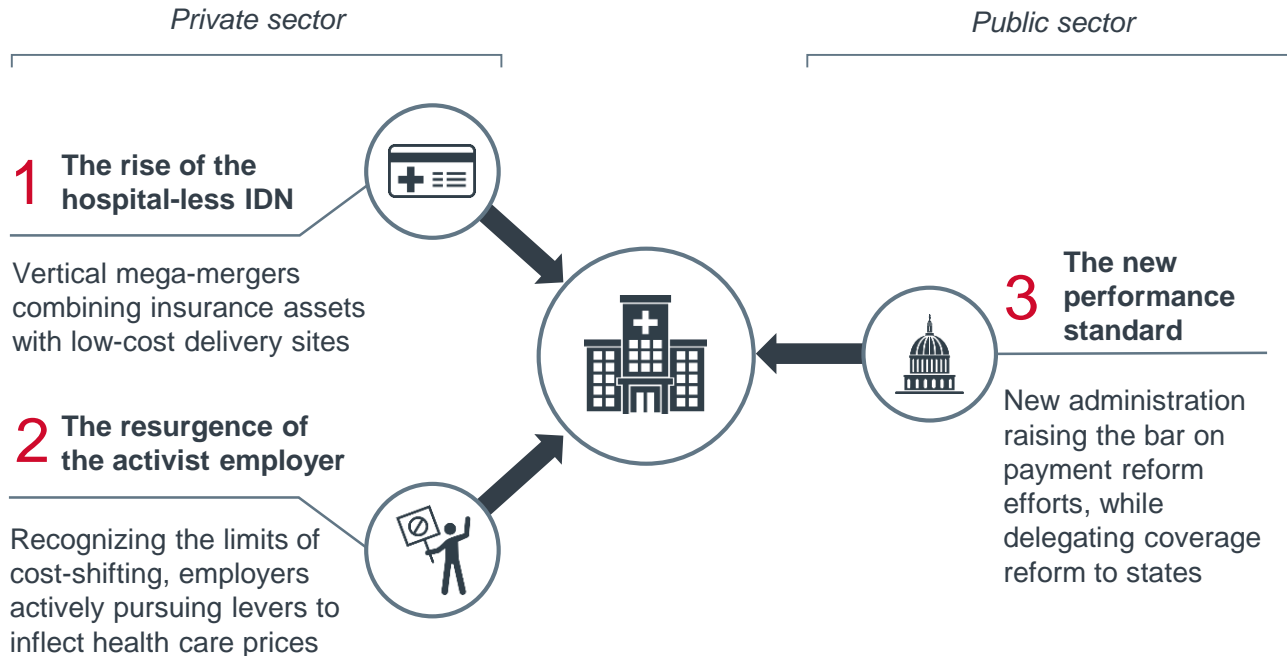
Industry transformation already well underway

Threat of disruption catalyzing and accelerating broader trends

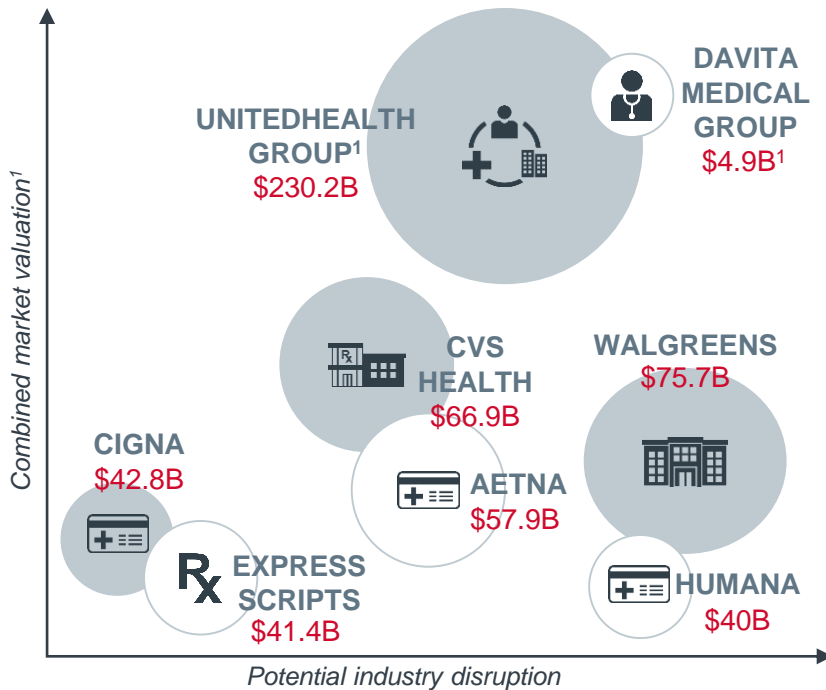
Emerging themes in efforts to disrupt the health care value chain



Private sector leads the way in challenging health system business model



Unprecedented mega-mergers claiming the spotlight



Drivers of deal activity



Tax reform brings for-profit companies an influx of cash



Shifting administrative priorities changes sources of projected growth



Margin pressure intensifies capital needs in certain sectors

1) Advisory Board is a subsidiary of UnitedHealth Group, the parent company of UnitedHealthcare. All Advisory Board research, expert perspectives, and recommendations remain independent.

2) UnitedHealth Group's purchase price.

Looking outside traditional business lines for survival

Vertical integration addresses three major challenges to business

Problem:



**Regulatory limitations
on horizontal growth**



**Stagnating growth in
traditional business models**



**Pressure to deliver
on affordability**

Solution:

Less regulatory precedence
on anti-competitive nature
of vertical deals

Controlling greater share
of wallet, patient data
enhances value proposition






Easier to inflect spending in
new business than to upend
current revenue model

*Pursuing vertical integration out
of near-term **strategic necessity***

*Pursuing vertical integration to
secure **long-term option value***

New networks organized without acute care

Major vertical integration activity¹

	Aetna	Anthem	Cigna	Humana	United ²
 AMBULATORY CLINICS	MinuteClinic			Walgreens Clinics	OptumCare/MedExpress
ACUTE CARE HOSPITALS					
 POST ACUTE PROVIDERS		Aspire Health		Kindred, Curo	DaVita
 PBM	Caremark	IngenioRx	Express Scripts	HPS ³	OptumRx
 PHARMACY	CVS			Walgreens Pharmacy	Genoa Healthcare
 RETAILER	CVS			Walgreens	

1) Completed, proposed, or rumored as of September 2018.

2) Advisory Board is an independent subsidiary of Optum.

3) Humana Pharmacy Solutions.

Four deals highlight two major themes

	Cigna-Express Scripts	CVS-Aetna	Walgreens-Humana	Optum-DaVita ¹
Sectors	<ul style="list-style-type: none"> Health plan PBM 	<ul style="list-style-type: none"> Health plan PBM Retailer Ambulatory provider 	<ul style="list-style-type: none"> Health plan PBM Retailer Ambulatory provider 	<ul style="list-style-type: none"> Service provider with ≈80 health plan clients PBM Ambulatory provider
Size	Cigna to acquire Express Scripts for \$67B in cash and stock	CVS acquiring Aetna for \$69B in cash and stock	TBD; Walgreens mkt. cap: \$75.7B, Humana mkt. cap: \$39.7B	UHG to acquire DaVita Medical Group for \$4.3B in cash
Status	<ul style="list-style-type: none"> Deal announced March 8, 2018 Deal closed on December 20, 2018 	<ul style="list-style-type: none"> Deal announced December 3, 2017 Deal closed on November 28, 2018 	<ul style="list-style-type: none"> Deal rumors emerge on November 20, 2018 Companies reportedly exploring taking stakes in one another 	<ul style="list-style-type: none"> Deal announced December 6, 2017 Sale price dropped on December 17, 2018 to expedite FTC approval



Reintegration of the PBM



Rebuilding the front door to the health system

Source: Google Finance; Cigna, "Cigna to Acquire Express Scripts for \$67 Billion," March 8, 2018; CVSHealth, "CVS Health to Acquire Aetna; Combination to Provide Consumers with a Better Experience, Reduced Costs and Improved Access to Health Care Experts in Homes and Communities Across the Country," December 3, 2017; Mattioli D, Siconolfi M, and Cimulluca D, "Walgreens, Humana Are in Preliminary Talks to Take Stakes in Each Other," The Wall Street Journal, November 20, 2018; DaVita, "DaVita Medical Group to Join Optum," December 6, 2017; Health Care Advisory Board interviews and analysis.

¹) Advisory Board is a subsidiary of Optum. All Advisory Board research, expert perspectives, and recommendations remain independent.

Cigna-Express Scripts emblematic of broader trend

Independent PBMs¹ a dying breed

Percentage share of PBM lives by owner, 2017

≈28% **Express Scripts**
Acquired by Cigna

≈26% **CVS Caremark**
Acquired Aetna

≈19% **OptumRx**
Subsidiary of United Health Group



≈75%

Percentage of PBM market shared potentially
affiliated with a major health plan in 2019

Long-term value proposition dependent on true integration

Near-term advantages



Cross-sell opportunities

Potential to grow health plan membership through existing PBM relationships, and vice versa



Administrative synergies

Ability to achieve economies of scale through combined human resources, technology, physical assets

Long-Term Potential



Reduced drug spend

Enables steerage to generics and partner pharmacy where applicable



Improved utilization management

Combined data assets enables better management of treatment and adherence

Building hospital-less integrated delivery networks

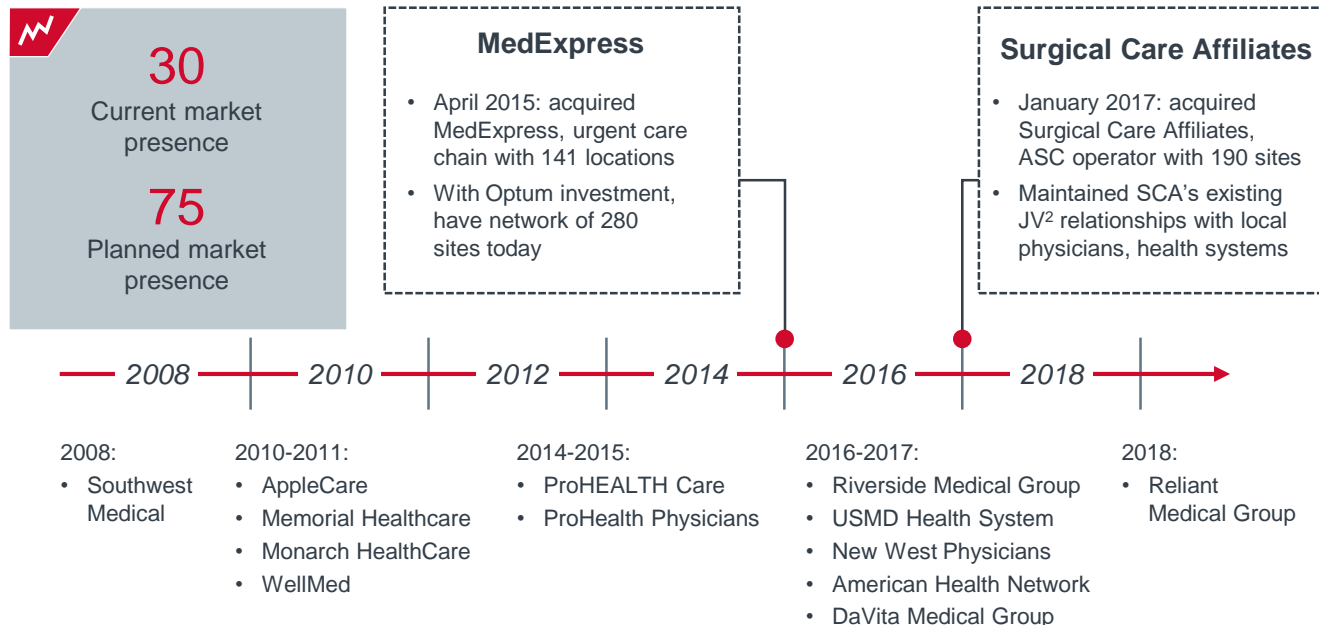
	Consumer loyalty platform	Care management platform	
	CVS-Aetna	Walgreens-Humana	OptumCare
Physical assets	<ul style="list-style-type: none"> 9,800+ retail and 68,000+ network pharmacies ≈71% of population lives within 5 miles of a CVS 	<ul style="list-style-type: none"> 9,560 drugstores ≈76% of population lives within 5 miles of a Walgreens or Duane Reade 	<ul style="list-style-type: none"> Ambulatory provider networks in 12 states: AZ, CA, CO, CT, FL, IN, NV, NJ, NY, OH, TX, UT
Clinical capabilities	<ul style="list-style-type: none"> 1100+ CVS MinuteClinics; offer 40% of PCP services, with plan to expand to 90% CVS owns home hemodialysis technology 	<ul style="list-style-type: none"> 400+ Walgreens clinics 195 Humana-operated primary care clinics Humana at Home; adding Kindred at Home 	<ul style="list-style-type: none"> Primary care Pediatric care Specialty and surgical care Urgent care Senior and advanced care
Covered lives	<ul style="list-style-type: none"> CVS: 62M ExtraCare members Aetna: 22.2M medical members 	<ul style="list-style-type: none"> Walgreens: 8M customers/day Humana: 14M medical members 	<ul style="list-style-type: none"> 80 health plan clients covering more than 15M members
Medical membership	Aetna¹ <ul style="list-style-type: none"> 81% Commercial 	Humana² <ul style="list-style-type: none"> 38% Medicare Advantage 35% Military Services 20% Commercial 	<i>Varies based on plan partner(s) in given market</i>

Source: CVS Health; Aetna; Walgreens, Humana; Optum Care; UnitedHealthcare; Yanofsky D and Zhou Y, "Eight out of 10 Americans Are Within 10 Miles of a CVS," Quartz, December 5, 2017; Health Care Advisory Board interviews and analysis.

1) As of March 31, 2018.
2) As of December 31, 2017.

OptumCare becoming one of the nation's largest physician aggregators

Large urgent care, ASC¹ acquisitions supplement steady growth in physician groups

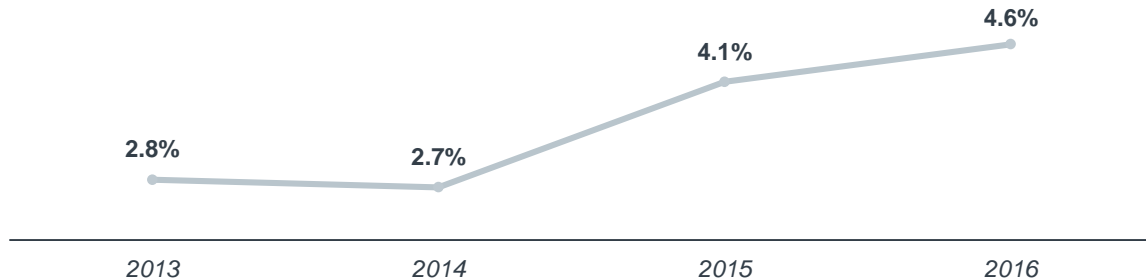


Source: Wolff T, "OptumCare Can Reach 70 Percent of the US Population," The Health Care Blog, December 13, 2017; Tracer Z, "30,000 Strong and Counting, UnitedHealth Gathers a Doctor Army," Bloomberg, April 9, 2018; Health Care Advisory Board interviews and analysis.

1) Ambulatory surgery center.
2) Joint venture.

Employer health spending continues to grow

Percent change in annual employer spending per person
Relative to previous year



Exact projections vary, but wide expectations of accelerated spending growth in 2018

Willis Towers Watson

“U.S. employers expect their health care costs **to increase by 5.5 percent in 2018**, up from a 4.6 percent increase in 2017”

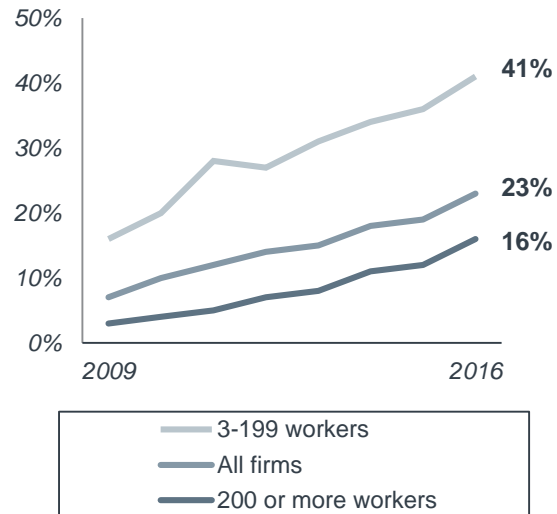
PwC

“PwC’s Health Research Institute (HRI) anticipates a 6.5 percent growth rate for calendar year 2018, **half a percentage point higher than in 2017**”

Source: HCCI, “2016 Health Care Cost and Utilization Report,” January 2018; Willis Towers Watson, “Best Practices in Health Care Employer Survey Report,” January 31, 2018; PwC, “Medical cost trend: Behind the numbers 2018,” June 2017; Mercer, “Mercer Survey Shows Employers Face a 4.3% Increase in 2018 US Health Benefit Cost, Highest Since 2011, But Trend Stable,” September 18, 2017; Health Care Advisory Board interviews and analysis.

Cost sharing here to stay, but not sufficient

Percentage of workers by annual deductible of \$2,000 or more
By firm size, 2009-2016



Not quite the silver bullet employers were hoping for

The New York Times

“The Big Problem with High Health Care Deductibles”

Modern Healthcare

“Why consumerism is no panacea for our healthcare problems”



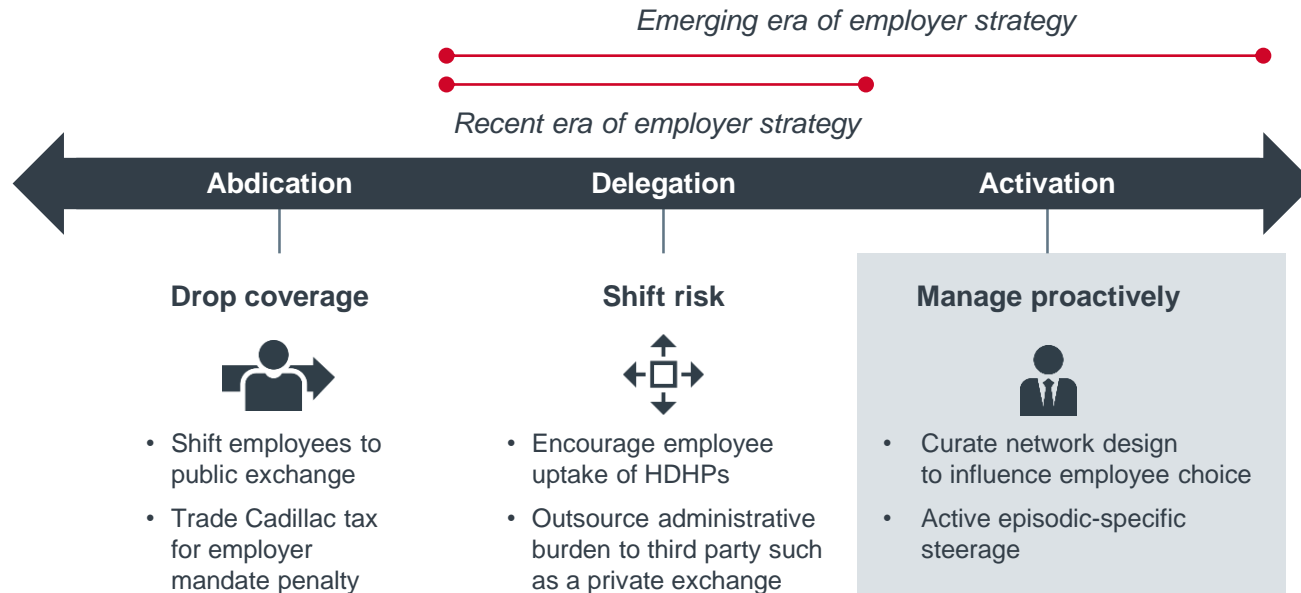
Two commonly cited shortfalls

- 1 Decreases utilization, but insufficient to drive price shopping
- 2 Window of impact above HSA/HRA¹ and below deductible too limited

Source: Gaba C, “Healthcare Coverage Breakout for the Entire U.S. Population in 1 Chart,” ACASingups.net, March 28, 2016; Katz-Sangor M, “The Big Problem with High Health Care Deductibles,” The New York Times, February 5, 2016; Meyer H, “Blog: Why Consumerism is No Panacea for Our Healthcare Problems,” Modern Healthcare, March 8, 2016; Health Care Advisory Board interviews and analysis.

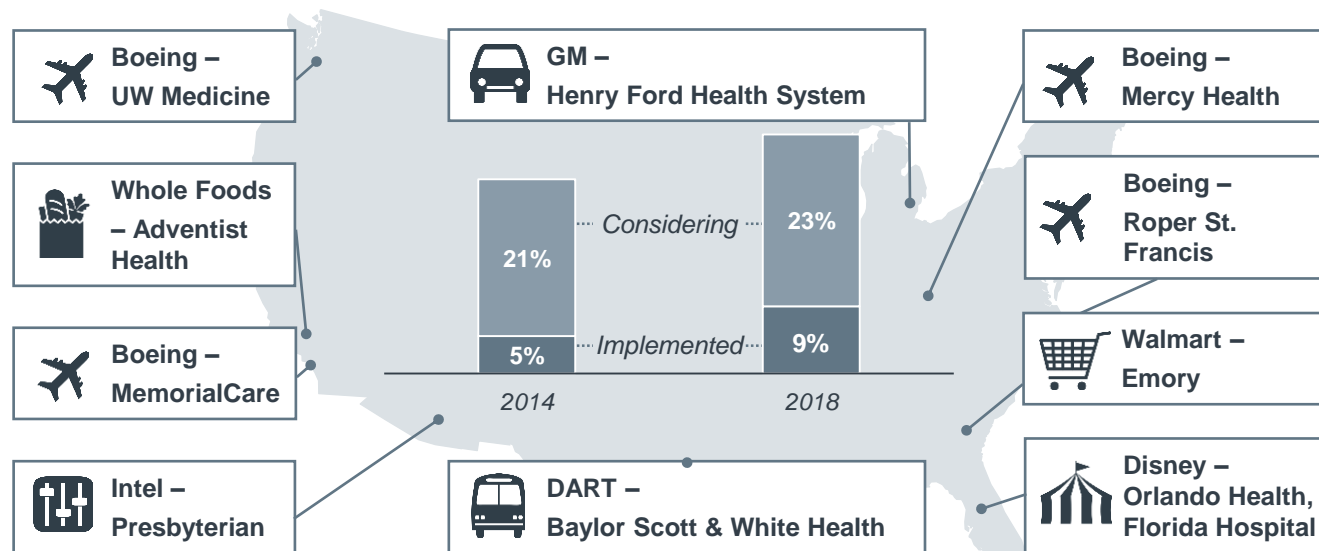
Employers embracing activation in addition to delegation

Spectrum of options for controlling health benefits expense



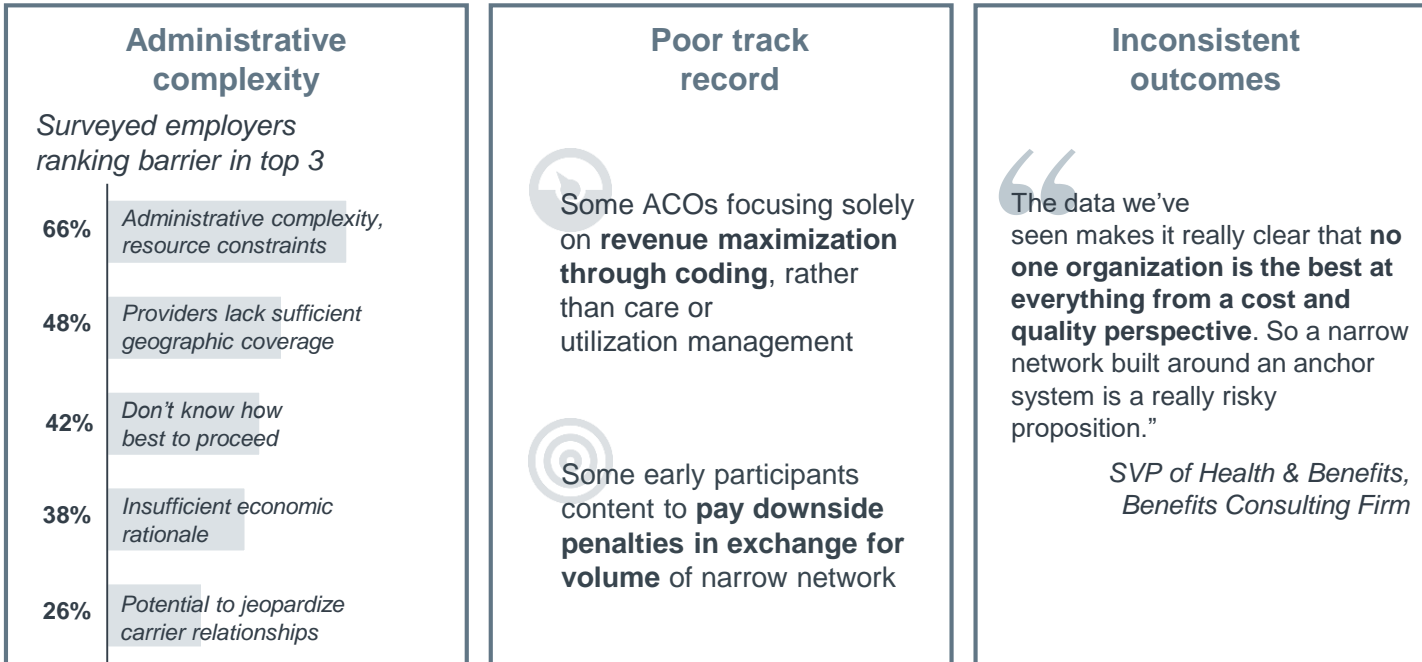
Some renewed interest in direct ACO contracting

Large employers expressing more interest in direct ACO contracts



Source: Livingston S, "Left Out of the Game: Health Systems Offer Direct-to-Employer Contracting to Eliminate Insurers," Modern Healthcare, January 27, 2018; Minemyer P, "Disney Contracts Directly with Orlando Health, Florida Hospital for New HMO Plans," Fierce Healthcare, February 6, 2018; Baylor Scott & White Health, "Baylor Scott & White Quality Alliance Collaborates With Dallas Area Rapid Transit to Improve Quality and Health Care Affordability," September 27, 2017; Emory, "Emory Healthcare and Walmart Collaborate on Employee Health, Spine Surgery and Joint Replacement Surgery," April 19, 2018; PwC, "Medical Cost Trend: Behind the Numbers 2019," June 2018; Health Care Advisory Board interviews and analysis.

Three factors inhibiting provider-employer partnerships



A diverse set of potential partners

For providers looking for a front door to employer relationships

	National payer	Regional payer	Regional PSHP ¹	Out-of-Market PSHP	Start-Up
Pros	<ul style="list-style-type: none"> • Access to capital • Access to employer group contracts 	<ul style="list-style-type: none"> • Depth of knowledge, experience with local market 	<ul style="list-style-type: none"> • Shared culture • Established local reputation 	<ul style="list-style-type: none"> • Willingness to partner for mutual market growth • Shared culture 	<ul style="list-style-type: none"> • Willingness to partner for mutual market growth • Willingness to innovate
Cons	<ul style="list-style-type: none"> • Can be inflexible in negotiations • National priorities may decrease local focus 	<ul style="list-style-type: none"> • Geographically limited, may limit future expansion 	<ul style="list-style-type: none"> • May lack financial stability, durability if still in early years of operation 	<ul style="list-style-type: none"> • May not provide any brand recognition locally 	<ul style="list-style-type: none"> • Likely to want to own consumer interface, relationship
Examples	<ul style="list-style-type: none"> • Texas Health Resources/ Aetna • Aurora Health Care/ Anthem BCBS 	<ul style="list-style-type: none"> • Steward Health Care System/ Tufts Health Plan • Essentia Health/ UCare 	<ul style="list-style-type: none"> • Deaconess Health System/ IU Health 	<ul style="list-style-type: none"> • St. Luke's Health System/ SelectHealth • UnityPoint Health/ Health Partners 	<ul style="list-style-type: none"> • Bright Health/ Centura • Oscar/ Cleveland Clinic

Some employers bypass narrow networks in favor of procedural steerage

CASE EXAMPLE

Grand Rounds

Employer health care platform •
San Francisco, CA

- Helps employers solve challenges in health care: network optimization, finding high-quality providers, and avoiding unnecessary costs
- Began with Grand Rounds *Beacon*, expertise for complex care
- Now offering *Summit*, clinical navigation and network optimization

Grand Rounds uses second opinions and network optimization to target high-cost procedures

Service provided

Beacon
Expertise for complex care

Helps members with complex needs answer critical care questions such as: “Is my diagnosis correct?” and “Does my physician have the appropriate expertise to oversee my care?”

Summit
Clinical navigation

Singular clinical entry point for all health care needs; optimizes employer’s existing network for quality, employees guided to most appropriate resources within it

Impact on cost

- Avoid inappropriate treatment
- Results in changing course of care 66% of the time and \$8,900 savings per case
- Recommended physicians achieve 10-30% lower cost per patient compared to average

Clients Include:

- Comcast
- Jamba Juice
- AutoDesk
- Walmart
- Alliance Data
- News Corp

Focus on improved referrals gives clear results

Substantial earnings accrued by both parties

CareFirst's PCMH¹ performance results



#1

Focus area that most influences cost and quality is the cost effectiveness of referral patterns



\$153M

Net savings produced by CareFirst's PCMH model, 2016



60%

Panels receiving Outcome Incentive Award, 2016



49%

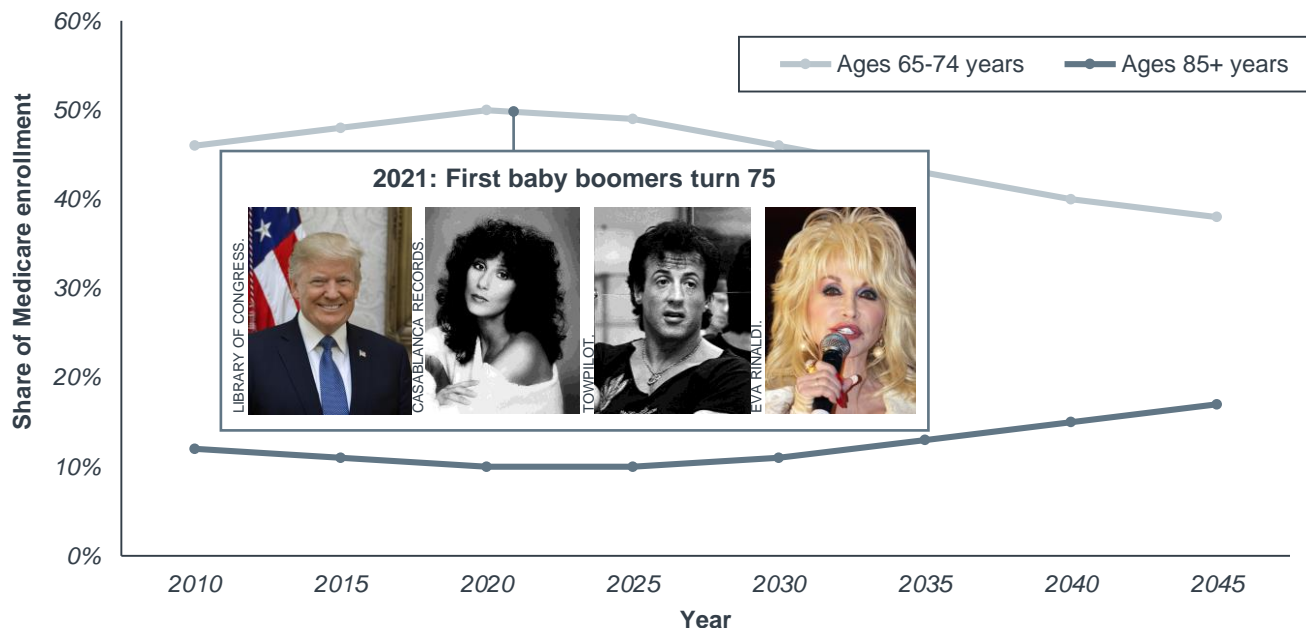
Average incentive award as percent of increased fee schedules, 2016

“If [a payer] were to place risk on [these physicians], they typically seek cover by joining a big hospital system. Our program helps them stay independent, and **we have found that independence has led to greater freedom in judgment about when and where to refer**, and that in turn drives [down] a lot of healthcare costs.”

Chet Burrell
CEO, CareFirst

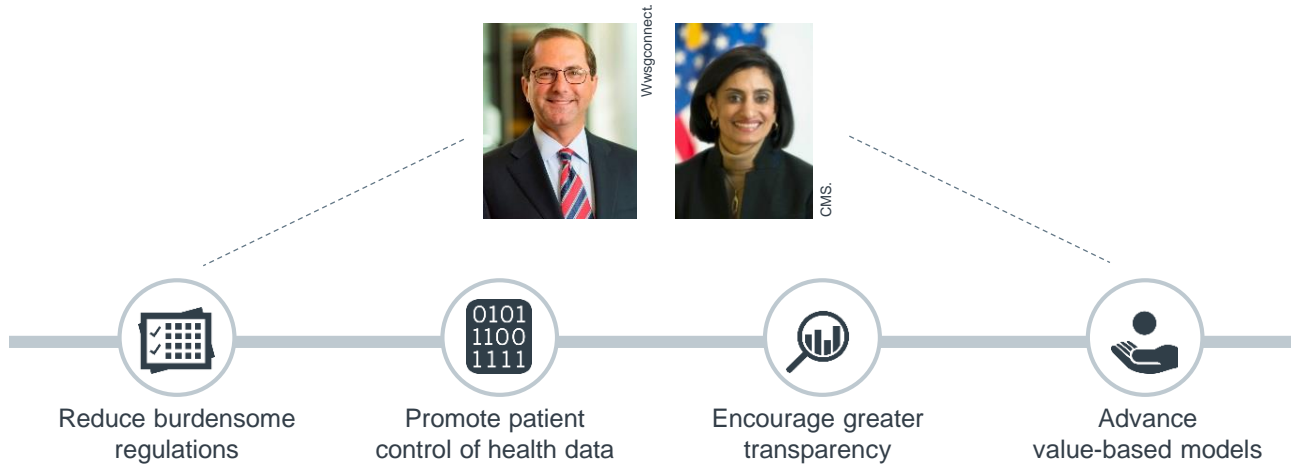
Focus on Medicare not fading anytime soon

Age distribution of Medicare population, historic and projected, 2010-2045



Administration continues to push for delivery system reforms

Alex Azar and Seema Verma lay out four-pronged regulatory agenda



MU¹ overhaul introduces flexibility, but not necessarily easier

Meaningful Use overhaul-in-brief



Rebranded MU to PI

Promoting Interoperability (PI) Programs focus on information exchange between providers and electronic access to health information for patients



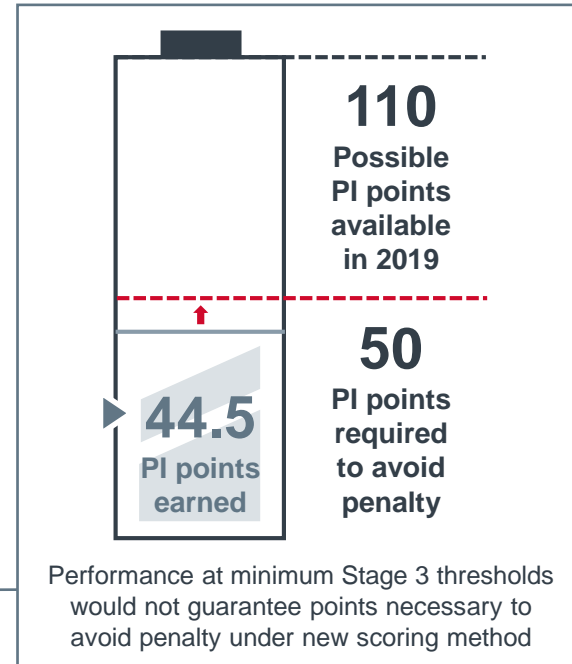
Refreshed measures

Some Stage 3 MU measures eliminated, and new measures are introduced



Reconfigured scoring

Performance-based scoring method replaces previous all-or-nothing MU thresholds requirement



Is MIPS¹ poised to become the new SGR²?

Congress grants CMS two new flexibilities to control pace of MIPS roll-out

Under 2018 MACRA³ rule

CMS **must weigh cost category at 30%** in 2019

CMS **must set 2019 performance threshold** at 2018 mean/median



Under Bipartisan Budget Act

CMS **can weigh cost category between 10-30%** through 2021

CMS **can gradually increase performance threshold** through 2021

Implications for providers



Likely slows ramp-up of MIPS; **provides more transition time** for those who need it



Lower threshold may result in **fewer dollars for top MIPS performers**, those who have invested heavily in preparation

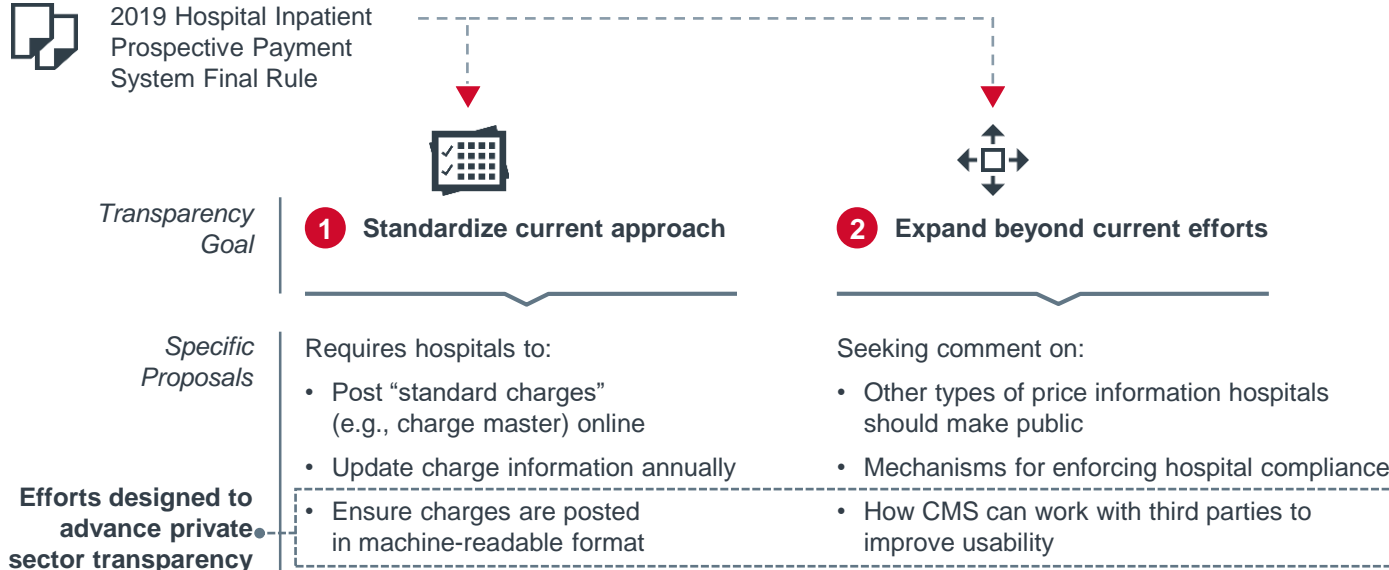


Does not change long-term incentives to consider advanced APM participation

1) Merit-based Incentive Payment System.
2) Sustainable Growth Rate.
3) Medicare Access and CHIP Reauthorization Act.

CMS aims to facilitate private sector steerage

With 2019 IPPS rule, CMS looking to advance two key transparency goals



After cancelling EPMs¹ and scaling back CJR², bundles are back

New voluntary bundle introduces outpatient episodes for the first time

Overview of BPCI Advanced

Episodes included

29 inpatient episodes and three outpatient episodes; spans 90 days post-discharge or procedure

Eligible clinicians

Hospitals and physician groups may initiate episodes; post-acute providers may participate

Payment mechanics

Uses retrospective reconciliation to adjust payments; participants take on total financial risk from the outset



Azar leaves door open on mandatory bundles

“

“If, to test a hypothesis around changing our health care system, it needs to be **mandatory** as opposed to **voluntary** to get adequate data, then so be it.”

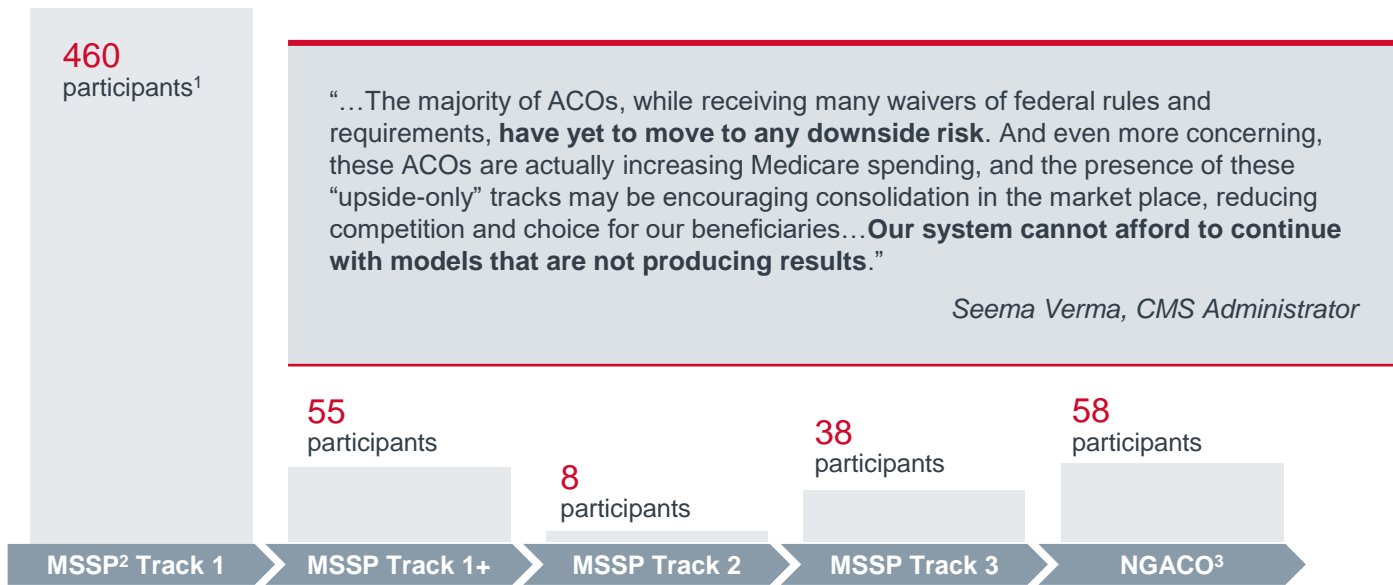
*Alex Azar, Secretary of HHS,
January 9, 2018*

”

1) Episode Payment Models.
2) Comprehensive Care for Joint Replacement Model.

ACOs poised for major overhaul as CMS zeroes in on upside-only models

2018 ACO participation, by model



1) As of January 2018.

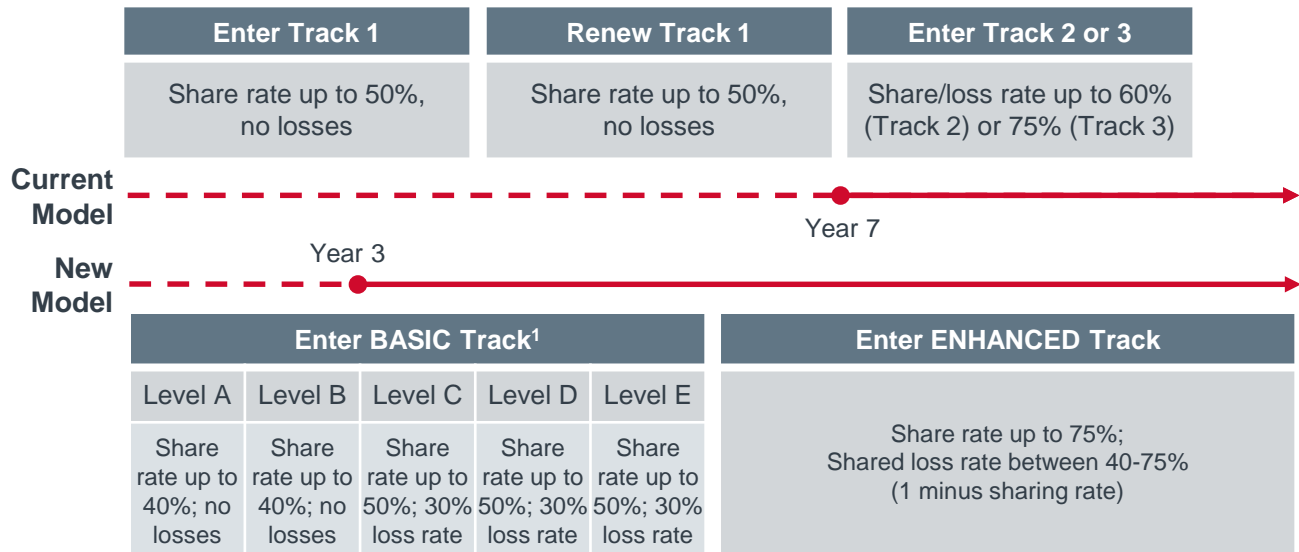
2) Medicare Shared Savings Program.

3) Next Generation ACO.

New MSSP rule eliminates upside-only Track 1

Program overhaul reduces upside-only participation from six years to two

Illustrative participation pathways to maximize time in upside-only models



1) Previous Track 1 participants must begin participation at Level B; previous participants in risk-based models (e.g. Track 2, 3) may not participate in BASIC track.

CMS finalizes distinction between high and low revenue ACOs

High revenue ACOs¹



Must move to ENHANCED track in second agreement period



Likely subject to higher maximum losses

Low revenue ACOs



May renew in BASIC track for second agreement period



Likely subject to lower maximum losses

“

“...we are proposing to redesign the Shared Savings Program to...promote free-market principles by encouraging the development of physician-only and rural ACOs in order **to provide a pathway for physicians to stay independent...**”








CMS Proposed Rule,
August 9, 2018

”

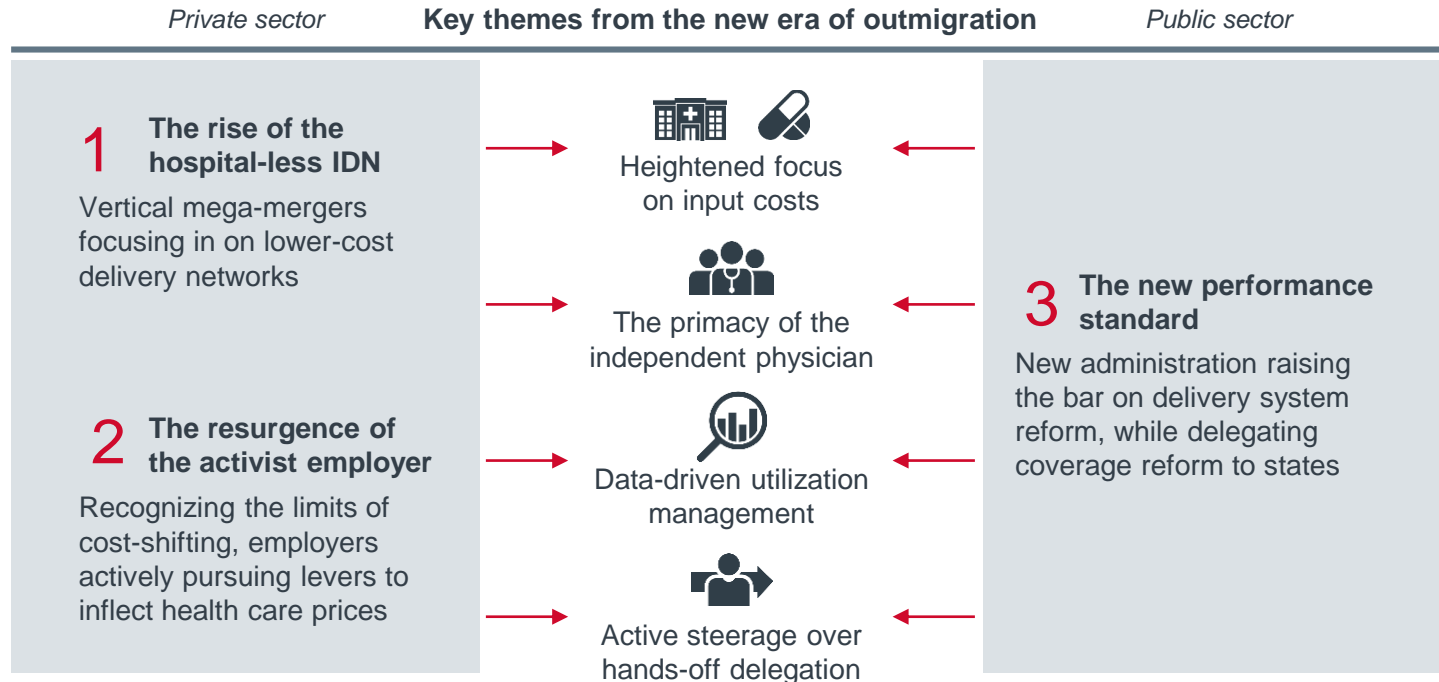
1) ACO whose total Medicare Parts A and B FFS revenue of its ACO participants based on revenue for the most recent calendar year for which 12 months of data are available, is at least 25 percent of the total Medicare Parts A and B FFS expenditures for the ACO's assigned beneficiaries

ACO changes driven by historical performance of physician groups

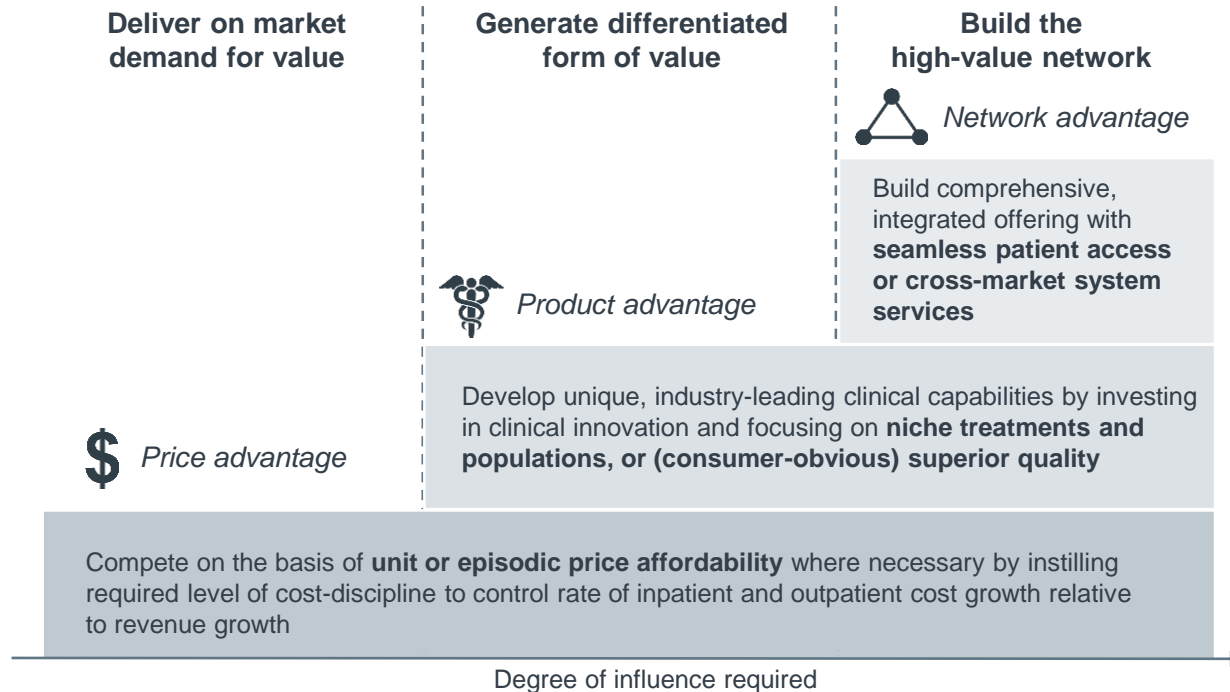
2016 MSSP results, by entity type

Type of ACO	Number of ACOs	 Spending below target, savings	 Spending below target, no savings	 Spending above target
 Physician-Only	134	45%	22%	33%
 Hospital	226	23%	26%	52%
 FQHC	58	31%	28%	42%
 PAC Facility	8	38%	13%	51%
All	432	31%	25%	44%

Outmigration a unifying theme for public, private sectors



Three paths forward to deliver on value



About the Clinical Innovators Council-Life Sciences

Insights that strengthen your provider relationships



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Senior Consultant

202-266-6908

sznycerm@advisory.com

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- Deepen customer relationships through anticipating and addressing their needs



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