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Today's Presentation:

Implications of the Republican Sweep on Your Health System's Operating Margin

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Implications of the Republican Sweep on Your Health System's Operating Margin

December 16, 2016

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QUESTIONS

Use the "Questions and Answers"

RECORDING

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Today's Speaker

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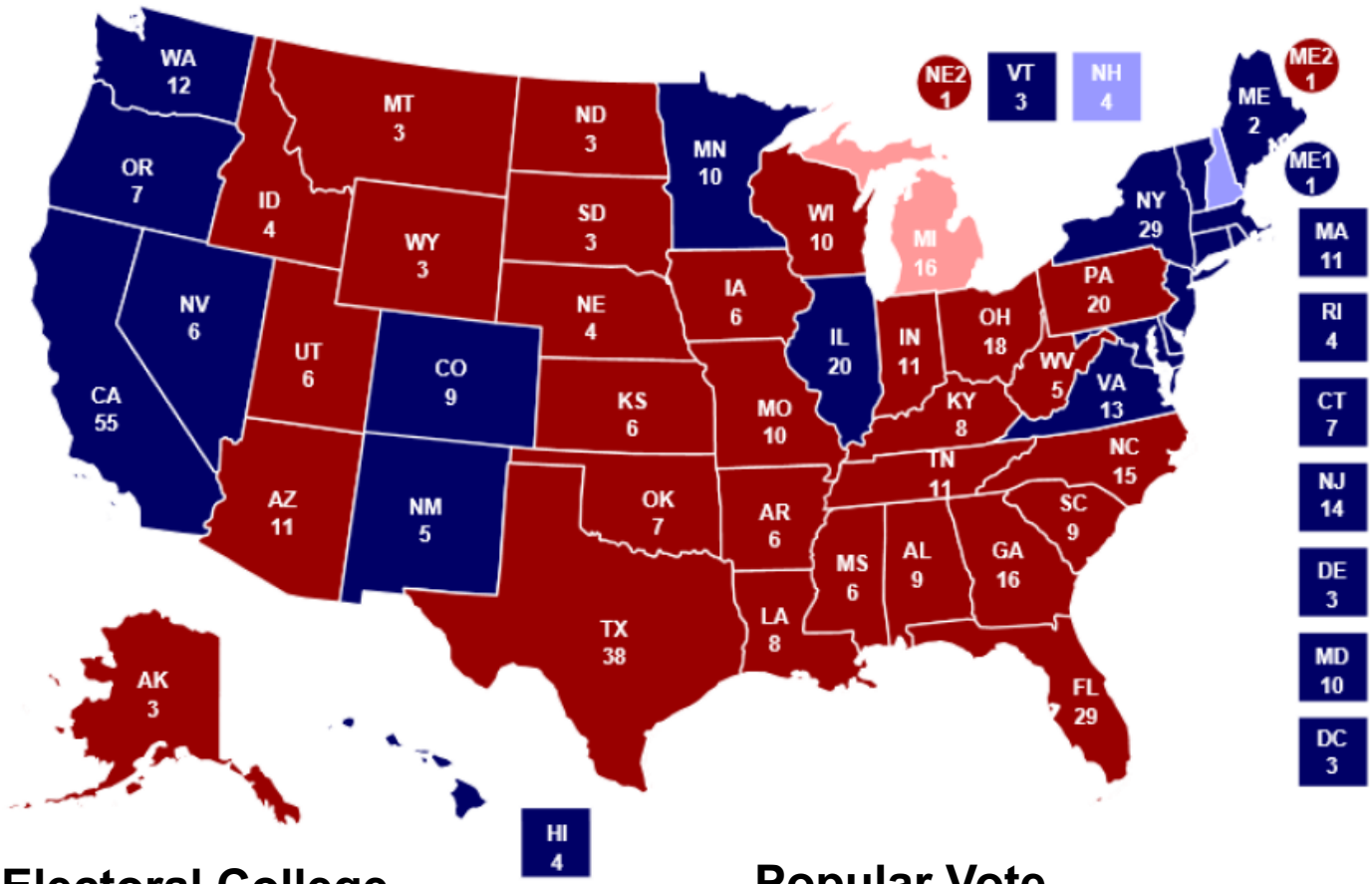
Agenda

1. Introduction/Purpose
2. Summary of election results overview
3. Trump transition team
4. Election policy implications
5. Recommendations for consideration

Donald Trump is President-Elect

FINAL ELECTORAL MAP
(States won by Trump in RED; states won by Clinton in BLUE)



Electoral College

Donald Trump: 290
Hillary Clinton: 232

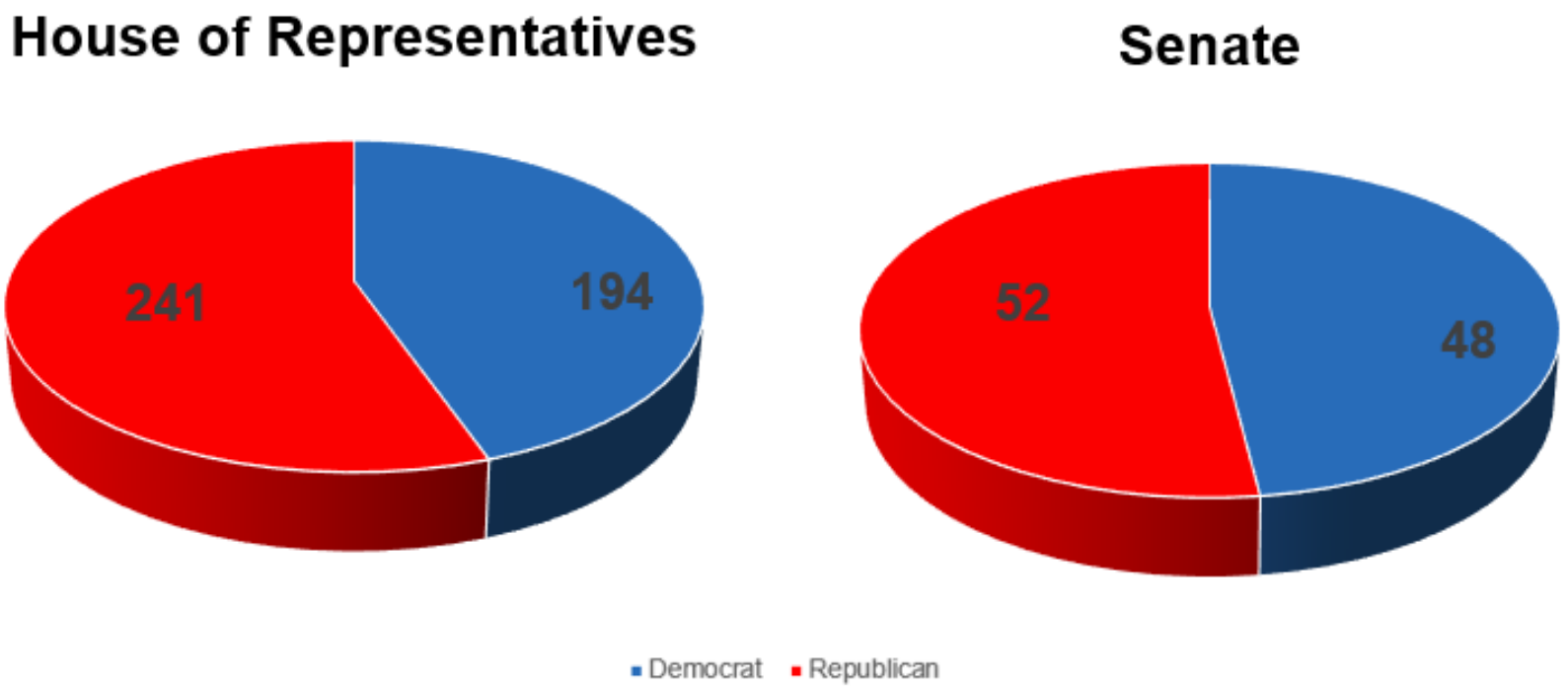
Popular Vote

Donald Trump: 61.8M(46.7%)
Hillary Clinton: 63.5M (48%)

Source: Buchanan Ingersoll Rooney PC, as of 11/9/16 a.m.

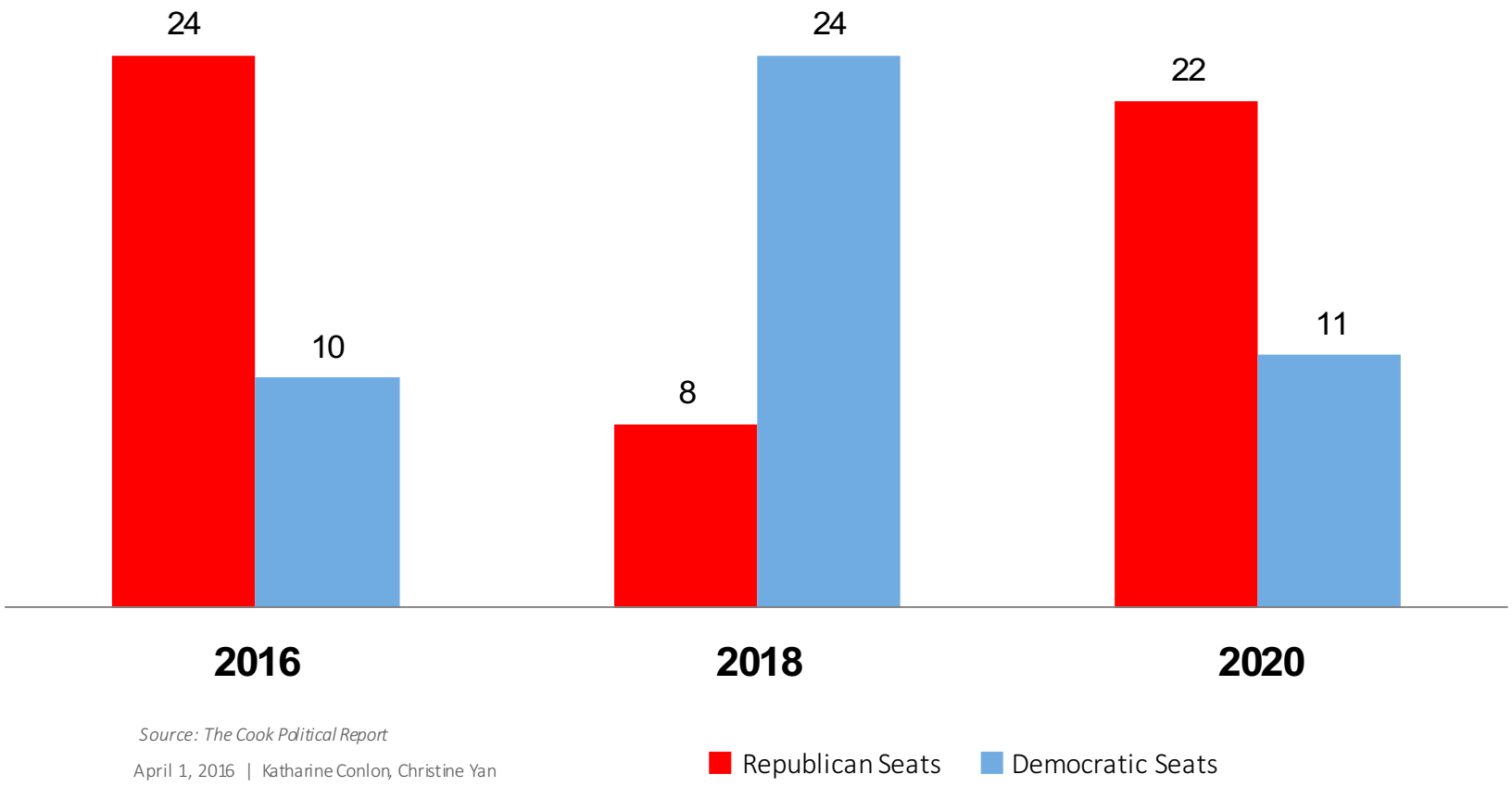
Republicans Maintain House & Senate Majority

Balance of Power



Democrat vulnerability in 2018 gives Republicans Line of Sight to Power

Senate Seats in Play, by Election Year



Source: The Cook Political Report

April 1, 2016 | Katharine Conlon, Christine Yan

Polling Question #1

Do you expect the Trump administration and Republican Congress will be better or worse for the healthcare industry than the Obama administration?

A. Better
B. Worse
C. Neither better nor worse
D. Too early to tell

Transition Outlook Over Next 3 Months

Trump's Transition Team:

- **Chairman:** VP Mike Pence
- **Principal domestic policy adviser:** Ed Feulner, Former Heritage Foundation president
- **Head of 5 policy teams:** Ron Nicol, former Navy officer and longtime adviser for the Boston Consulting Group and former employer of Mr. Romney
- **Health advisers:** Andrew Bremberg, a former Mitch McConnell adviser; Sam Clovis, tenured professor at Morningside College/Tea Party activist; Adnan Jalil, staff for departing Rep. Renee Ellmers, and Jim Frogue, Center for Health Transformation; John Mashburn, former COS for Sen. Tillis

3-Step Transition Process:

1. All federal agency's regulations will be reviewed
2. Policies that require legislative or administrative attention will be identified and prioritized
3. Administration personnel will be selected
    - White House and Cabinet will be first, process has already started.
    - Next: ~4,000 political appointees in administration

New Healthcare Leaders in Trump Administration

DEPARTMENT OF HEALTH AND HUMAN SERVICES SECRETARY

NOMINEE: TOM PRICE

- Current House Budget Committee Chairman & House Ways & Means Health Subcommittee member (R-GA)
- Orthopedic surgeon
- Staunch ACA critic and first to put forward replacement plan (Empowering Patients First Act)
  - Age-adjusted tax credits to help people buy insurance & increased reliance HSAs and high-risk pools at the state level
  - Allow opt out of Medicare, Medicaid or VA benefits and receive the tax credit to buy individual plan
- Supported MACRA, but has called into question some of its implementation, including physician reporting requirements
- Critic of CMMI under Obama Administration, but main opposition is with mandatory programs
- Strong supporter of state government proposals of how to spend their healthcare dollars

New Healthcare Leaders in Trump Administration

CENTERS FOR MEDICARE & MEDICAID SERVICES ADMINISTRATOR

NOMINEE: SEEMA VERMA

- President and founder of SVC, Inc., a national health policy consulting company in Indiana
- Architect of Healthy Indiana Plan (HIP), the nation's first consumer-directed Medicaid program under IN Governor Daniels and Governor Pence's HIP 2.0 waiver proposal
- Developed IA and OH 1115 Medicaid waiver, assisted with design of TN's coverage expansion proposal; provided technical assistance to MI's implementation of 1115 Medicaid waiver
- Former VP of Planning for Health & Hospital Corporation of Marion County and Director with the Association of State and Territorial Health Officials (ASTHO) in Washington D.C
- MPH w/ concentration in health policy from Johns Hopkins University and BS in Life Sciences from the University of Maryland

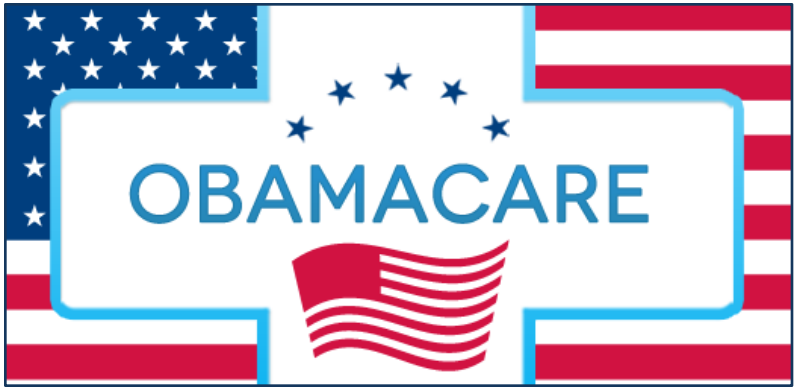
First 100 Days?

- A Top priority will be repeal and replace ACA
  - Immediate “show vote”
  - Congress could use budget reconciliation to make major changes to the ACA, requiring only 50 votes instead of 60, but building support for replacement will be challenging
    - Could only repeal/replace provisions that have a budgetary impact through this process. Bill will repeal:
      - Device, Cadillac taxes
      - IPAB
      - Employer and employee mandates
      - Premium tax credits and cost sharing reductions
      - Medicaid expansion and DSH payments
    - ACA Insurance reforms, Medical Loss Ratio, delivery system reforms likely not candidates
    - Potential to destabilize mix of mandates, funding and subsidies
- Executive orders rolling back Obama regulations
- Immigration reform or related spending
- 60 Senate votes needed for passage of many legislative initiatives, which would require Democrats’ support
  - Sen. Chuck Schumer (D-NY) now most powerful Senator

Polling Question #2

To what degree do you expect the Affordable Care Act to change?

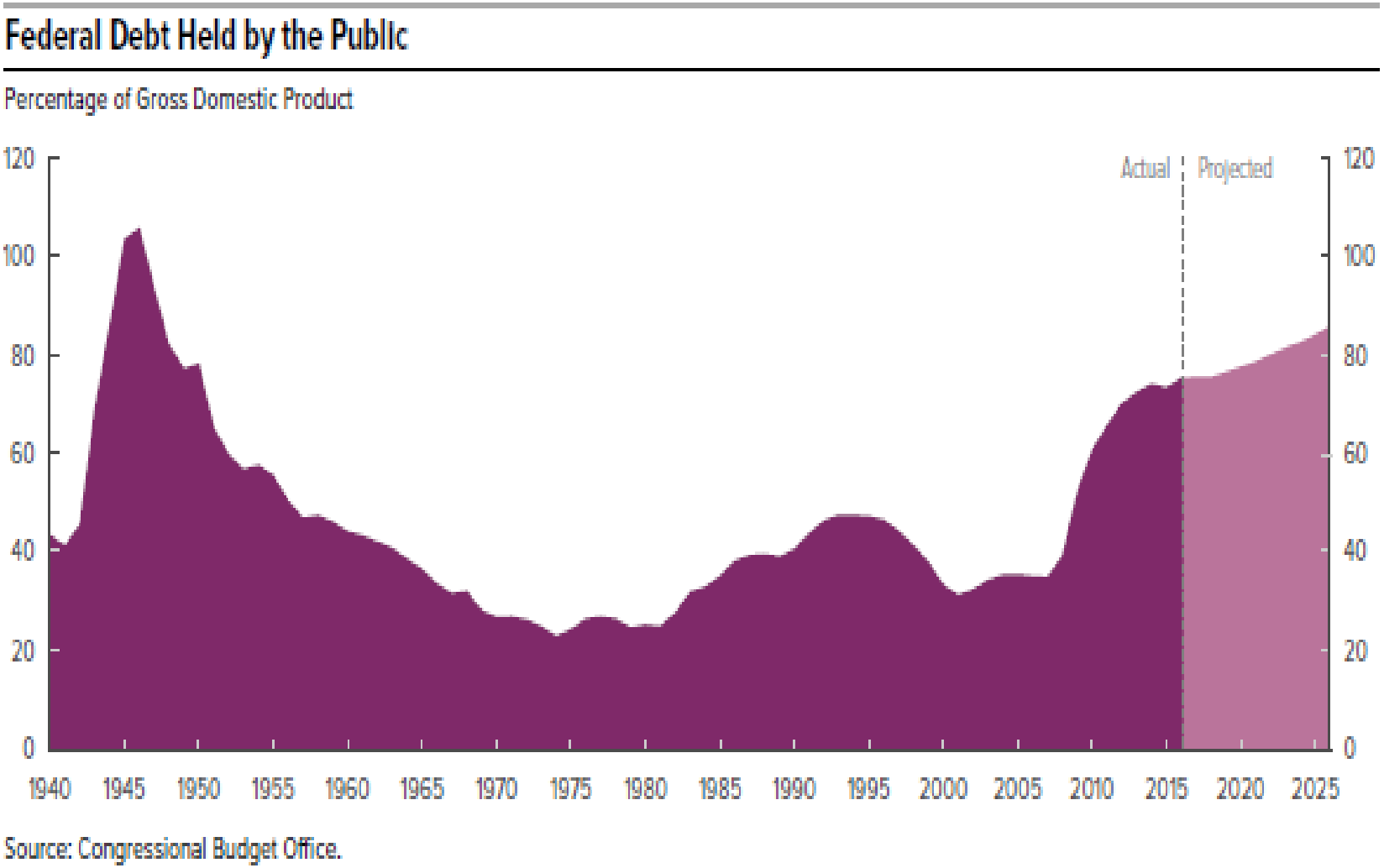
A. Complete repeal and replacement
B. Partial repeal and replacement
C. Immediate repeal, delayed replacement
D. Hard to predict
E. No change



Replacement Plan Outlook: Known knowns and known unknowns

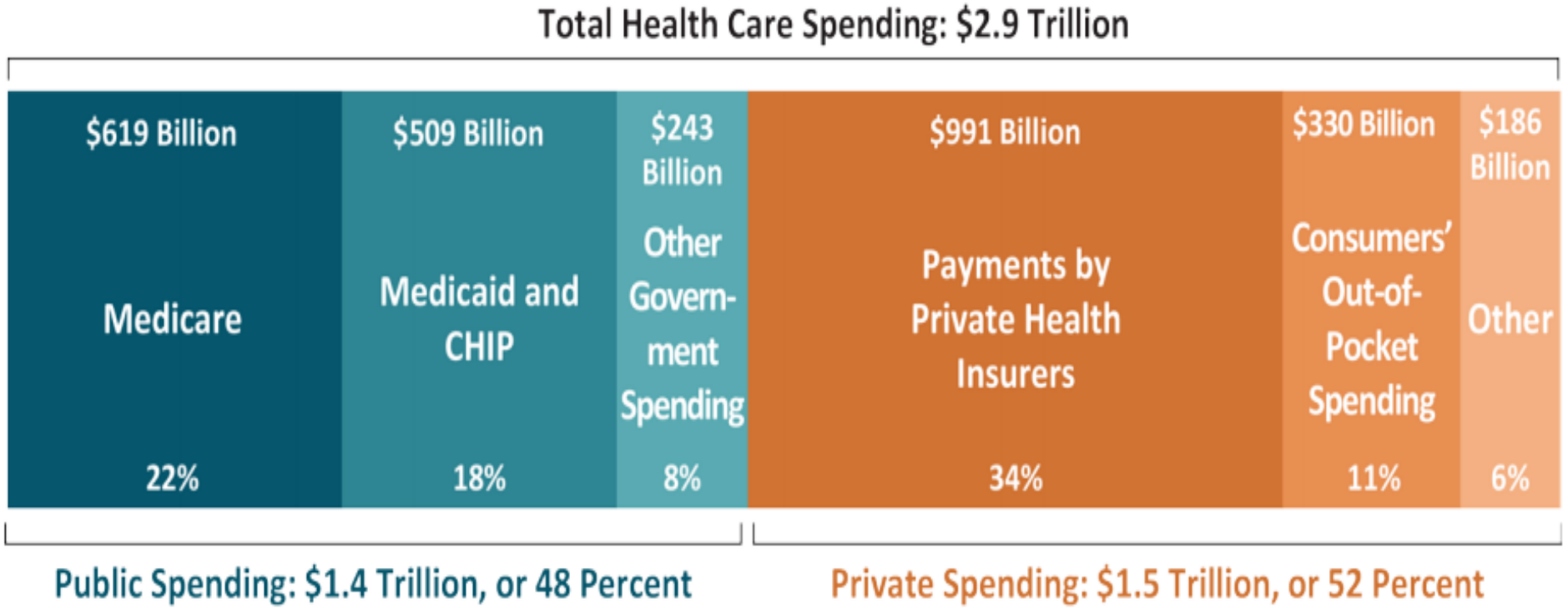
- Republicans will **likely try to avoid appearing unilateral** as they have argued Democrats were in passing the ACA. Likely to seek bipartisan support
- Likely **months of consensus building** and negotiations
  - Final legislation repealing and replacing the ACA passed10/1/17 or 1/1/18
- Dust will settle and final design likely includes:
  - Budget deal possible with entitlement reforms
    - **Sequestration continues**, but amount withheld could change (+/-)
- States will have **option of continuing exchanges or using other mechanisms** such as high risk pools; deregulation of insurers
- **Individual and employer mandates** moved to penalty for not having/maintaining
- Continued **Medicaid expansion** likely with per capita payment allocation and significant state flexibility to incent personal responsibility
  - Co-pays and deductibles; work requirements; HSA accounts permitted
  - No Medicaid expansion until final agreement reached
- **Possible reduction in tax credit** subsidies to ~350% of FPL
- Expansion of **HSAs**
- **Continued payment and delivery system reforms**
  - Intensified effort around quality and price transparency
  - CMMI scope/budget reduced
  - Key will be final determination on HHS and CMS leadership
- **Tax rollbacks**: device, Cadillac and IPAB

Federal Spending: A Reality for the New Administration

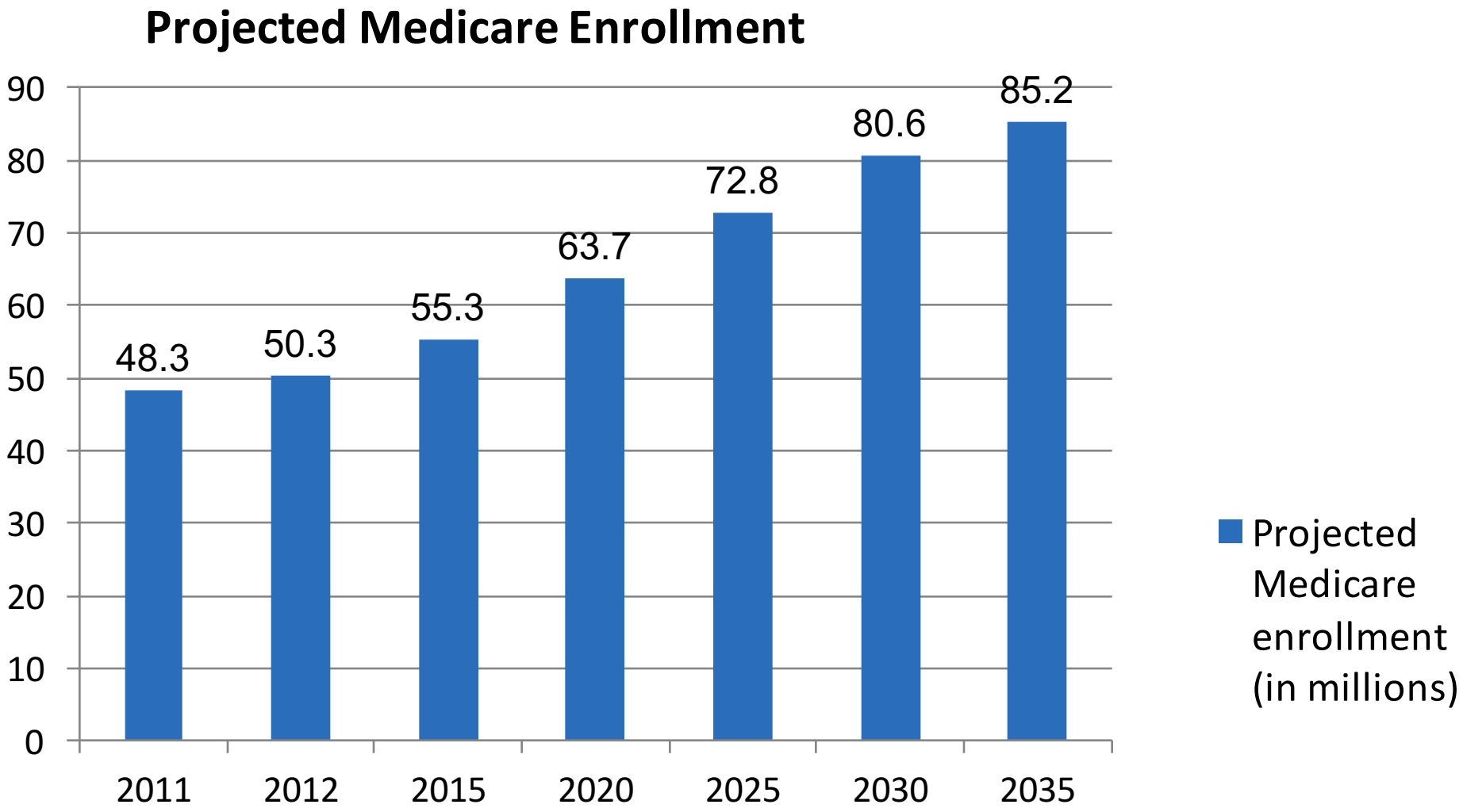


Congress must act to raise the debt ceiling by ~ March 2016

National Health Spending by Payer

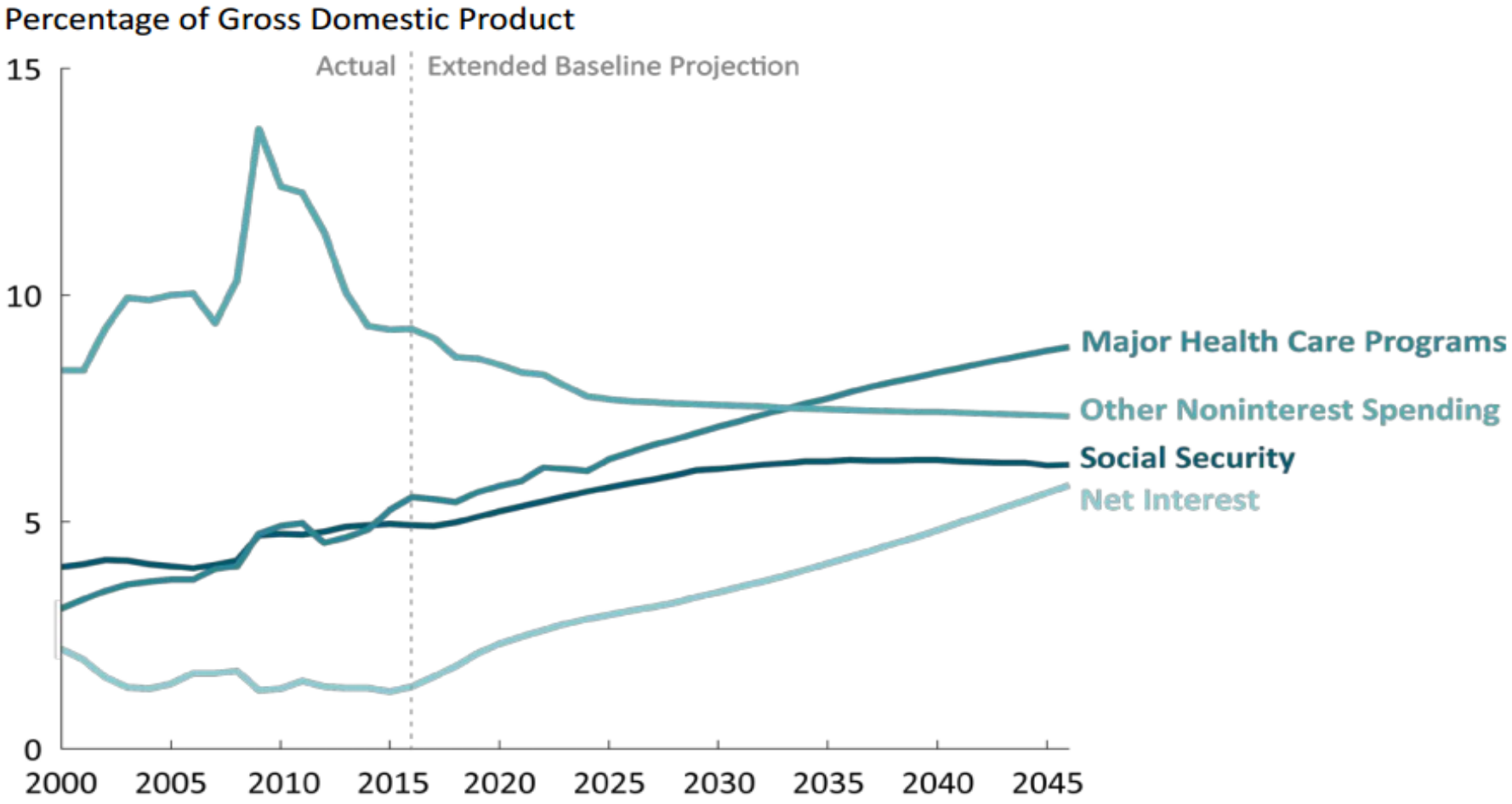


Medicare Population Growth



CBO: What's Driving the Deficit and Debt

Components of Federal Spending



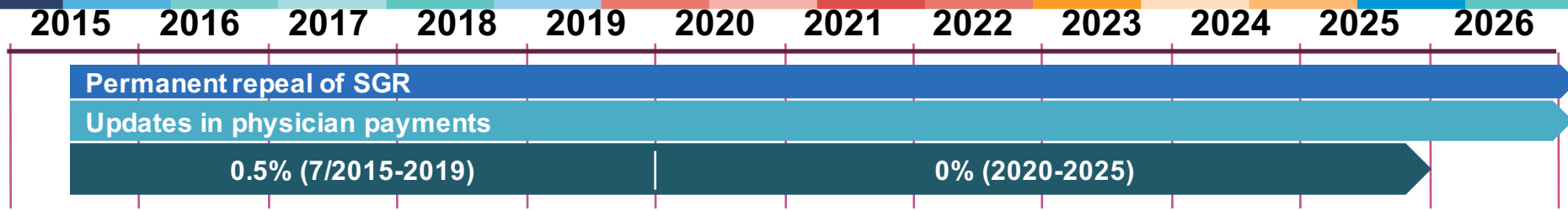
"Major health care programs" consists of spending on Medicare (net of offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as outlays to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

Where are we headed?

Implication #1: Power Shifting to Physicians

- **How:**
  - Payment models that advantage physicians & pull them from hospitals.
  - New models from Medicare MACRA (Medicare Access and CHIP Reauthorization Act) Physician Committees.
  - Physician practice company growth, e.g., TeamHealth, Sound, Privia, Aledade, Summit Medical Group, Universal American, Remedy.
  - Possible return of physician owned hospitals.
  - Result: Increased effort to commoditize hospitals.
- **Strategic Responses:**
  - Accelerate efforts to align with physicians, e.g., CINs, EHRs, MSSPs, HEQP, etc…
  - Assist clinicians in reporting and succeeding under MACRA, i.e., provide reporting assistance, strategy and benchmarking, strategically join Alternative Payment Models (APMs).
  - Track market developments and understand competitive realities.
  - Engage in policy with lawmakers and CMS re: payment models; Stark/AKB reform...

MACRA reform timeline
(Medicare Access and CHIP Reauthorization Act of 2015)



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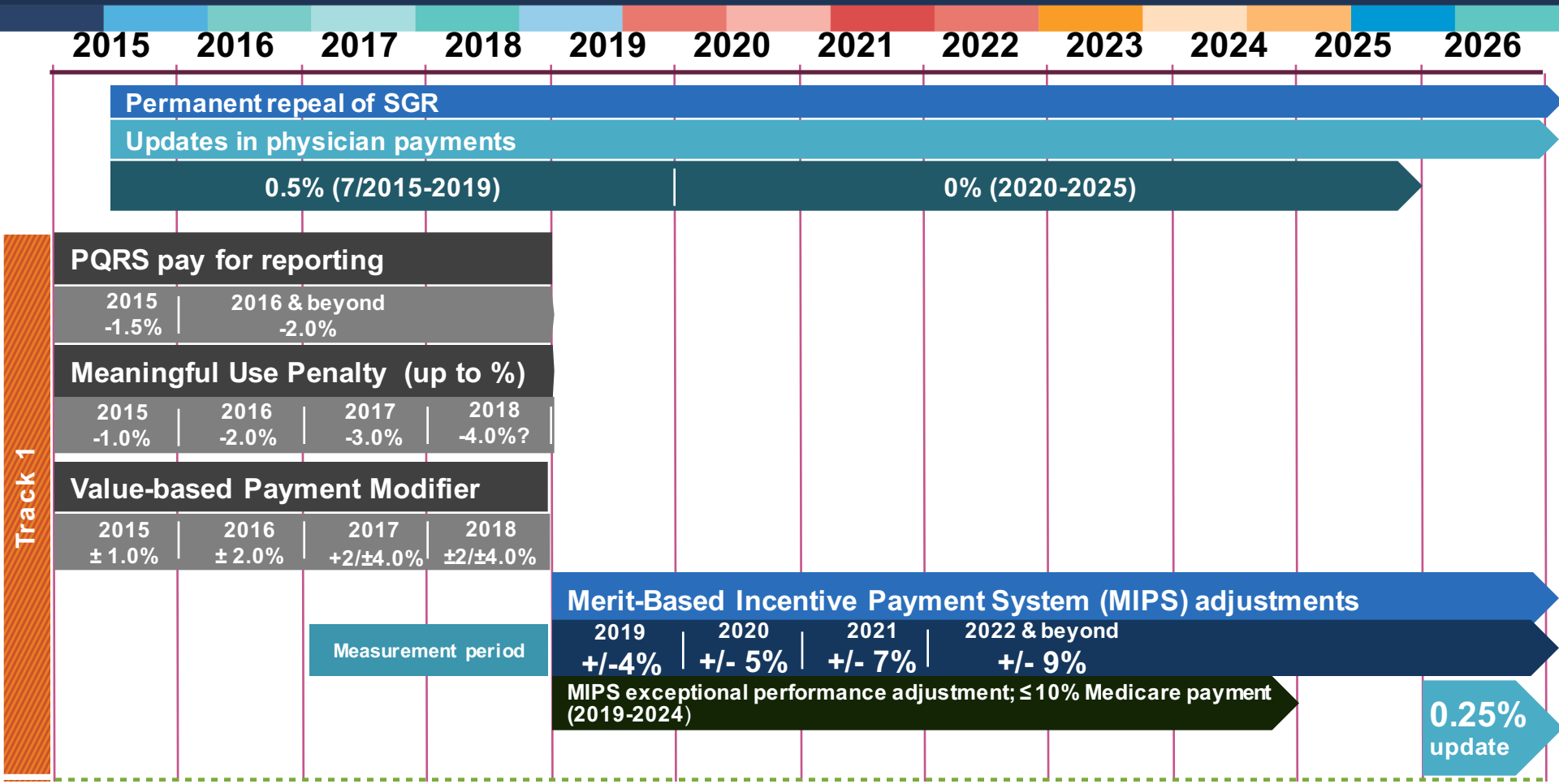

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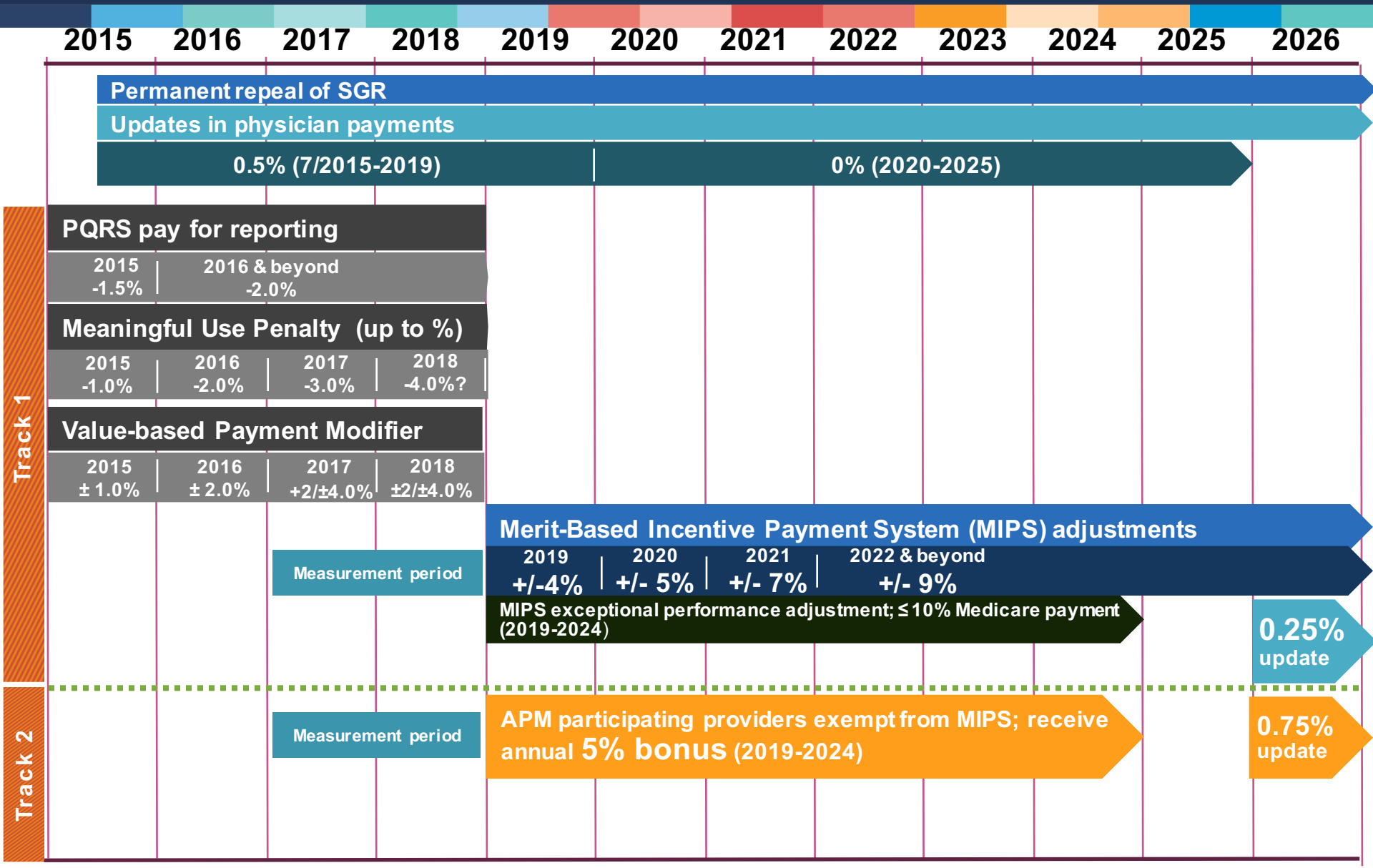


Implication #2: Power Shifting to Insurers

- **How:**
  - Deregulation of insurers, i.e., elimination of the minimum loss ratio (MLR), rate regulation, standardized plans.
  - Increased underwriting will reduce risk and improve revenues.
  - Possible increased market fragmentation/demands with more measures and plans.
  - Payer will seek to align with physicians and commoditize hospitals.
  - Further expansion of MA plans
  - Increased effort to shift risk to consumers and providers, e.g., bad debt, poor coverage.
- **Strategic Responses:**
  - Build your high value network that has market significance.
  - Identify commercial and large employer payer partners.
  - Utilize MACRA incentives to drive payer alignment.
  - Continue to differentiate, develop payer contracts with your clinical network.
  - Policy engagement, e.g., payer regulation, measure alignment, state models.

Implication #3: Power Shifting to States

- **How:**
  - State waivers for Medicaid expansion.
  - Potential per capita (ABD, disabled, children, and adults) caps and increased control to states reduced updates.
  - Potential for state waivers for delivery system reforms modeled on MACRA.
- **Strategic Responses:**
  - Craft a state strategy for Medicaid based on final Congressional design.
  - Consider a state waiver giving providers more accountability for risk, quality and shared savings with payers.
  - Become active on state policy issues re: CHIP, Medicaid spending,

Polling Question #3

Please indicate your perspective about potential financial implications on health systems' operating margins related to the Trump Presidency and Republican controlled Congress.

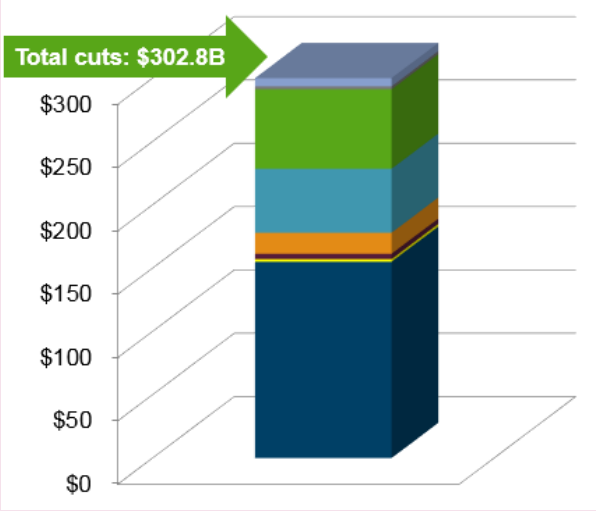
1. Very concerned
2. Somewhat concerned
3. Neither concerned nor optimistic
4. Somewhat optimistic
5. Very optimistic

Implication #4: Continued Payment Pressures

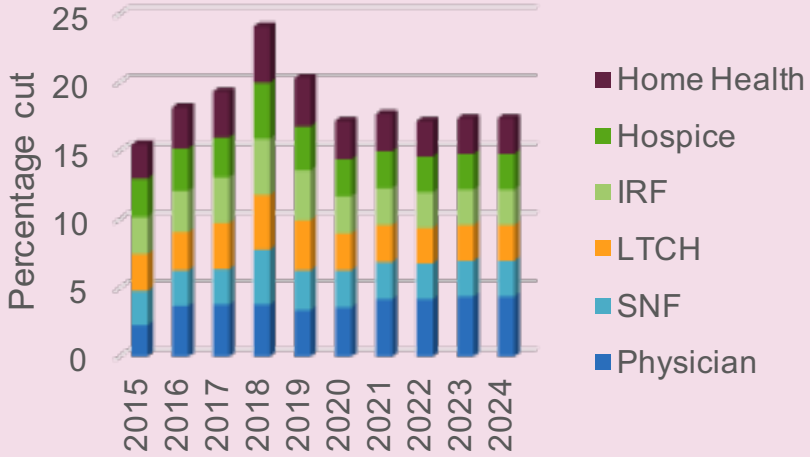
- **How:**
  - Federal and state budgets will continue payment pressure.
  - Movement to VBP models will continue
  - Private payers increased strength will impact balance of power.
  - Overall market pressure from consumers (bad debt) and employers (pricing pressure) will increase commercial challenges.
  - Growth in consumer driven health plans and high deductible plans
  - Employed physicians efficiency challenges.
- **Strategic Responses:**
  - Participate in APMs to align with physicians to increase productivity and revenue.
  - Seek annual productivity increases, unjustified variation reductions and efficiencies/cost savings.
  - Align physician contracts with VBP metrics and incentives

The cost control imperative

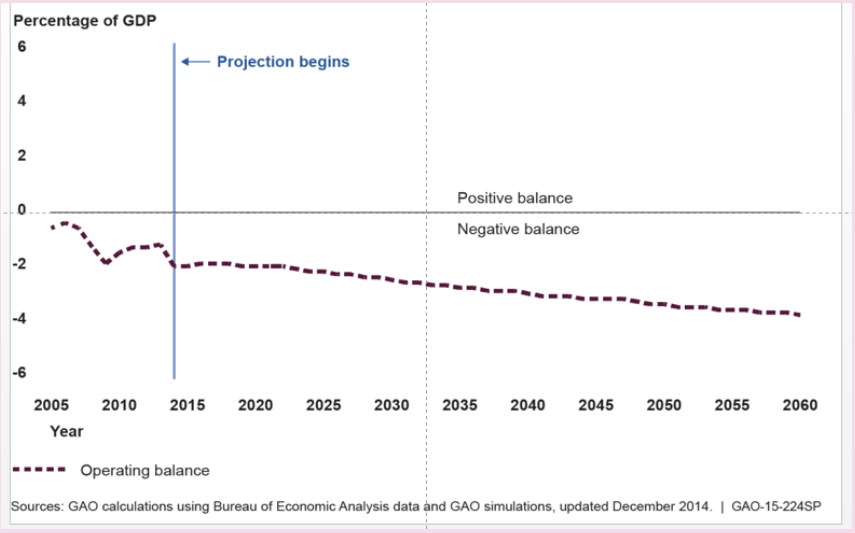
Hospital cuts enacted since 2010



Payment cuts across the continuum of care



State and local budget strains



New pressures from competitive exchange marketplace

- High deductible plans creating bad debt for providers
- Narrow networks excluding providers with higher costs

Implication #5: Increased Price, Quality Transparency

- **How:**
  - **Transparency of *price* information at state and federal level.**
  - **No let up on quality transparency, e.g., Star Ratings**
- **Strategic Responses:**
  - **Improve quality and cost effectiveness on major procedure areas.**
  - **Assess involvement in likely voluntary bundled payment programs.**
  - **Develop strategies to improve price competitiveness of outpatient services**
  - **Engage in state and federal policy.**

Implication #6: Power Shifting to Manufacturers

- **How:**
  - Threat of price controls, payment policy models reduced.
  - Increased wealth will incent continuation of current physician marketing model.
- **Strategic Responses:**
  - Continued physician alignment and participation in APMs to share pricing and efficiency outcomes.
  - Vulnerability of 340B.
  - Need for aggressive advocacy on competitive market and increasing movement to generics and biosimilars.

Final Recommendations

1. Don't get distracted by the "sound biting" around repeal and replace. Stay focused on executing strategic responses.
   - Subscribe to my weekly update? Blair_Childs@premierinc.com
2. Be proactive and aggressive in aligning with clinicians.
   - Create and build support for your vision.
   - Implement an APM strategy, e.g., MSSP, bundles.
3. Design and execute against a MACRA roadmap.
   - Leverage to align with physicians
   - Identify your APM strategy
4. Be especially state and federal advocacy.
5. Optimize Premier tools to improve quality, identify unjustified variation, productivity improvements, other savings.
   - Are you leaving money on the table?

Polling Question #4

Please indicate the strategic actions your health system plans to follow with respect to the Quality Payment Program / MACRA roadmap in 2017.

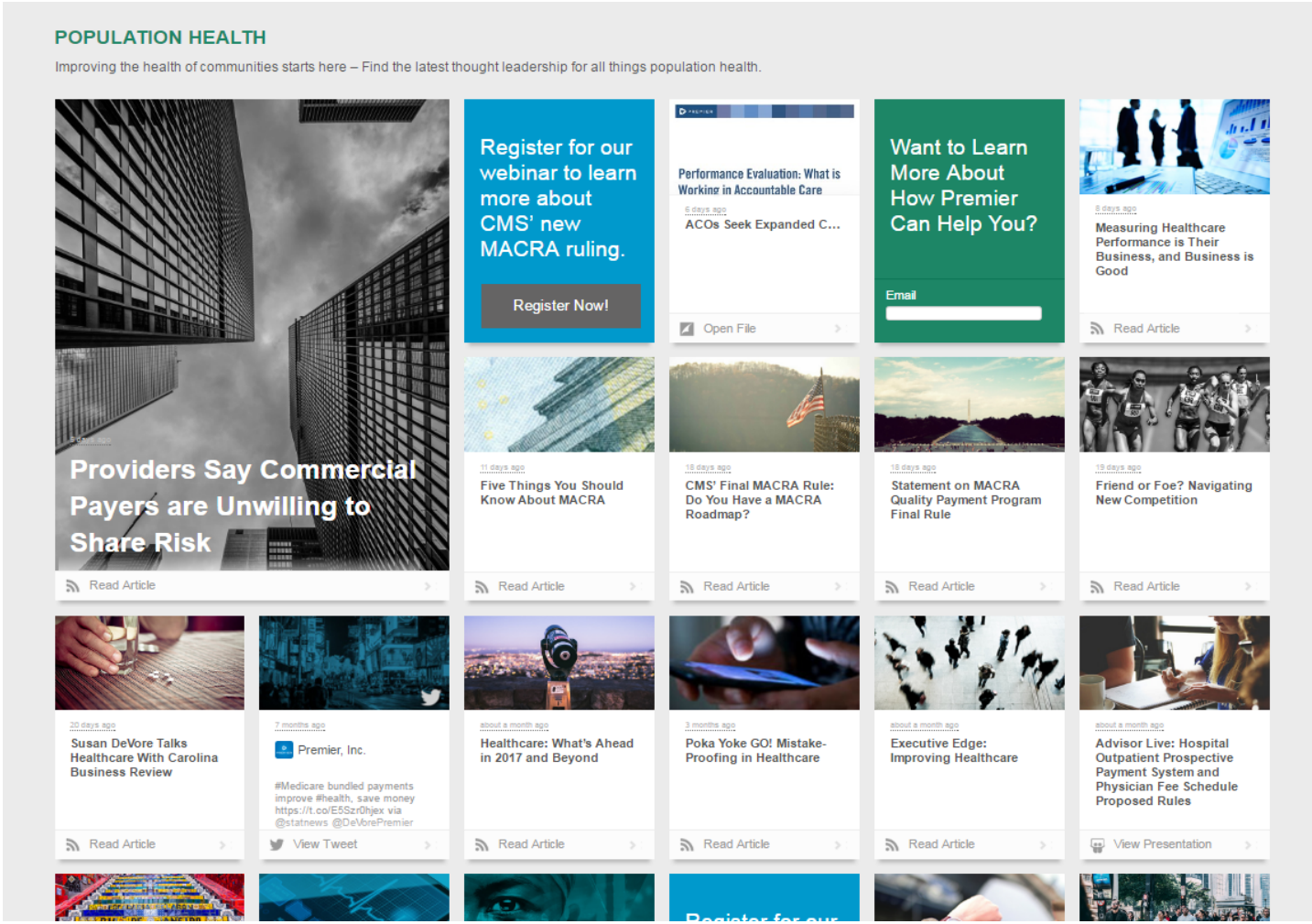
A. Continue at full steam ahead to obtain incentive
B. Pause any programs underway and accept penalty
C. Undecided
D. Need more information

Political realities and economic incentives *post*-Obama

- There is bipartisan support to move from FFS, which will continue.
  - From sickness/reactive to wellness/management healthcare
  - *MACRA* illustrates this reality
- Medicare/Medicaid spending will increase at rate of GDP (+1%?)
- Reform involves using Medicare (and Medicaid) to incentivize change. Pace of change market dependent.
  - Pay tied to *cross-continuum performance measures* that drive quality and cost savings.
- Providers, not payers, will increasingly be accountable for cost & outcomes.
- Increased accountability = waivers from FFS-inspired regulations
  - SNF 3-day rule; gainsharing; telehealth; post-discharge home visits, LTACH rules
- Private insurers being incented to follow Medicare's payment and quality models
- Increased alignment between physicians and health systems
- Data insights and exchange a key to success

Want to learn more?

Visit: learn.premierinc.com



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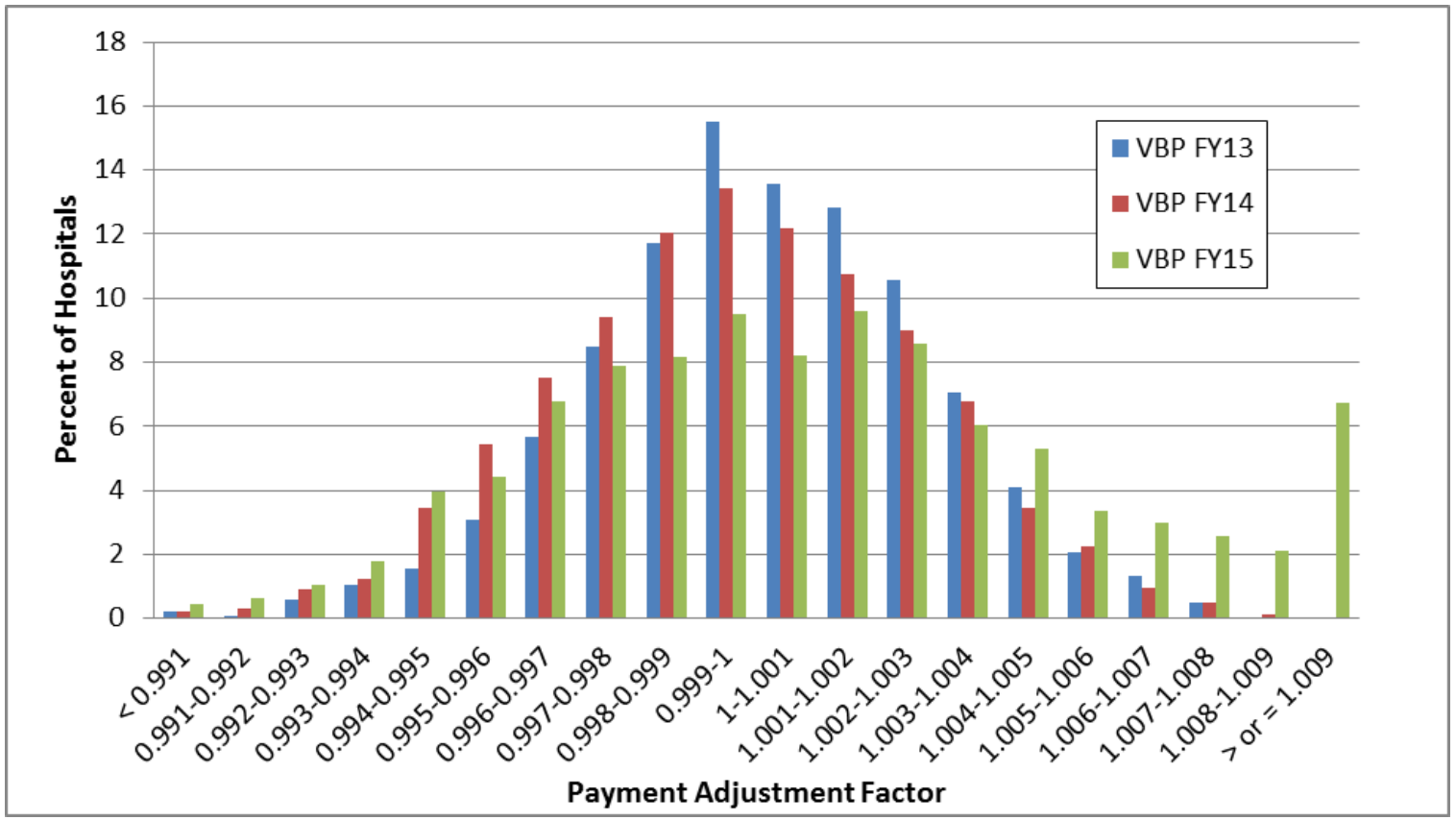
Appendix

MACRA & Value-based Purchasing across payment silos

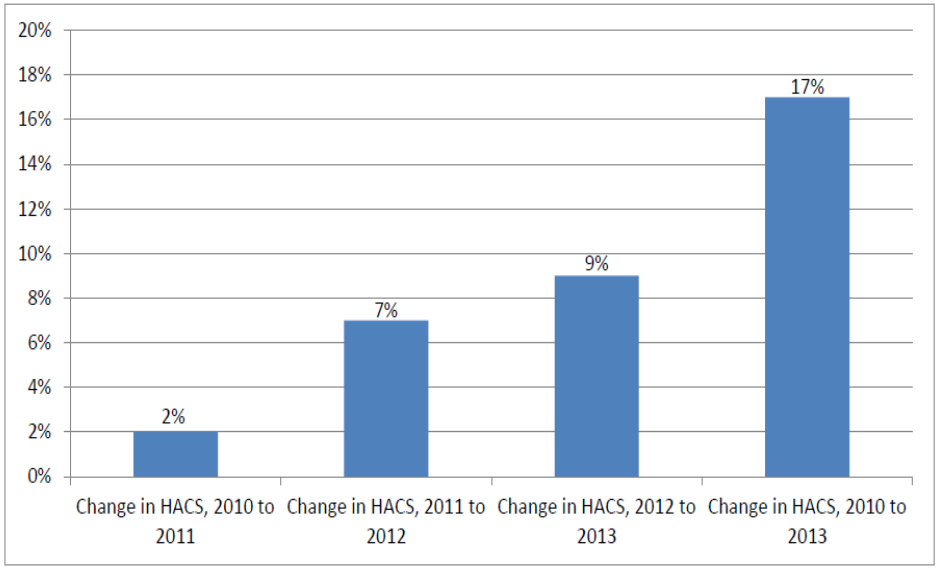
Track 1: P4P; losers pay winners



Two-fer Measures: HAC reductions = Medicare saving

Total annual and cumulative HAC reductions

Compared to 2010 baseline

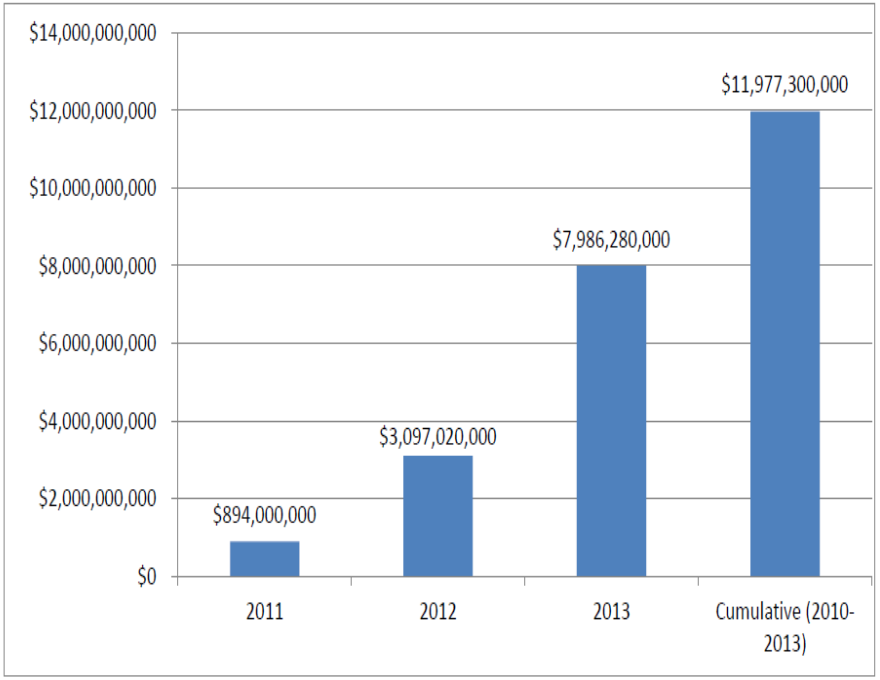


Source: AHRQ National Scorecard Estimates from Medicare Patient Safety Monitoring System, National Healthcare Safety Network, and Healthcare Cost and Utilization Project.

Hospital acquired conditions (HACs) dropped 17 percent from 2010 – 2017, reducing costs by $12 billion and saving approximately 50,000 lives.

Total annual and cumulative cost savings

Compared to 2010 baseline



Track 1 realities

- Busier and poorer
- Physicians = 9%; Hospitals = 10+%
- Two-fer measures
- Delayed gratification
- Track 1 micromanages to population health
- Transparency
- Losers pay the winners
- Success means less Medicare spending, but you can't keep the savings
- Private payer alignment

Medicare Access and CHIP Reauthorization Act of 2015

Created in 1997, the SGR capped Medicare physician spending per beneficiary at the growth in GDP

The formula does not incentivize high-quality, high-value care

Since 2003, Congress has passed 17 laws to override SGR cuts

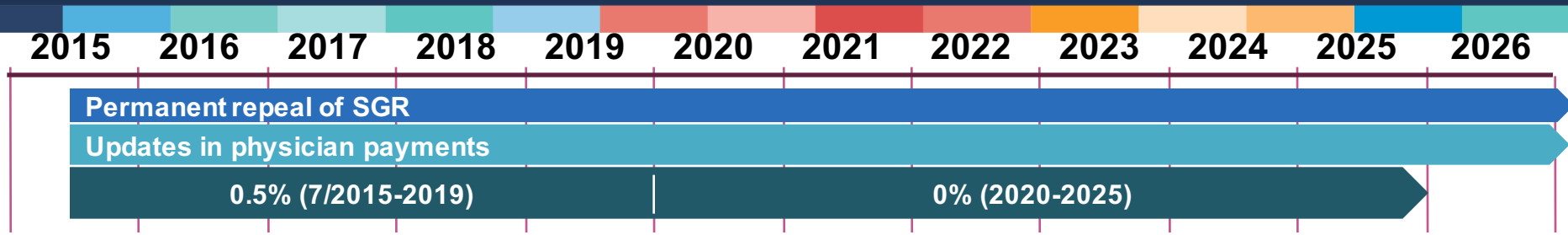
SGR creates uncertainty and disruption for physicians and other providers

Most of $170B in 'patches' financed by health systems

On 3/26/15, the House passed H.R. 2 by 392-37 vote.

On 4/14/15, the Senate passed the House bill by a vote of 92-8, and the President signed the bill.

MACRA reform timeline
(Medicare Access and CHIP Reauthorization Act of 2015)

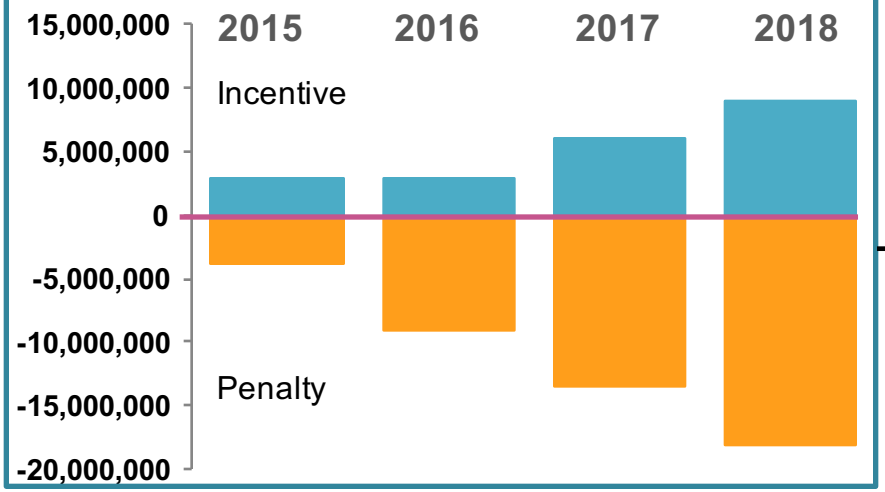


Analysis of the potential financial impact favors participation in Alternative Payment Models

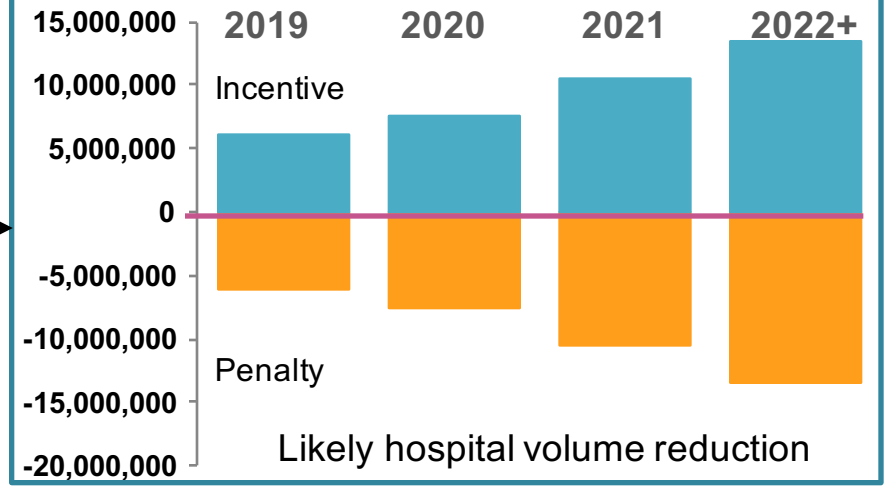
MACRA Financial Impact Example:

- 5 hospital system
- Employs 250 physicians
- $1.5M revenue per physician
- 40% Medicare

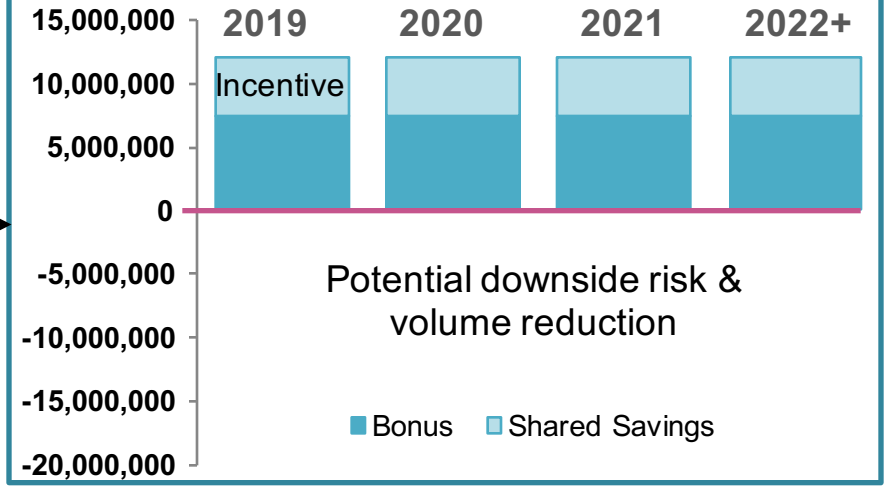
Current program impact (MU, PQRS, VM)



Merit-based Incentive Payment System



Alternative Payment Model (e.g., ACO)



Trump's Healthcare Platform

Health insurance coverage and costs

- Repeal and replace the ACA
- Permit insurers to sell health insurance across state lines
- Make all health insurance premium payments tax deductible, rather than just premiums for employer-sponsored plans
- Expand HSAs and consider them part of an individual's estate, with no penalties for passing the accounts on to surviving family members or for allowing any family member to use the funds
- Require price transparency from all healthcare providers to enable individuals to shop for the best prices on medical procedures
- Protect individuals from premium increases or exclusions due to the preexisting conditions
- Enforce immigration laws and restrict visas to reduce healthcare costs

Medicare reforms

- Guarantee enrollees have an income-adjusted contribution toward a plan of their choice with catastrophic protection

Medicaid reforms

- Fund Medicaid through block grants to states with fixed amounts
- Ensure that no one slips through the cracks because they cannot afford insurance
- Review basic options for Medicaid and work with states to ensure that those who want coverage can have it

Trump's Healthcare Platform

Affordability of prescription drugs

- Remove barriers to market entry for drug providers
- Allow imported drugs for personal use if they meet safety standards
- Allow Medicare to negotiate drug prices

Mental health and substance abuse

- Reform our mental health programs and institutions
- Stop inflow of opioids
- Invest in heroin addiction treatment

House Republican Health Reform Proposal (June 2016)

- Roll back ACA's Medicaid expansion provisions and provides each state a fixed budget for each beneficiary or a lump sum/block grant of federal money for all of a state's Medicaid program.
  - Also calls for more flexibility on Medicaid enrollee premium and incentive to work programs
- Repeal the commission with great power to change provider payment rates (the Independent Payment Advisory Board), CMS's Innovation Center, and the ban on physician-owned hospitals
- Apply greater preexisting condition protections only to people who maintain "continuous coverage"
- Preserve but place a cap on the tax deduction of employer-based coverage and uses savings to fund tax credits for those who don't have employer-based plans
- Create high-risk pools for those whose coverage is unaffordable
- Allow small business association health plans to band together to buy coverage across state lines
- Reform medical malpractice law by capping noneconomic damages and offering safe harbors for providers who practice within accepted protocols
- Turn Medicare into a premium-support model, creating consumer choice and competition among health plans similar to Medicare Advantage and the Part D drug benefit