PRESENTATION TO HPAE

Challenging Corporate Health Care: Health Care Trends and the Impact on Health Care Workers

Plenary Session, October 6, 2016

Fred Hyde, M.D.
Fred Hyde & Associates, Inc.

Corporations Follow the Money

Legislation, the 20^{th} Century and the beginning of the 21^{st} in America

- Social Security, 1935

Corporations Follow the Money

Legislation, the 20th Century and the beginning of the 21st in America

- Social Security, 1935
- Medicare and Medicaid, 1965

Corporations Follow the Money

<u>Legislation</u>, the 20th Century and the beginning of the 21st in America

- Social Security, 1935
- Medicare and Medicaid, 1965
- Fiddling with Medicare and Medicaid, 1965-2010

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- PPACA, 2010

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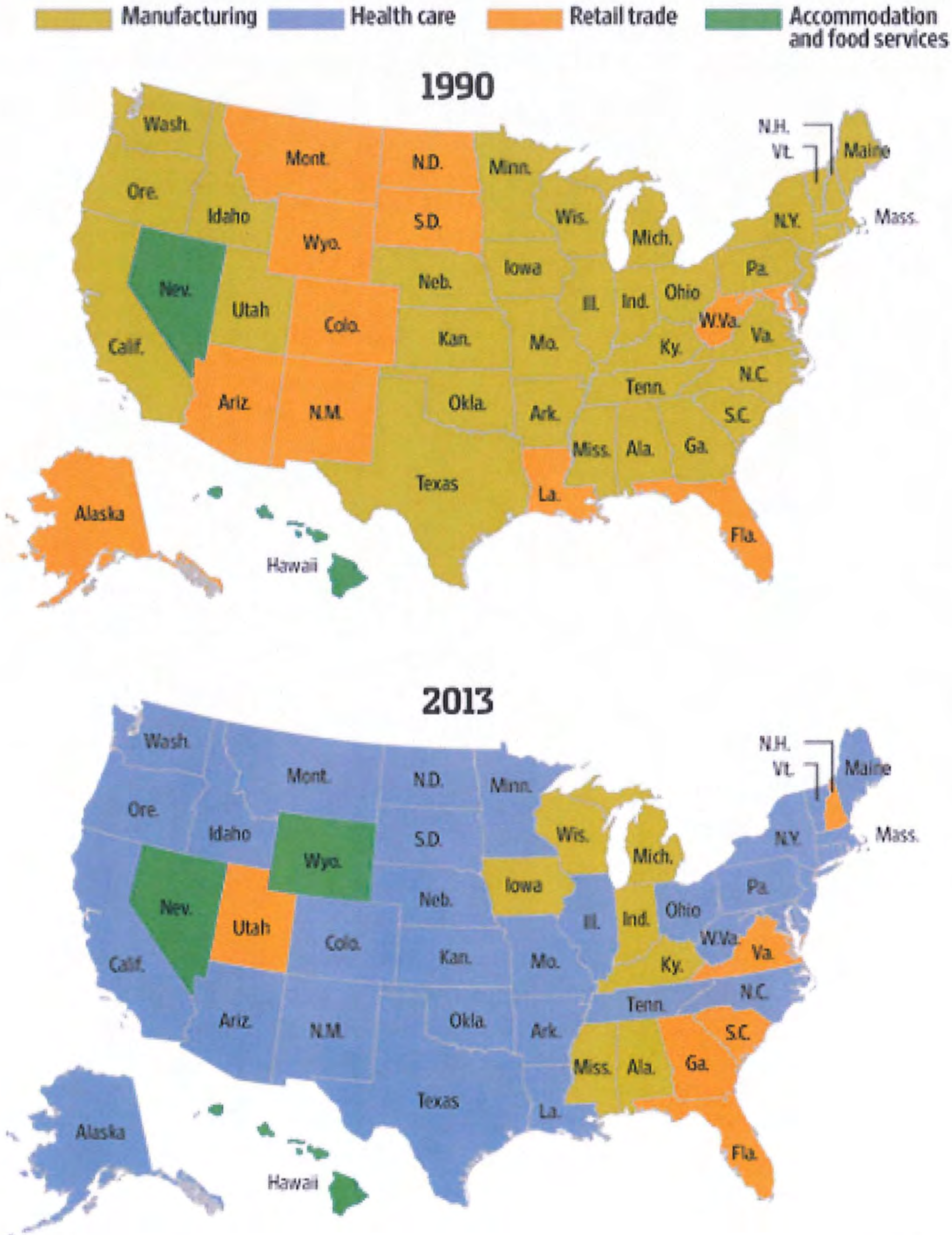
Corporations Follow the Money

Legislation, the 20th Century and the beginning of the 21st in America

- Social Security, 1935
- Medicare and Medicaid, 1965
- Fiddling with Medicare and Medicaid, 1965-2010
- PPACA, 2010
- Fiddling with PPACA, 2010-2016
- Big repair, big replacement, 2017 ff.

Where is the money?

Work Then and Now | Industry with highest employment by state



Source: U.S. Bureau of Labor Statistics

The Wall Street Journal

Health Care on Track to Become Nation's Largest Industry in 3 Years:

More than 15.4 million people now work in health care

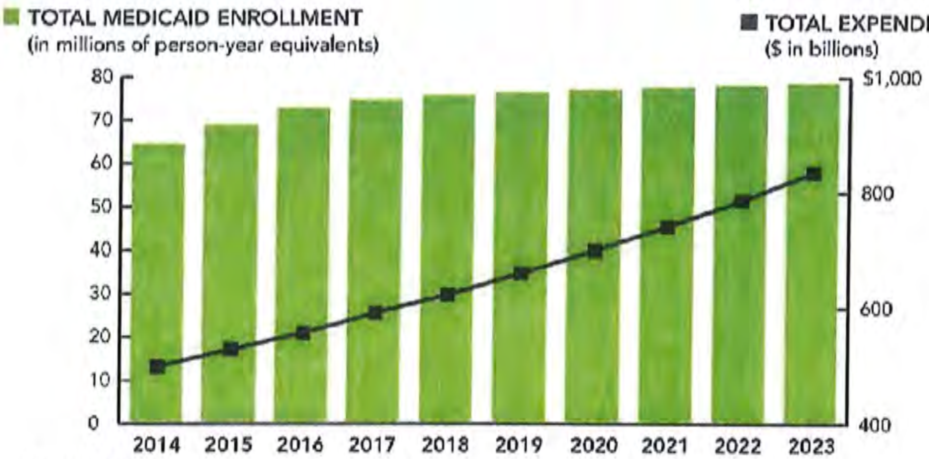
503,000 new health care jobs created April 2015–March 2016

183,000 new hospital jobs in past year

Will surpass retail (at current rate of growth) in 2019

DATA POINTS

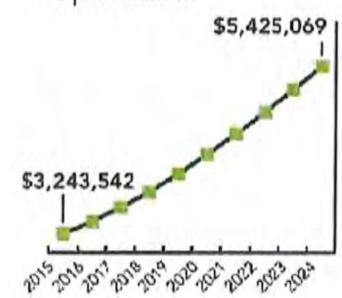
Projected healthcare expenditures



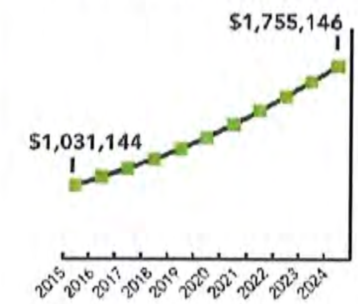
Source: CMS

(all $ in millions)

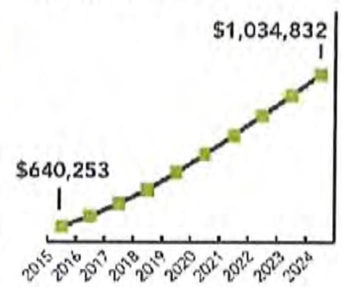
National health expenditures



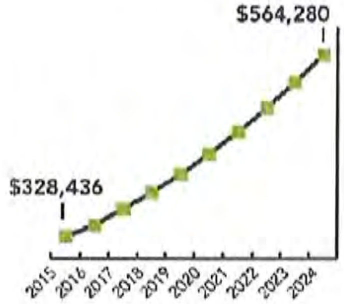
Hospital expenditures



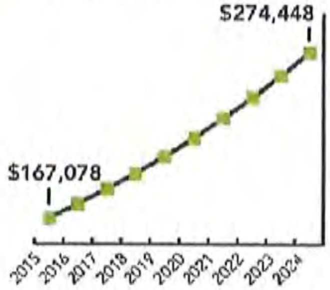
Physician and clinical expenditures



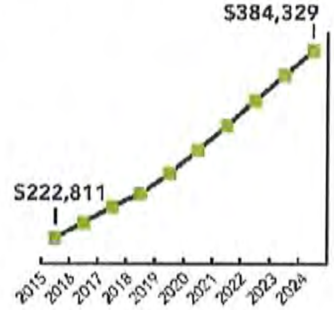
Prescription drug expenditures



Nursing care facilities and continuing care retirement communities expenditures



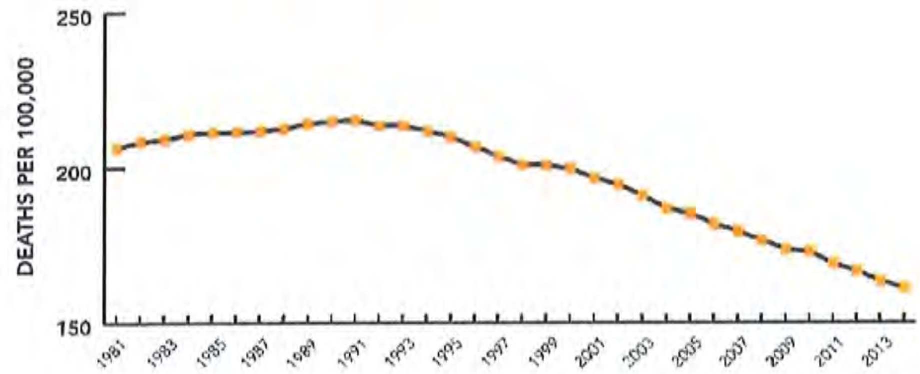
Net cost of health insurance expenditures



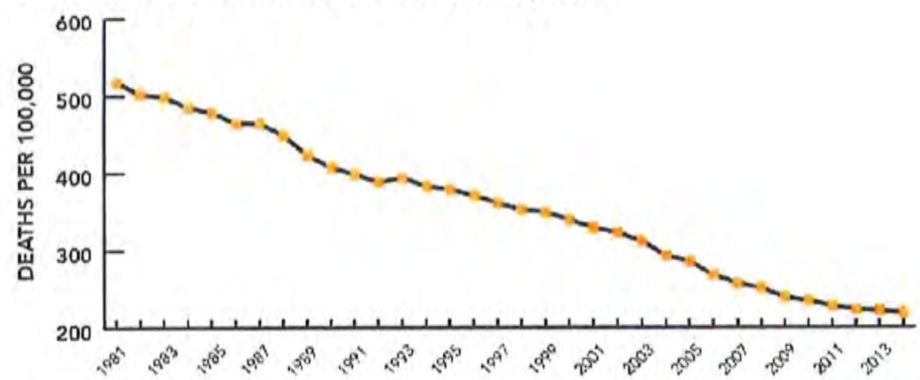
Source: HHS

DATA POINTS

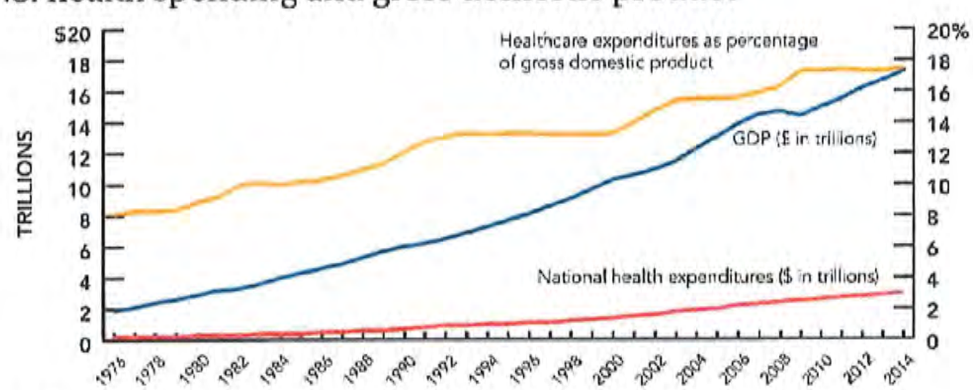
U.S. cancer mortality rate



U.S. cardiovascular disease mortality rate



U.S. health spending and gross domestic product

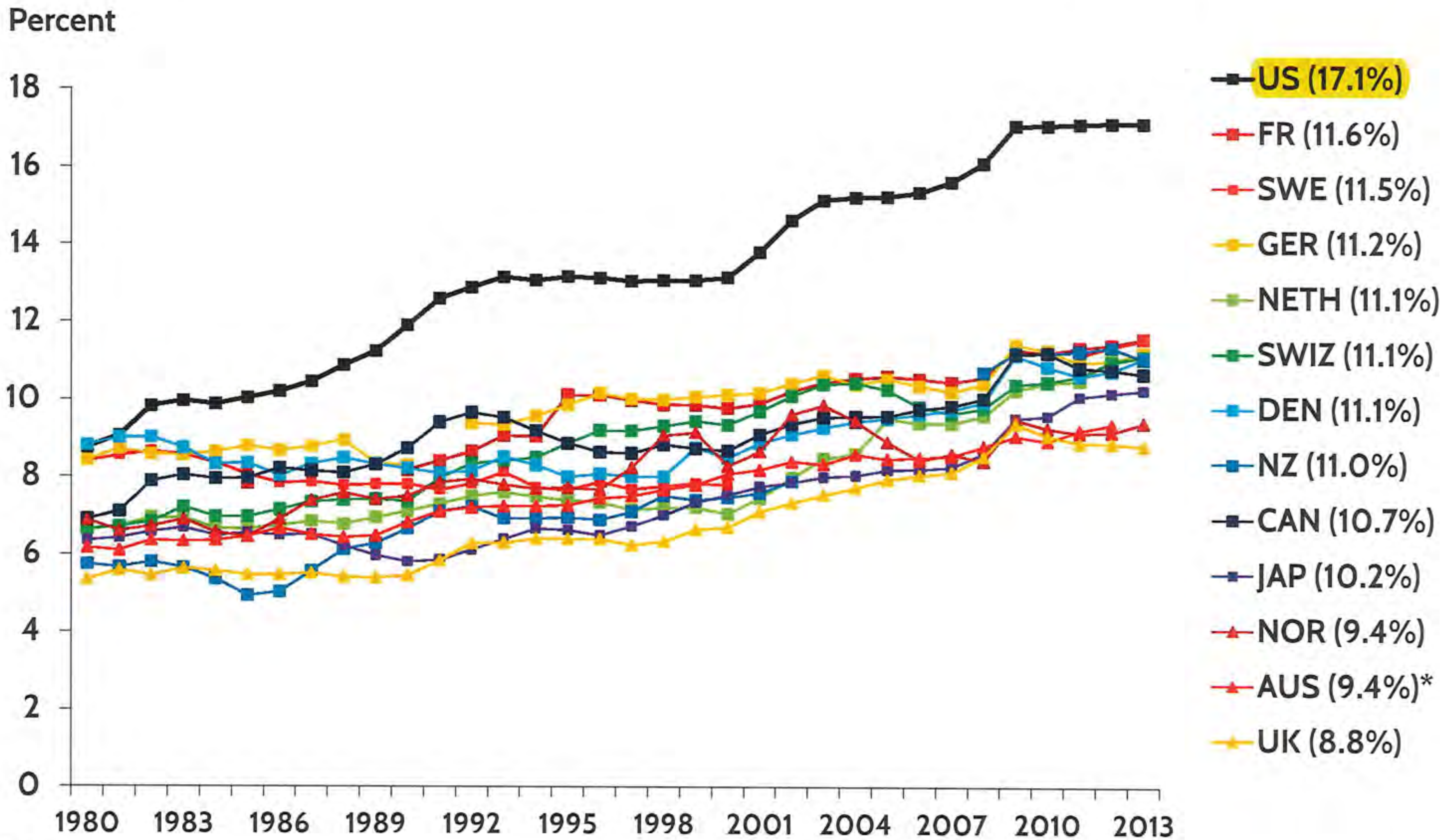


Sources: Centers for Disease Control and Prevention (top); Centers for Disease Control and Prevention (center); CMS, U.S. Commerce Department (bottom)

Cost issues predominate in development of health insurance and services

Cost to society

Exhibit 1. Health Care Spending as a Percentage of GDP, 1980–2013



* 2012.

Notes: GDP refers to gross domestic product. Dutch and Swiss data are for current spending only, and exclude spending on capital formation of health care providers.

Source: OECD Health Data 2015.

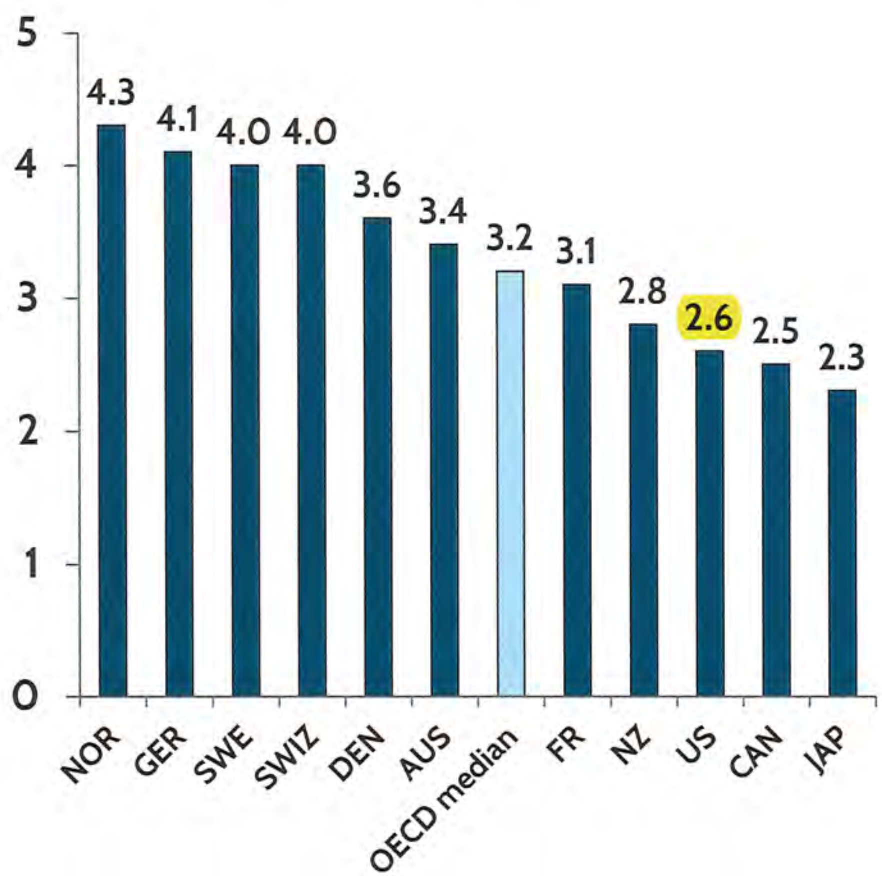
Exhibit 2. Health Care Spending, 2013

	Total health care spending per capita[e]	Real average annual growth rate per capita		Current health care spending per capita, by source of financing[e,f]		
					Private	
		2003-2009	2009-2013	Public	Out-of-pocket	Other
Australia	$4,115[a]	2.70%	2.42%[c]	$2,614[a]	$771[a]	$480[a]
Canada	$4,569	3.15%	0.22%	$3,074	$623	$654
Denmark	$4,847	3.32%	-0.17%	$3,841	$625	$88
France	$4,361	1.72%	1.35%	$3,247	$277	$600
Germany	$4,920	2.01%	1.95%	$3,677	$649	$492
Japan	$3,713	3.08%	3.83%	$2,965[a]	$503[a]	$124[a]
Netherlands	$5,131[d]	4.75%[d]	1.73%[d]	$4,495	$270	$366
New Zealand	$3,855	6.11%[b]	0.82%	$2,656	$420	$251
Norway	$6,170	1.59%	1.40%	$4,981	$855	$26
Sweden	$5,153	1.82%[d]	6.95%[d]	$4,126	$726	$53
Switzerland	$6,325[d]	1.42%[d]	2.54%[d]	$4,178	$1,630	$454
United Kingdom	$3,364	4.00%	-0.88%	$2,802	$321	$240
United States[e]	$9,086	2.47%	1.50%	$4,197	$1,074	$3,442
OECD median	$3,661	3.10%	1.24%	$2,598	$625	$181

[a] 2012. [b] 2002-2009. [c] 2009-2012.
[d] Current spending only; excludes spending on capital formation of health care providers.
[e] Adjusted for differences in the cost of living.
[f] Numbers may not sum to total health care spending per capita due to excluding capital formation of health care providers, and some uncategorized spending.
Source: OECD Health Data 2015.

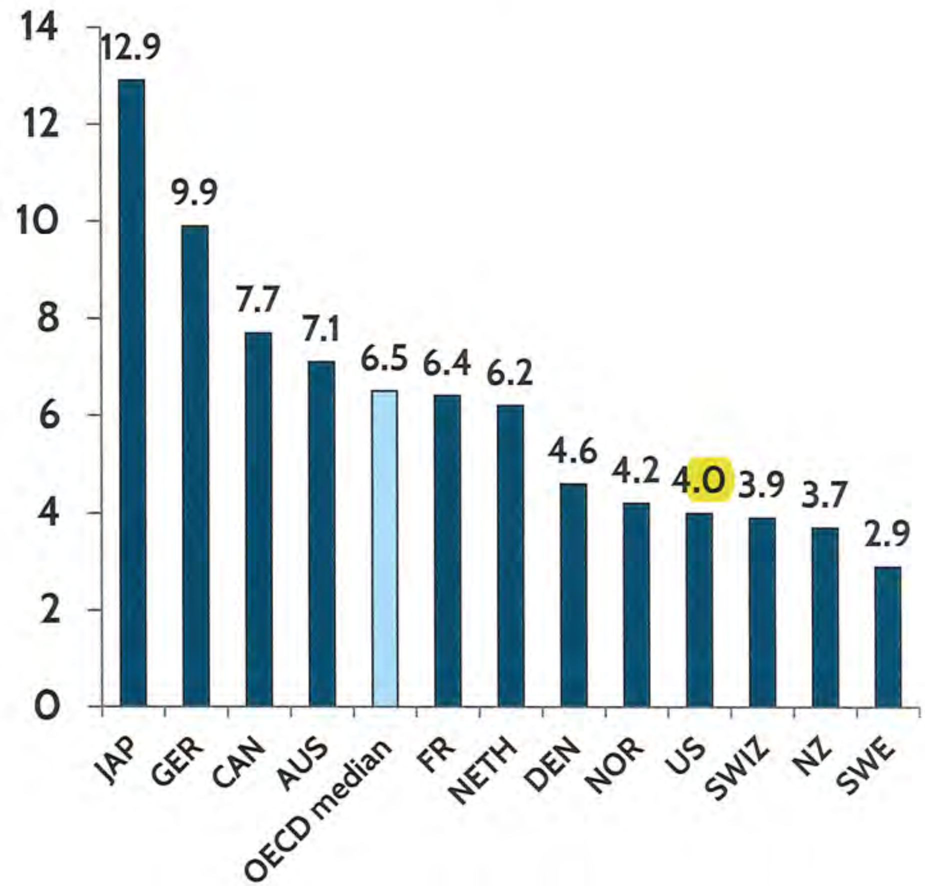
Exhibit 3. Physician Supply and Use, 2013 or Nearest Year

Practicing physicians per 1,000 population



Note: Data from 2012 in Canada, Denmark, Japan, and Sweden.

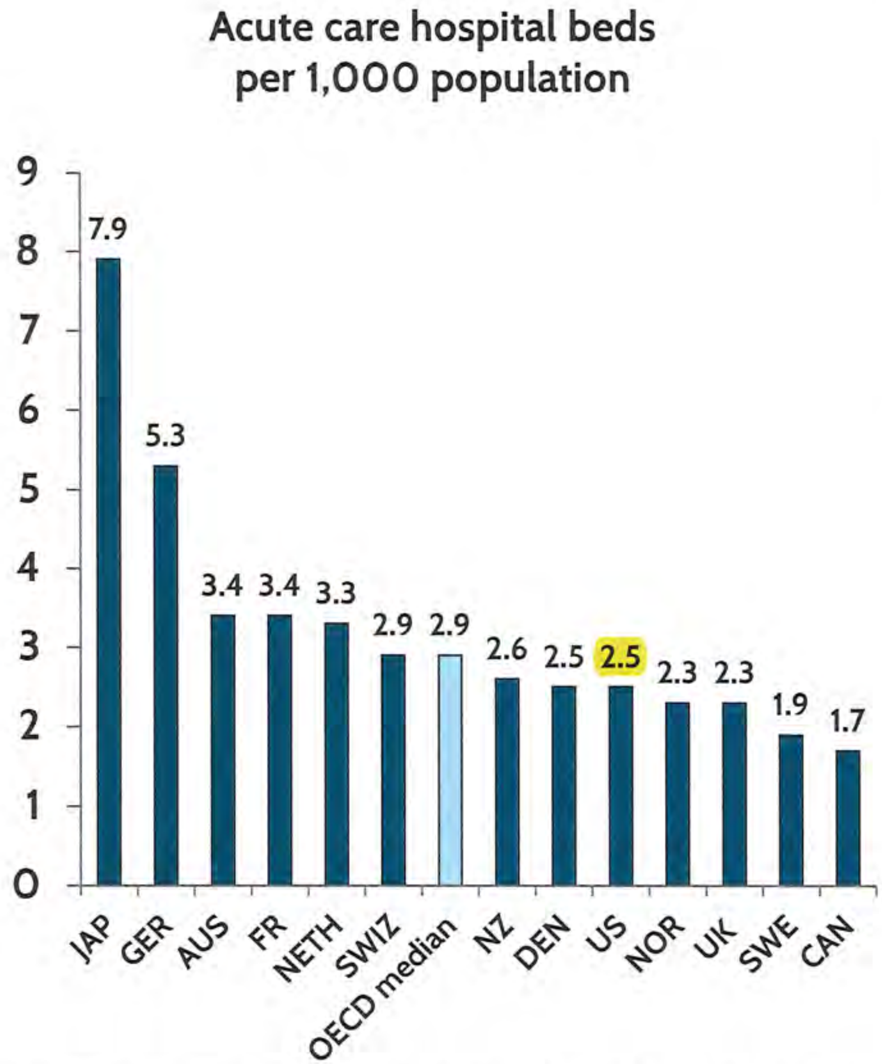
Annual physician visits per capita



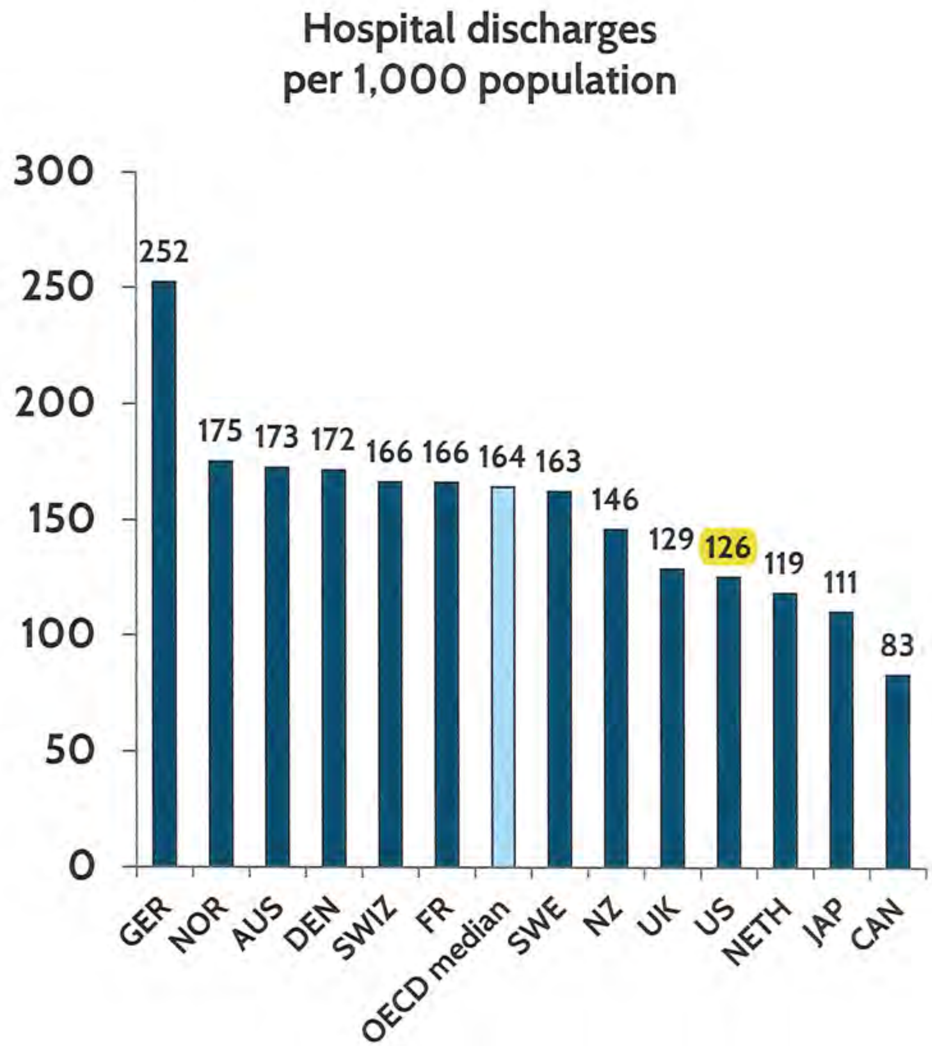
Note: Data from 2012 in Canada, Japan, Sweden, and Switzerland; and 2010 in the U.S.

Source: OECD Health Data 2015.

Exhibit 4. Hospital Supply and Use, 2013 or Nearest Year



Note: Data from 2012 in Australia, Canada, the Netherlands, and the U.S.



Note: Data from 2012 in Australia, Canada, the Netherlands, and Switzerland; 2011 in Japan; and 2010 in Denmark, Norway, Sweden, and the U.S.

Source: OECD Health Data 2015.

Exhibit 7. Prices for Hospital and Physician Services, Pharmaceuticals, and Diagnostic Imaging

	Total hospital and physician costs, 2013[a]		Diagnostic imaging prices, 2013[a]		Price comparison for in-patent pharmaceuticals, 2010 (U.S. set to 100)[b]
	Bypass surgery	Appendectomy	MRI	CT scan (abdomen)	
Australia	$42,130	$5,177	$350	$500	49
Canada	–	–	–	$97	50
France	–	–	–	–	61
Germany	–	–	–	–	95
Netherlands	$15,742	$4,995	$461	$279	–
New Zealand	$40,368	$6,645	$1,005	$731	–
Switzerland	$36,509	$9,845	$138	$432	88
United Kingdom	–	–	–	–	46
United States	$75,345	$13,910	$1,145	$896	100

[a] Source: International Federation of Health Plans, 2013 Comparative Price Report.
[b] Numbers show price indices for a basket of in-patent pharmaceuticals in each country; lower numbers indicate lower prices. Source: P. Kanavos, A. Ferrario, S. Vandoros et al., "Higher U.S. Branded Drug Prices and Spending Compared to Other Countries May Stem Partly from Quick Uptake of New Drugs," *Health Affairs*, April 2013 32(4):753–61.

Cost issues predominate in development of health insurance and services

Cost to society

- Private health insurance

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- Private health insurance
- Medicare program

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Cost to society

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- Medicaid

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Cost to society

- Private health insurance
- Medicare program
- Medicaid
- Out of pocket

data points

Insured but under pressure

The number of Americans without health insurance is at an all-time low.
Yet high levels of out-of-pocket spending still limit access to care for many insured Americans.

9.1%

Estimated percentage of Americans who were **uninsured** in 2015, 7.4 million fewer than in 2014
—Centers for Disease Control and Prevention

1 IN 5

Number of **non-elderly Americans with health insurance** in 2015 who reported having difficulty paying medical bills over the past year
—Kaiser Family Foundation/ New York Times survey

46%

Percentage of insured adults with an annual income of $23,000 or less who **delayed or skipped needed care** because of the cost of copayments or coinsurance
—Commonwealth Fund

Insured workers in high-deductible health plans

8% — 2009

24% — 2015

—Kaiser Family Foundation

10.9%

Out-of-pocket spending ($330 billion) as a share of total healthcare expenditures ($3 trillion) in 2014
—CMS' Office of the Actuary

81%

Percentage of workers covered by employer-based insurance plans in 2015 with an annual deductible for single coverage in 2015, compared with 70% in 2010
—Kaiser Family Foundation

Average out-of-pocket expenses per hospitalization

$738 — 2009

$1,013 — 2013

—JAMA Internal Medicine

$99 — 2004

$353 — 2014

256%

Percentage increase in the average payments made toward deductibles between 2004 and 2014, from $99 to $353
—Kaiser Family Foundation

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- The “cost” of change, rearrangement of providers

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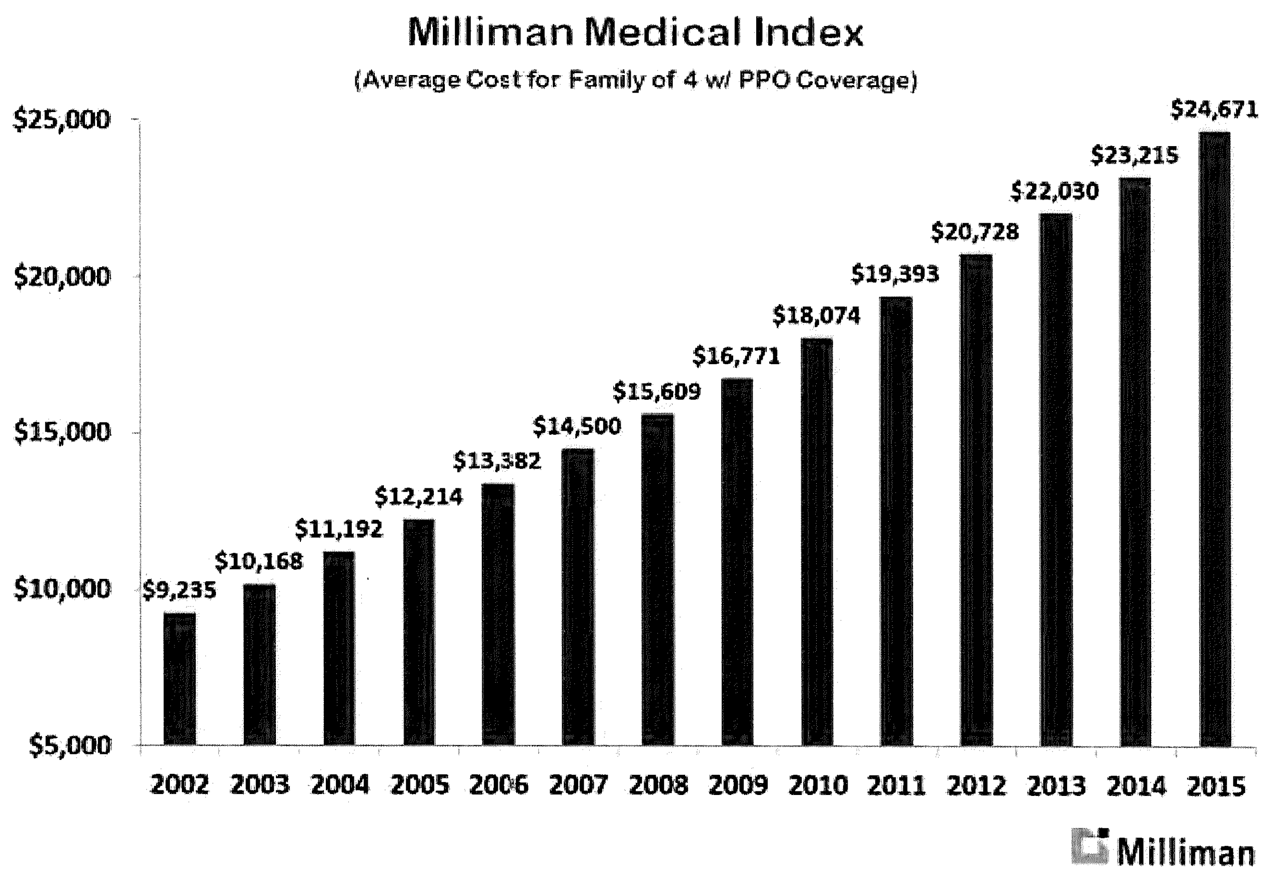
- Milliman index


Milliman Medical Index
(Average Cost for Family of 4 w/ PPO Coverage)
$25,000
$20,000
$15,000
$10,000
$5,000
$9,235
$10,168
$11,192
$12,214
$13,382
$14,500
$15,609
$16,771
$18,074
$19,393
$20,728
$22,030
$23,215
$24,671
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Milliman

Cost issues predominate in development of health insurance and services

Cost to society

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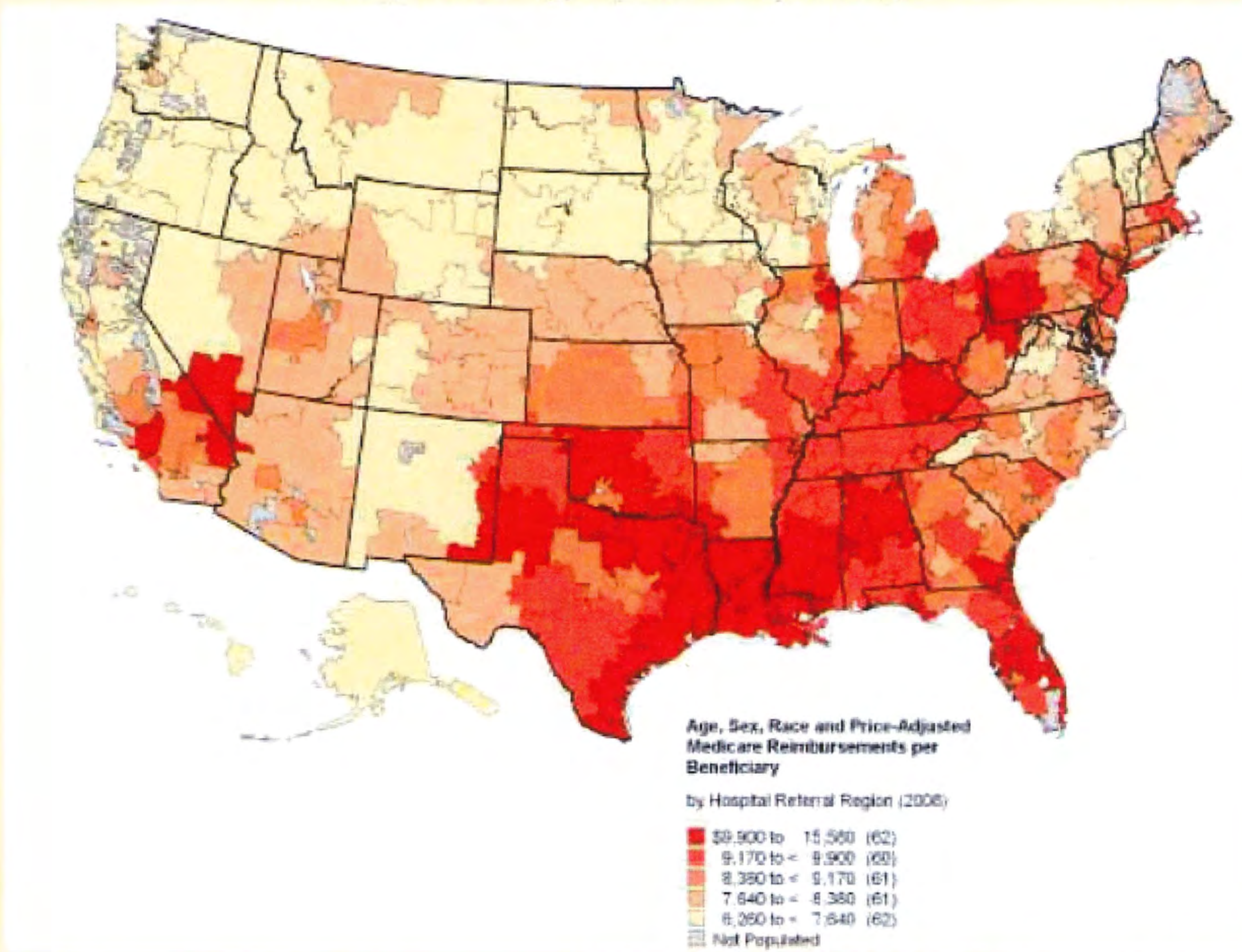
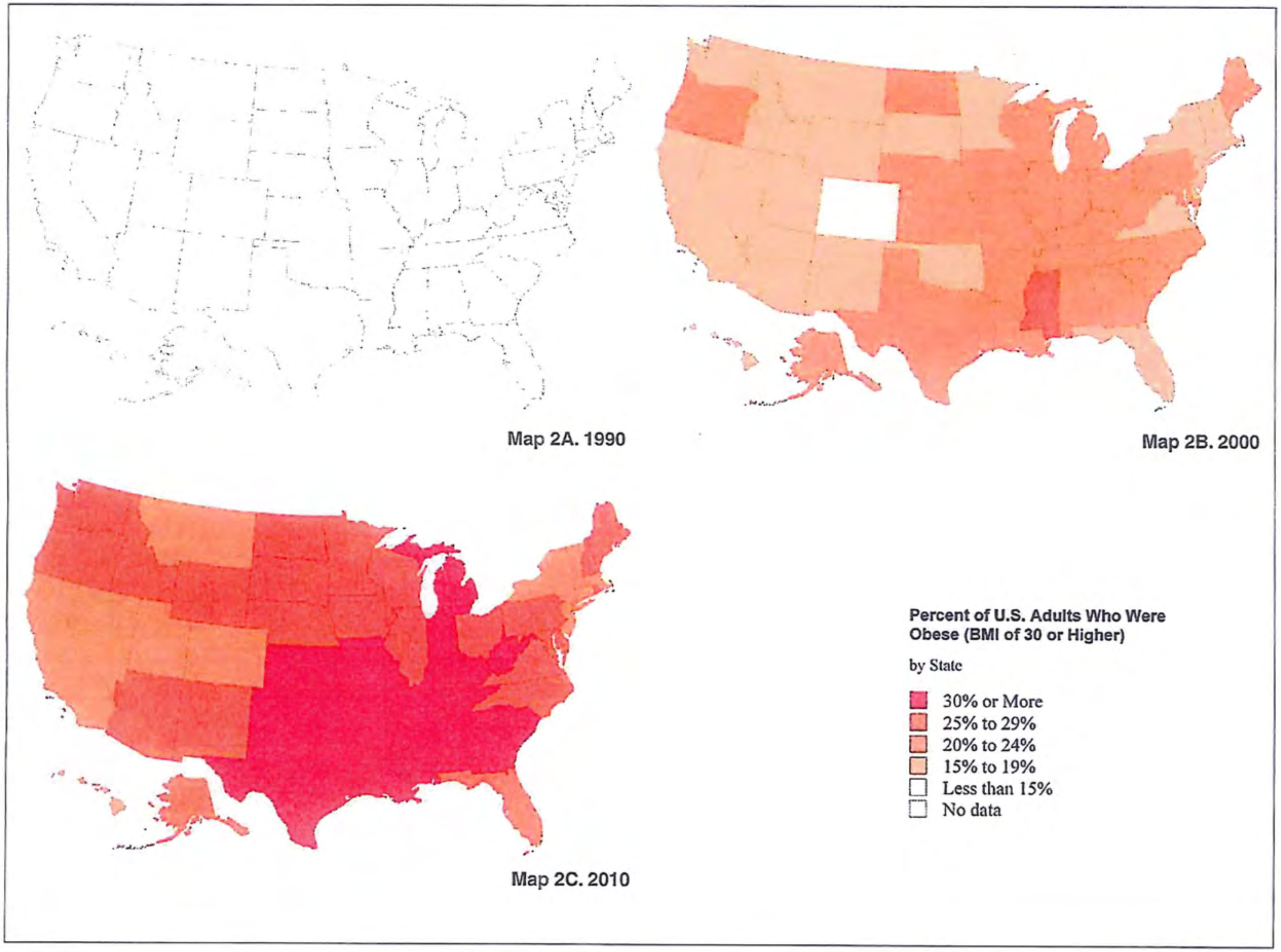
- Milliman index
- Medicare, the issue of variation

Dartmouth Institute Map of Price Adjusted Medicare PMPM Spending by HRR (2008)



INSTITUTE OF MEDICINE
OF THE NATIONAL ACADEMIES



Map 2A. 1990

Map 2B. 2000

Map 2C. 2010

Cost issues predominate in development of health insurance and services

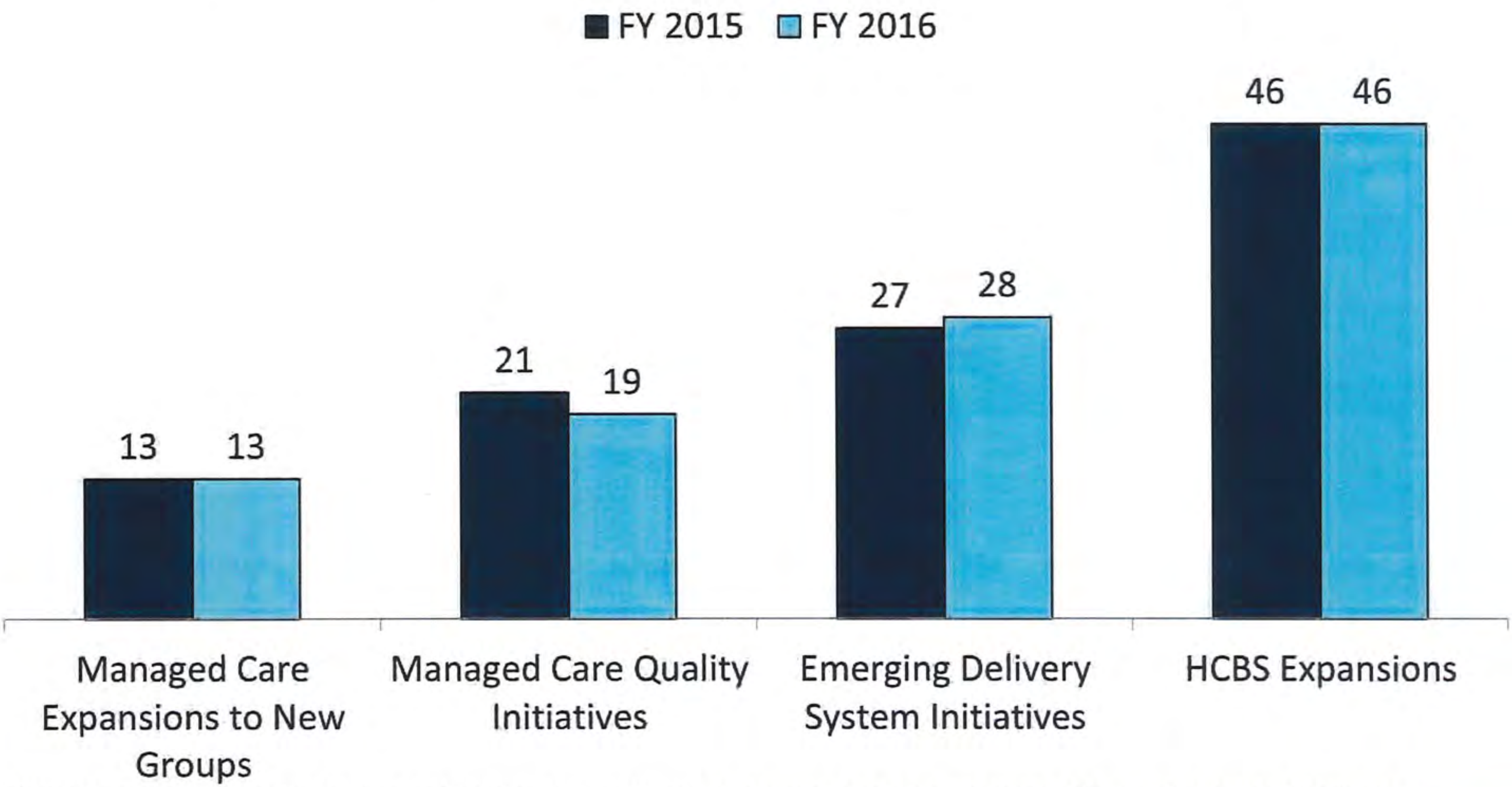
<u>Cost to society</u>

- Private health insurance
- Medicare program
- Medicaid
- Out of pocket
- The “cost” of change, rearrangement of providers

- Milliman index
- Medicare, the issue of variation
- Medicaid, growth and managed Medicaid

ES 1

Medicaid programs continue to add and expand payment and delivery system reforms in FYs 2015 and 2016.



NOTE: Managed Care Expansions to New Groups refers to expansions to new groups, new regions, increasing the use of mandatory enrollment, and new RBMC programs. Other Delivery System Initiatives include new or expanded initiatives related to PCMH, Health Homes, ACOs, Episodes of Care, DSRIP and initiatives focused on dual eligible beneficiaries.
SOURCE: KCMU survey of Medicaid officials in 50 states and DC conducted by Health Management Associates, October 2015.

Health Care Delivery, Trends Which Will Probably Continue:

Consolidation (not "interoperability" between silos, but much bigger silos)

Integration, physicians continue to lose independence:

In 2014, more than 60% were employed or had their practices "acquired" by hospitals

“The Bigs” Consolidate:

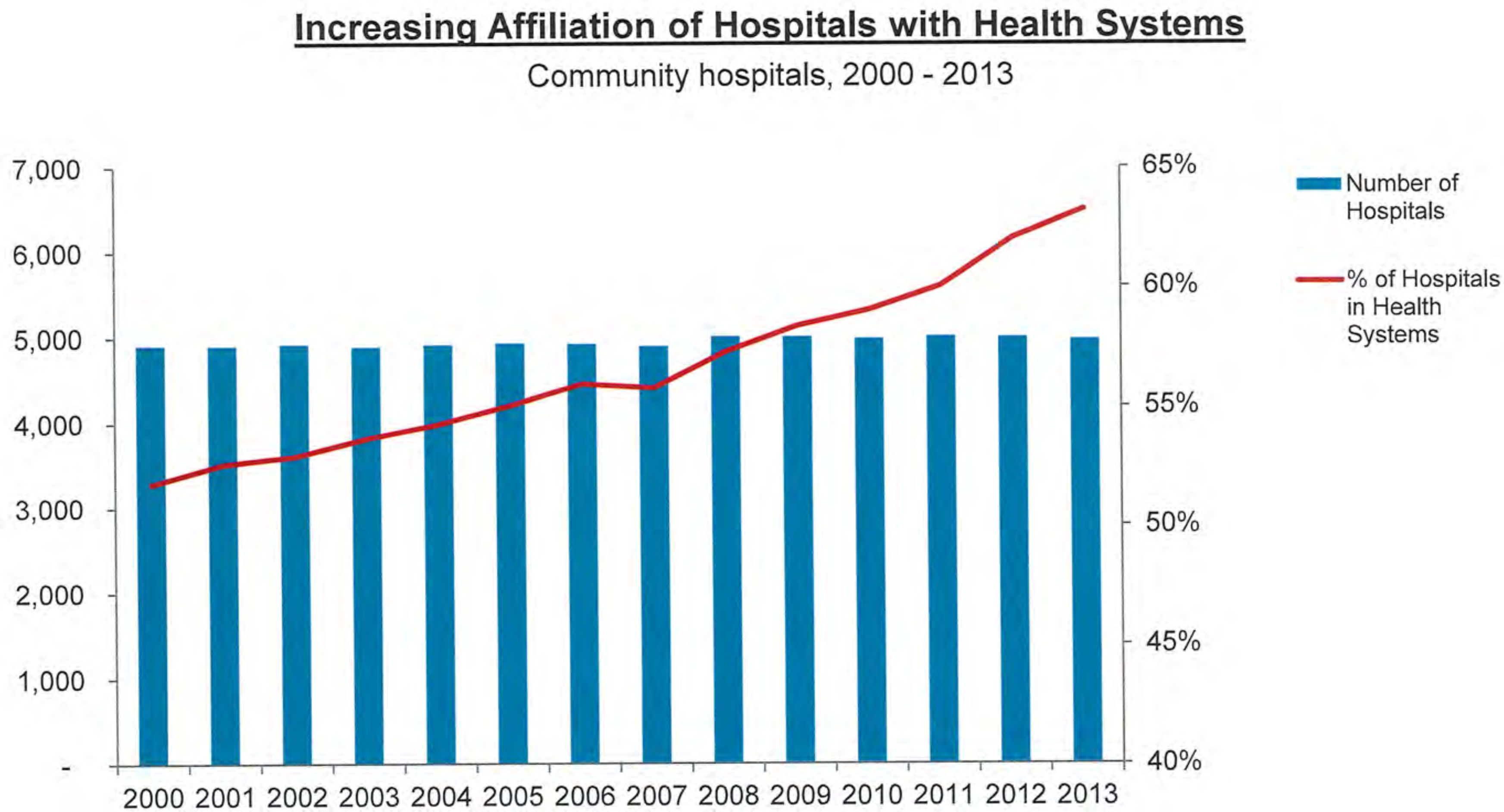
Major consolidation in larger metropolitan areas (Northeast, West and Northwest), not evenly spread in the country

30% reduction of “heads in beds” by 2020

Some national brands (Cleveland Clinic, Johns Hopkins, Mayo Clinic)

Physician consolidation into employment or larger groups

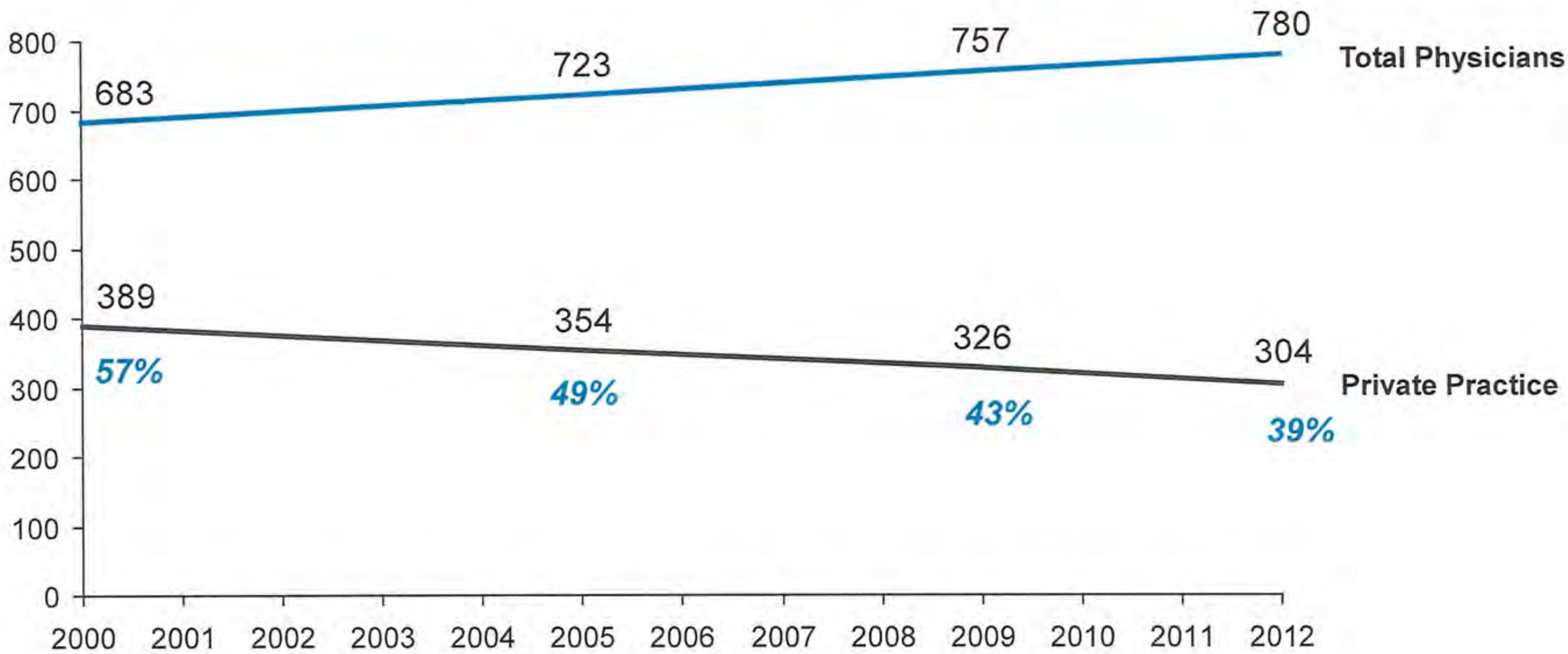
Provider consolidation: Hospitals into health systems



Source: American Hospital Association Annual Survey 2015

Provider consolidation: Physician practices

Total Physicians vs. Physicians in Private Practice (000s)
2000-2012



Source: Fee Schedule Survey by *Physician's Practice;* Moody's; Accenture

New entrants – urgent care in New York City and environs

CITYMD

Northwell Health | GoHealth URGENT CARE

PM Pediatrics SPECIALIZED URGENT CARE Care when you need us.

Cure URGENT CARE

FIRST MED

one MEDICAL GROUP

NEW YORK DOCTORS WALK-IN URGENT CARE

EMERGENCY MEDICAL CARE

Medhattan IMMEDIATE MEDICAL CARE

URGENT MEDICAL CARE UNION SQUARE

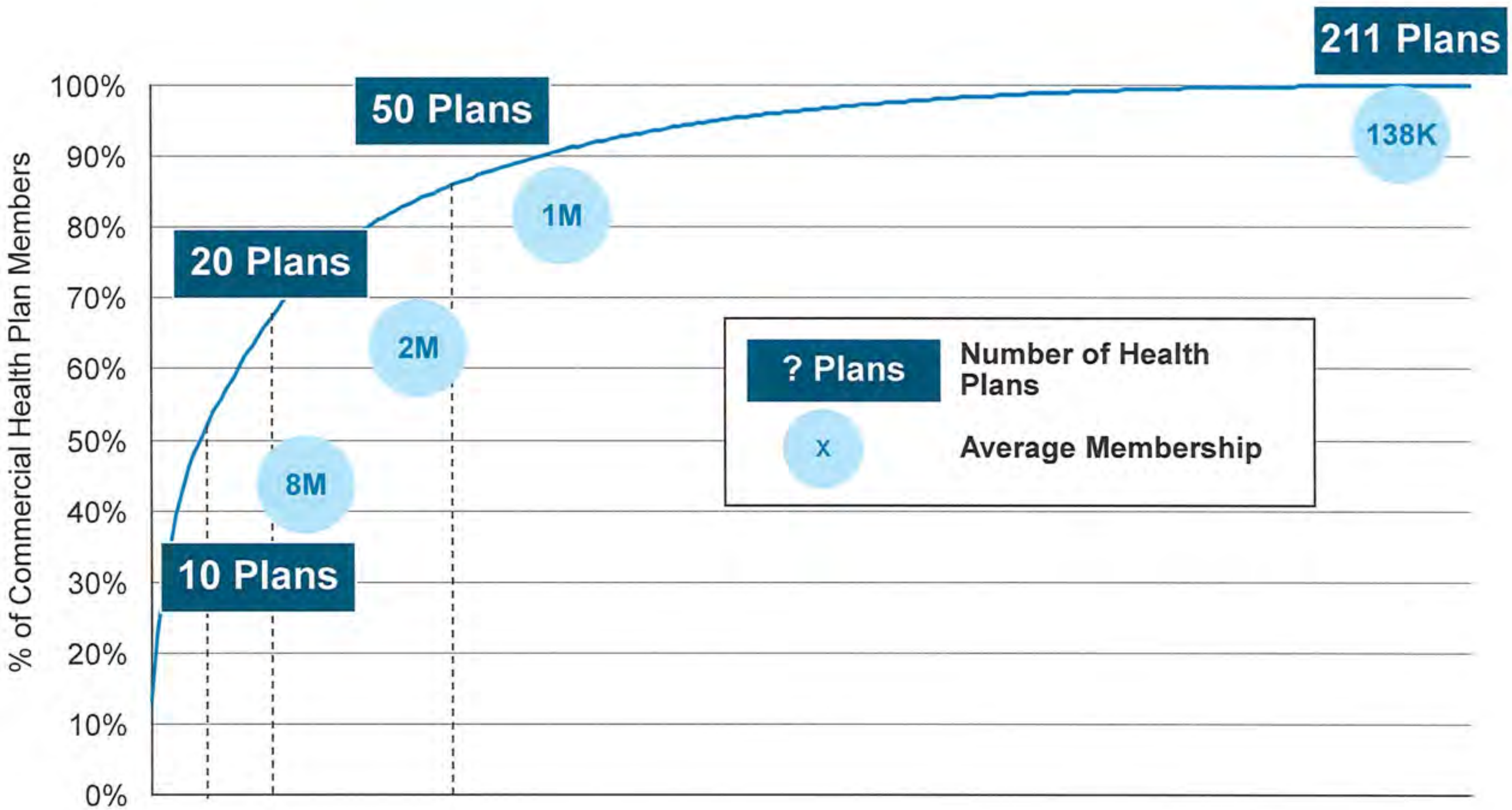
Source: Company Websites

Insurance Consolidation:

Currently, more than 200 health plans, but the top ten have 80 million members, many of the others very small

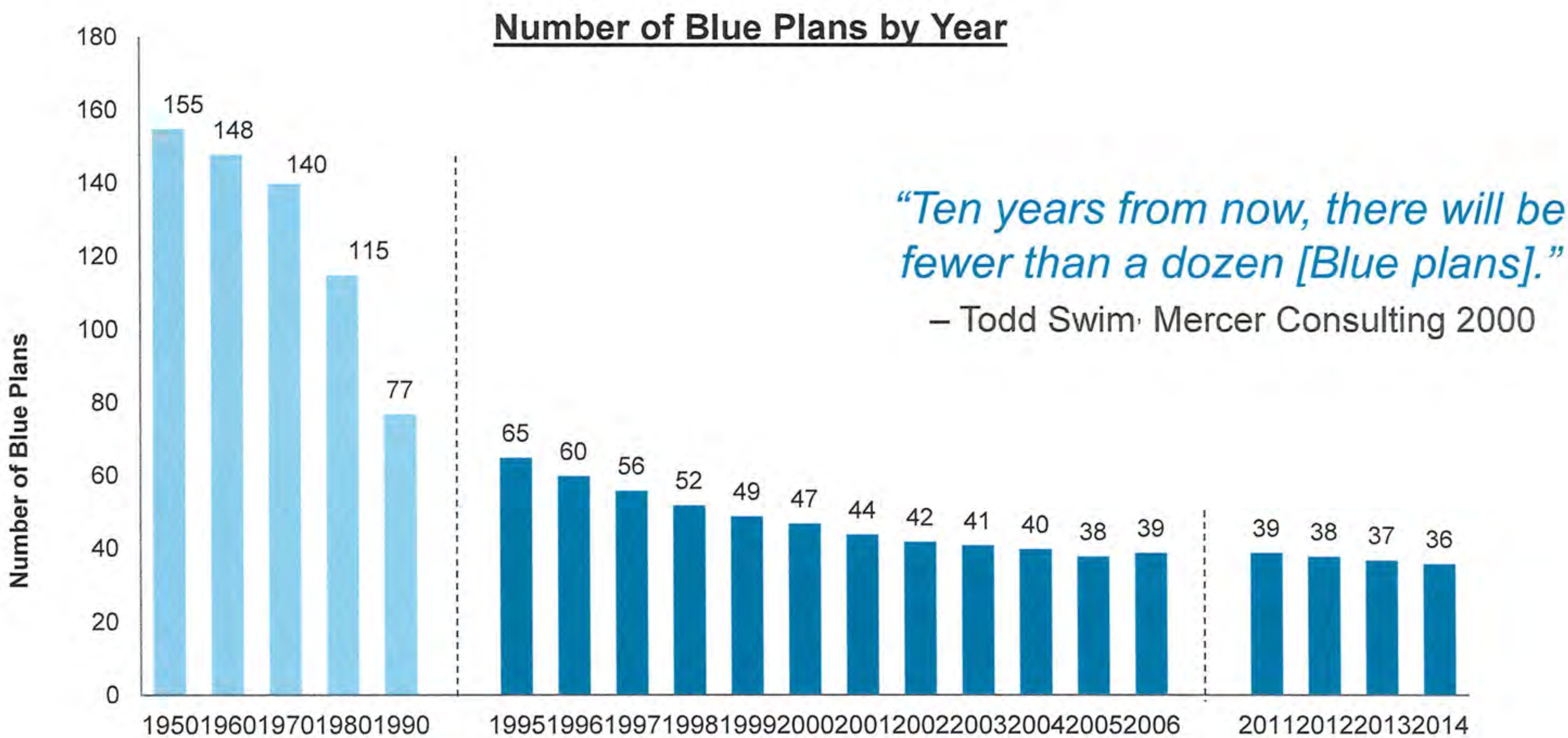
BCBS: In1950 there were 155 Blue Cross/Blue Shield Plans, today there are 36

Consolidation of health insurers



Source: 2013 InterStudy Data of Commercial Health Plans; Excludes Medicare and Medicaid Enrollment and plans with no enrollment

Another wave of Blue affiliations on the way?



Source: Blue Cross Blue Shield Association (BCBSA) data

Insurer Strategies:

The insurers (receiving, say, 15% of the health care dollar, or about $25 per member per month) are looking to acquire and/or assimilate providers (absorbing the other 85%, or about $500 per member per month).

Provider and Payer Strategies:

Providers moving toward risk

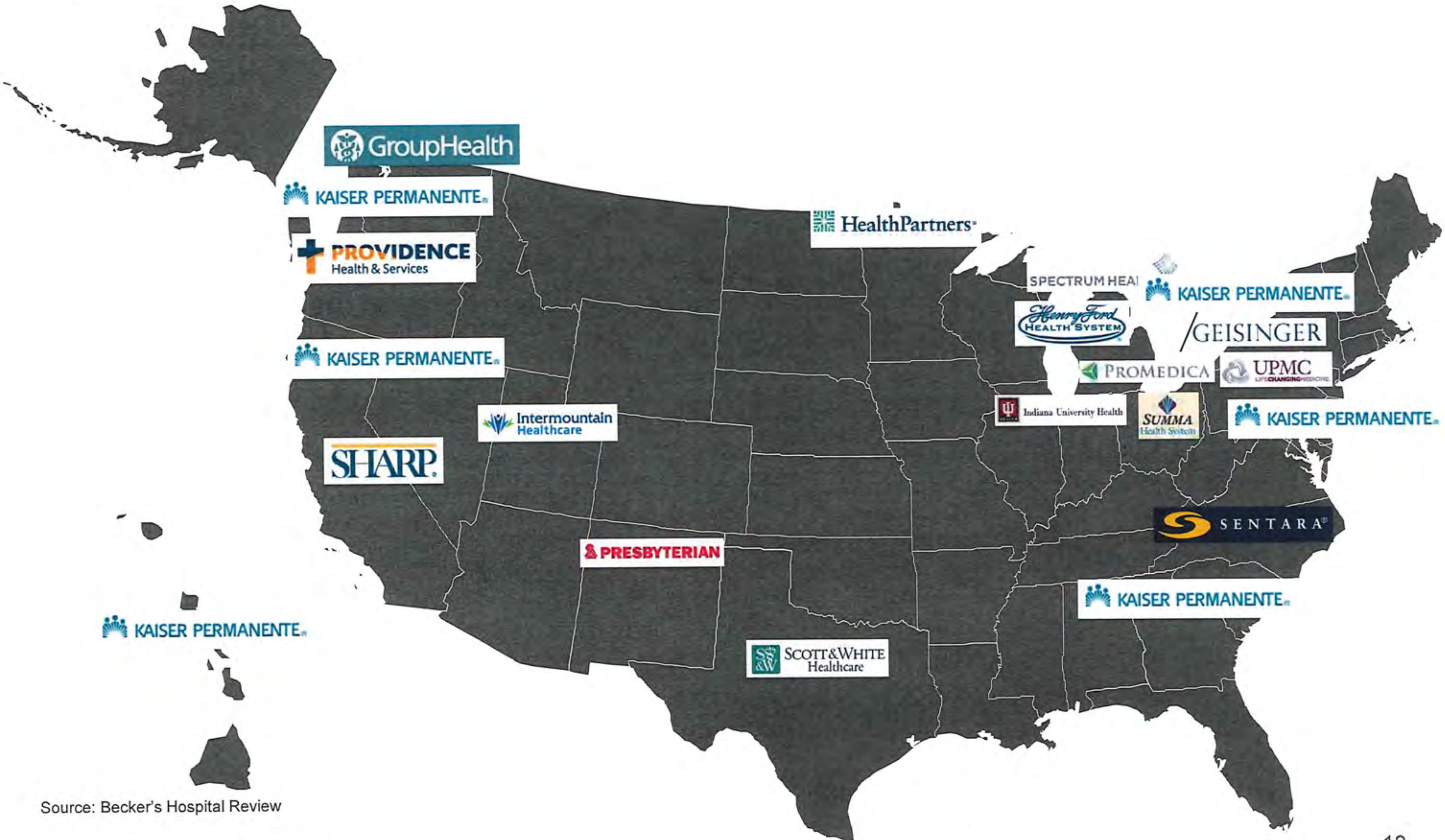
Payers moving toward care:

- Highmark
- WellPoint-CareMore

Integrated Delivery Networks:

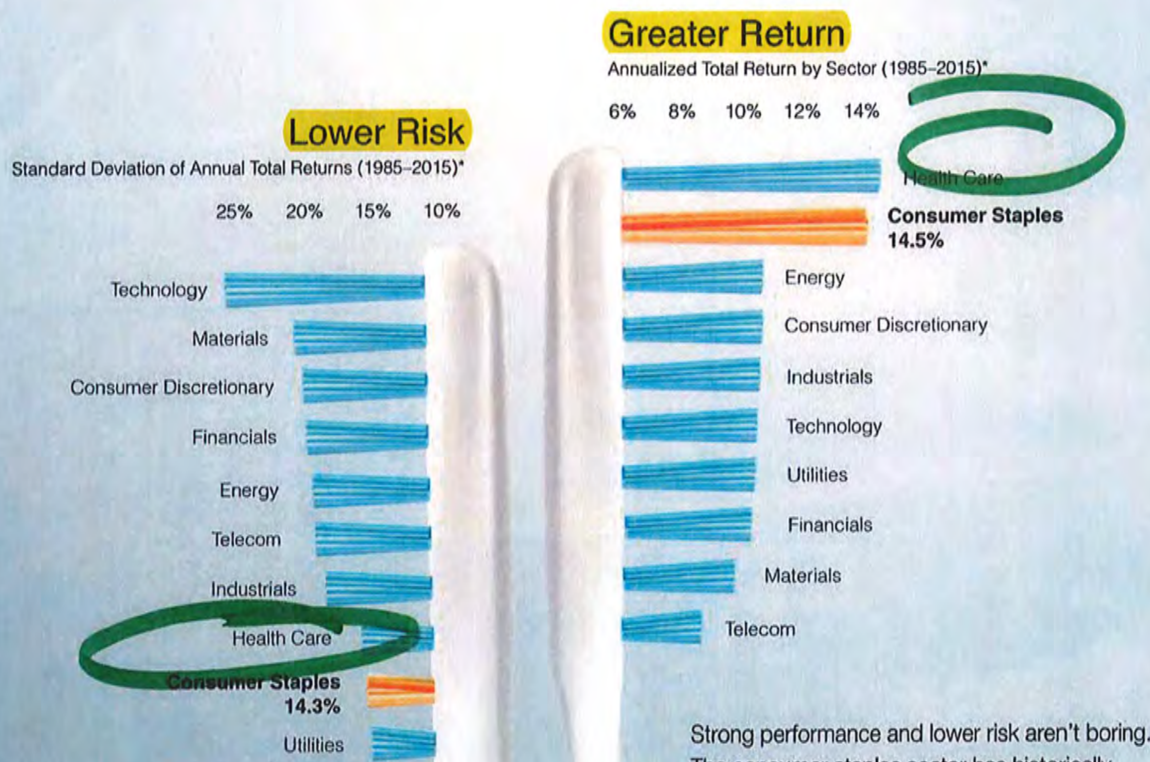
- Kaiser acquiring Group Health, bearing both clinical and financial risk

Integrated delivery networks (IDNs): Clinical and financial risk in one entity



Source: Becker's Hospital Review

WHY CONSUMER STAPLES SHOULD BE ON YOUR SHOPPING LIST.



Strong performance and lower risk aren't boring. The consumer staples sector has historically delivered relatively low risk and high return, plus dividends, through steady demand in up and down markets over the past 30 years.*

Stock up on opportunity

Fidelity INVESTMENTS®

FDFAX FIDELITY® SELECT CONSUMER STAPLES PORTFOLIO

FSTA FIDELITY® MSCI CONSUMER STAPLES INDEX ETF

Fidelity.com/staples
800.FIDELITY
Or call your Advisor

Before investing in any mutual fund or exchange-traded fund, you should consider its investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus, offering circular or, if available, a summary prospectus containing this information. Read it carefully.

Past performance is no guarantee of future results.

Because of their narrow focus, sector funds tend to be more volatile than funds that diversify across many sectors and companies.

*Source: Haver Analytics, Fidelity Investments, as of July 31, 2015. Past performance is no guarantee of future results. Sectors are defined by the Global Industry Classification Standard (GICS) and are based off the top 3,000 U.S. stocks by market capitalization.

Annualized Total Return by Sector (1985–2015): Health Care (14.93%); Consumer Staples (14.47%); Energy (11.15%); Consumer Discretionary (11.13%); Industrials (10.94%); Technology (10.73%); Utilities (10.49%); Financials (10.41%); Materials (10.04%); Telecom (9.16%).

Standard Deviation of Annual Total Returns (1985–2015): Technology (25.45%); Materials (20.73%); Consumer Discretionary (19.27%); Financials (19.26%); Energy (19.08%); Telecom (18.93%); Industrials (17.72%); Health Care (15.93%); Consumer Staples (14.32%); Utilities (14.02%).

data points

Health tech stays hot

Yahoo, a company that has been around since the early days of the World Wide Web, sold its core internet business last week to telecom giant Verizon for $4.8 billion. Here's a look at how mergers and acquisitions and investment are reshaping the digital health and health information technology landscape.

40%

Share of providers who say their IT **budgets are still growing**

—*International Data Corp.*

25%

Share of providers who say their IT budgets are **still growing because of EHRs**

Top 5 healthcare technology deals in 2015 and 2016

1. **McKesson** forms tech company with **Change Healthcare** (McKesson will divest) —$3.4 billion venture (June 28)
2. **Pamplona Capital Management** acquires **MedAssets** (sells off GPO) —$2.7 billion (Nov. 2, 2015)
3. **IBM Watson** acquires **Truven Health Analytics** —$2.6 billion (Feb. 18)
4. **IBM** acquires **Merge Healthcare**—$1 billion (Aug. 6, 2015)
5. **Allscripts** and **GI Partners** acquire **Netsmart** in joint venture —$950 million (March 23)

—*Modern Healthcare Mergers & Acquisitions Database*

$7.3 BILLION

Healthcare IT deals disclosed through end of Q2 2016

—*Modern Healthcare Mergers & Acquisitions Database*

115

Startup accelerators dedicated to healthcare worldwide as of 2014, with 80% focused on digital health

—*California Health Care Foundation*

>$2 BILLION

Venture funding raised by 151 digital health companies in the first half of 2016

—*Rock Health*

HOTTEST AREAS FOR INVESTORS

($ in millions)

Analytics/ big data	$309
Wearables and biosensing	$217
Population health management	$184
Personal health tools and tracking	$132
EHR/clinical workflow	$127
Digital medical devices	$122

Source: Rock Health

Where is the money?

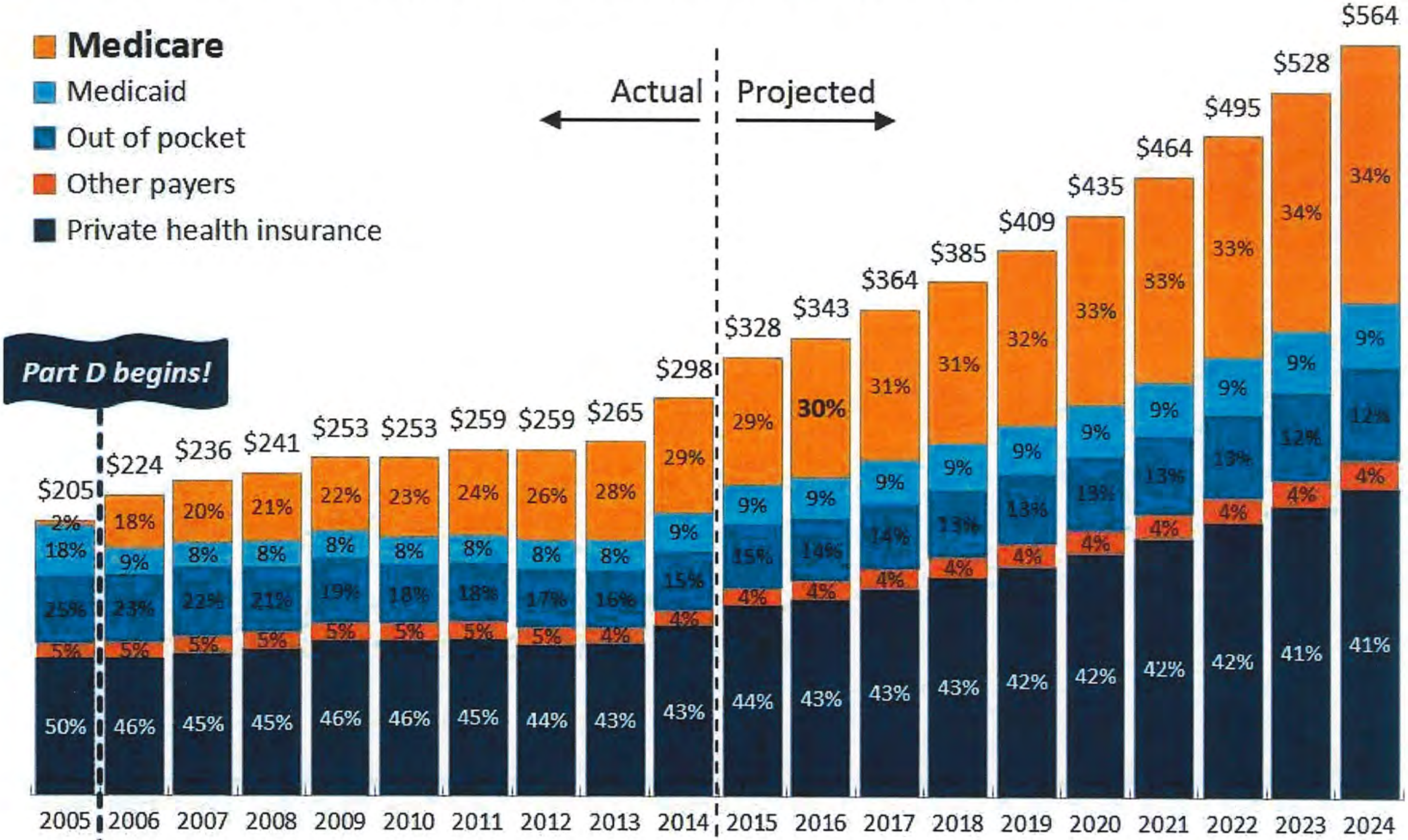
IT: example, “Optum” now a $80 billion annual revenue company, foresees a world-wide market of $1.2 trillion

Where is the money?

IT: example, “Optum” now a $80 billion annual revenue company, foresees a world-wide market of $1.2 trillion

Pharma: pricing entirely out of control, largely due to government actions

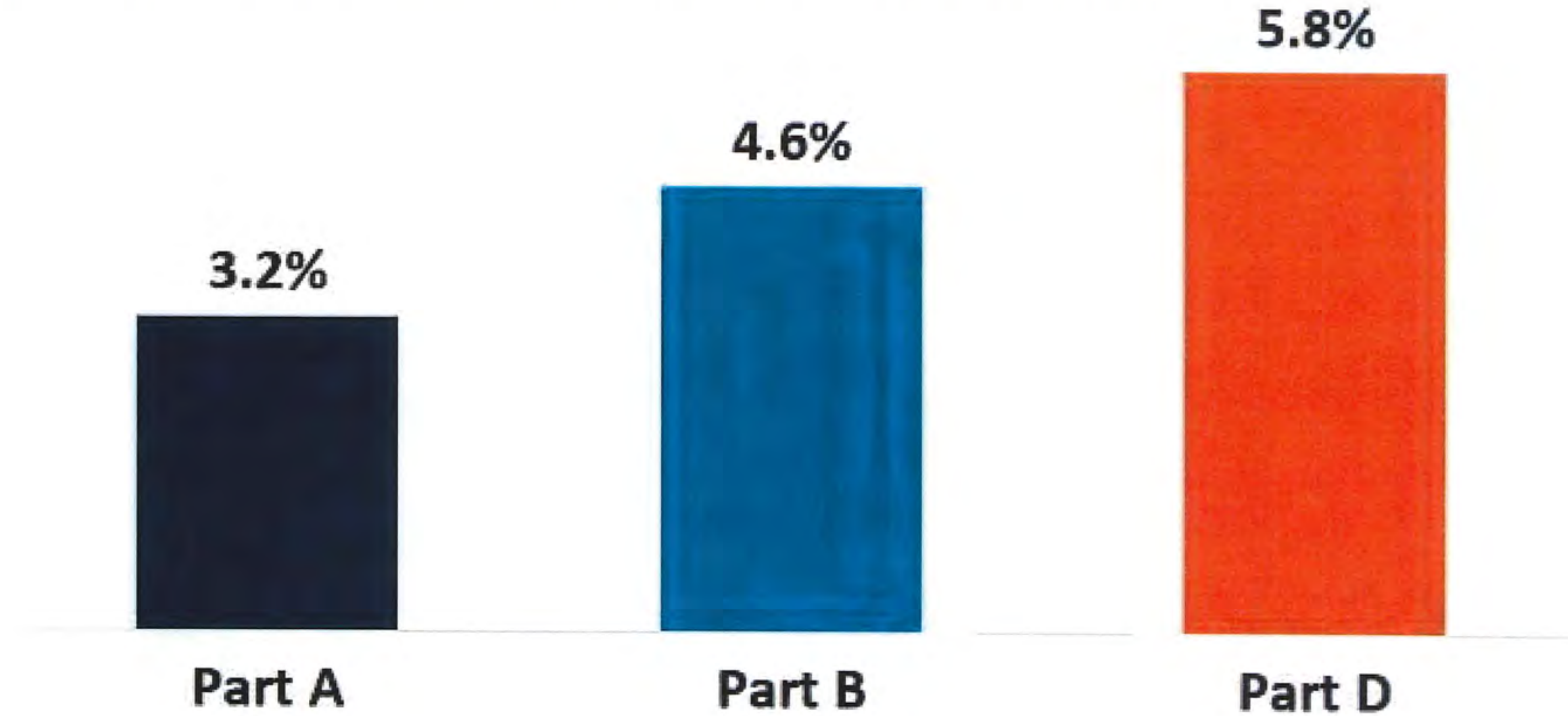
Total U.S. prescription drug spending, in $ billions:



NOTE: Medicaid prescription drug spending accounts for rebates.
SOURCE: Kaiser Family Foundation analysis of CMS National Health Expenditure Data for Historical (CY2005-2014) and Projected (CY2015-2024) Retail Prescription Drug Expenditures, 2013-2024.

THE HENRY J. KAISER FAMILY FOUNDATION

Projected average annual growth in Medicare per beneficiary spending for Parts A, B, and D between 2015-2025

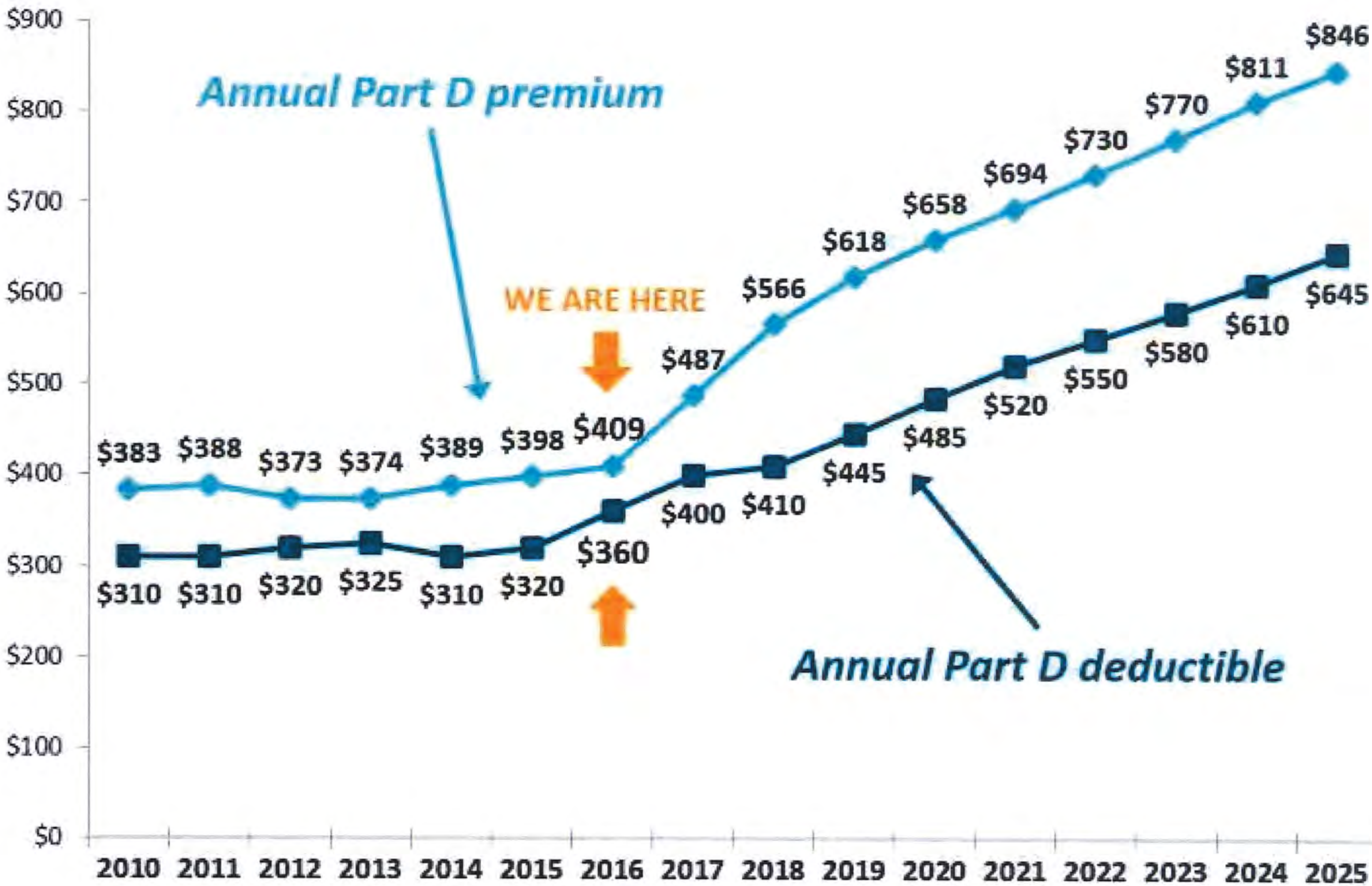


Average Medicare per beneficiary spending:

2015	**$5,019**	**$5,522**	**$2,203**
2025	**$6,901**	**$8,642**	**$3,861**

SOURCE: 2016 Medicare Trustees Report (Table V.D1).

THE HENRY J. KAISER FAMILY FOUNDATION



SOURCE: 2016 Medicare Trustees Report (Table V.E2).

THE HENRY J. KAISER FAMILY FOUNDATION

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Finance: Steward arranges placement of $1.2 billion with Medical Properties of Alabama

Where is the money?

IT: example, “Optum” now a $80 billion annual revenue company, foresees a world-wide market of $1.2 trillion for data

Pharma: pricing entirely out of control, largely due to government actions

Finance: Steward arranges placement of $1.2 billion with Medical Properties of Alabama

Executive compensation throughout the health field: ‘nuf said

What does this mean for negotiation?

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Larger and more powerful adversaries

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Greater sophistication among negotiators

MU [Meaningful Use, HITECH, American Recovery and Reinvestment Act of 2009]

SGR [Sustainable Growth Rate, Balanced Budget Act of 1997, repealed with MACRA]

MACRA [Medicare Access and CHIP Reauthorization Act of 2015, signed April 16, 2015]

MIPS [Merit-Based Incentive Payment System, effective 1/1/19] will consolidate:

EHR MU [Electronic Health Record Meaningful Use] +
PQRS [Physician Quality Reporting System] +
VM [Value-based Modifier]

APMs [Alternative Payment Models, effective 1/1/19, criteria to be established by 11/1/16] expected to include qualifying:
Medicare ACOs,
Demonstration Programs,
PCMHs (Patient Center Medical Homes) and PFPM [Physician-Focused Payment Model]

Value-Based Payment:

Coordination of care, something that physicians and nurses did historically

Deaths per 100,000 residents, 1,100 at the beginning of the 20^{th} Century, 600 at the end

Death from chronic disease: 40% at the end of the beginning of the 20^{th} Century, 85% at the end

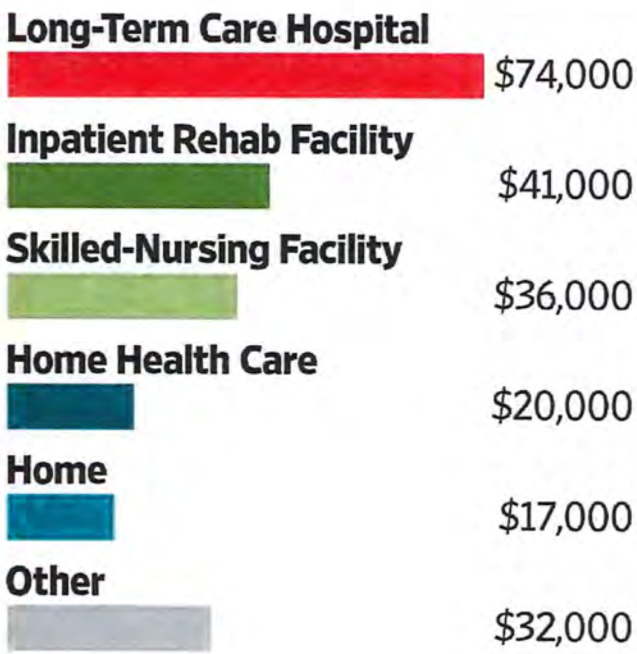
"Coordination" elusive, possible illusory, the "organizational" vs. "professional" model

Example: bundled payments (CCJR, doubling down on BPCI)

There's No Place Like Home

New Medicare rules will hold some hospitals accountable for the bundled cost of hip and knee replacements for 90 days. With a typical bundled payment of $27,870, hospitals would lose money if patients go anywhere but home.

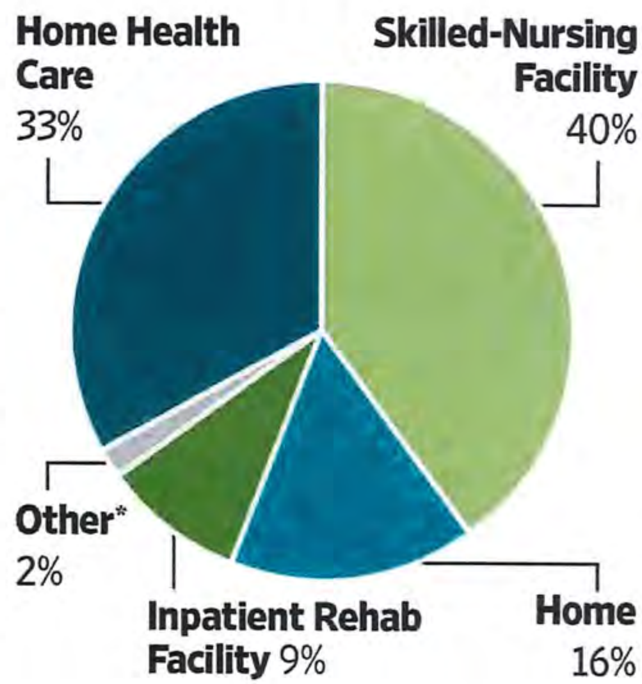
Average cost of hip or knee replacement-surgery package



Note: All costs include $12,267 for surgery and inpatient hospital stay

Source: Remedy Partners

Where patients typically go first after the surgery



*Includes Long-Term Care Hospital

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More “issues”

Some New Jersey Issues

<u>How these changes in hospitals and health care will “show up” in New Jersey</u>

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- Scoundrels

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