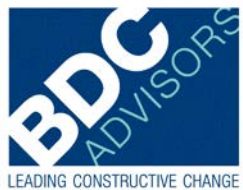


“Think Like a Health Plan”

Considerations for Provider Sponsored Health Plans

April 3, 2014

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BDC Advisors, LLC**



Agenda

- Provider Sponsored Plans in the News
- Healthcare's Evolving Value Chain
- What is it Worth?

Provider Sponsored Plans are growing

In face of ACA and other headwinds

- “An estimated 20 percent of networks market an insurance product currently”¹
- Recent American Hospital Association survey of 100 hospitals showed 38% already owned health plans; 21% stated that they were planning to offer health plans in the next three to five years
- Since 2008 there have been 93 new Medicare Advantage Plans (MA), 50% expansion, 50% new entrants, 30 of the new plans were Provider Sponsored Health Plans – 30% of the expansion and 70% of new entrants²
- 20 new Provider Sponsored MA plans were launched in 2013²
- Recent newsworthy entrants/expansions:
 - MedStar – Washington-Baltimore
 - North Shore-LIJ Health System – New York
 - Piedmont Healthcare – Atlanta
 - Partners’ Acquisition of Neighborhood Health Plan – Boston
 - Sutter Health – California
 - WellStar - Atlanta

Source: ¹ Washington Post, “Hospitals Look to Become Insurers, As Well as Providers of Care, 8/2012. ² www.CMS.gov enrollment data, 2013.

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Is retail really here...?



Healthcare Exchanges Enrollment Mid-March:

- California: 932,832 enrollees in Covered California¹
- Florida: 424,000 enrollees in Florida HIX²
- Texas: 295,000 enrollees in Texas HIX³

Insurance Segment Eligibility ⁴	Current Enrollment	Health System Costs by Segment
49.5M Medicare	87%+ Retail ⁵	~50%
50.9M Medicaid	100% Retail	~17%
198M Commercial	5% Retail + 15% Uninsured; 15.5M HDHP; 78% have general deductibles ⁵	~33% (includes self-pay)

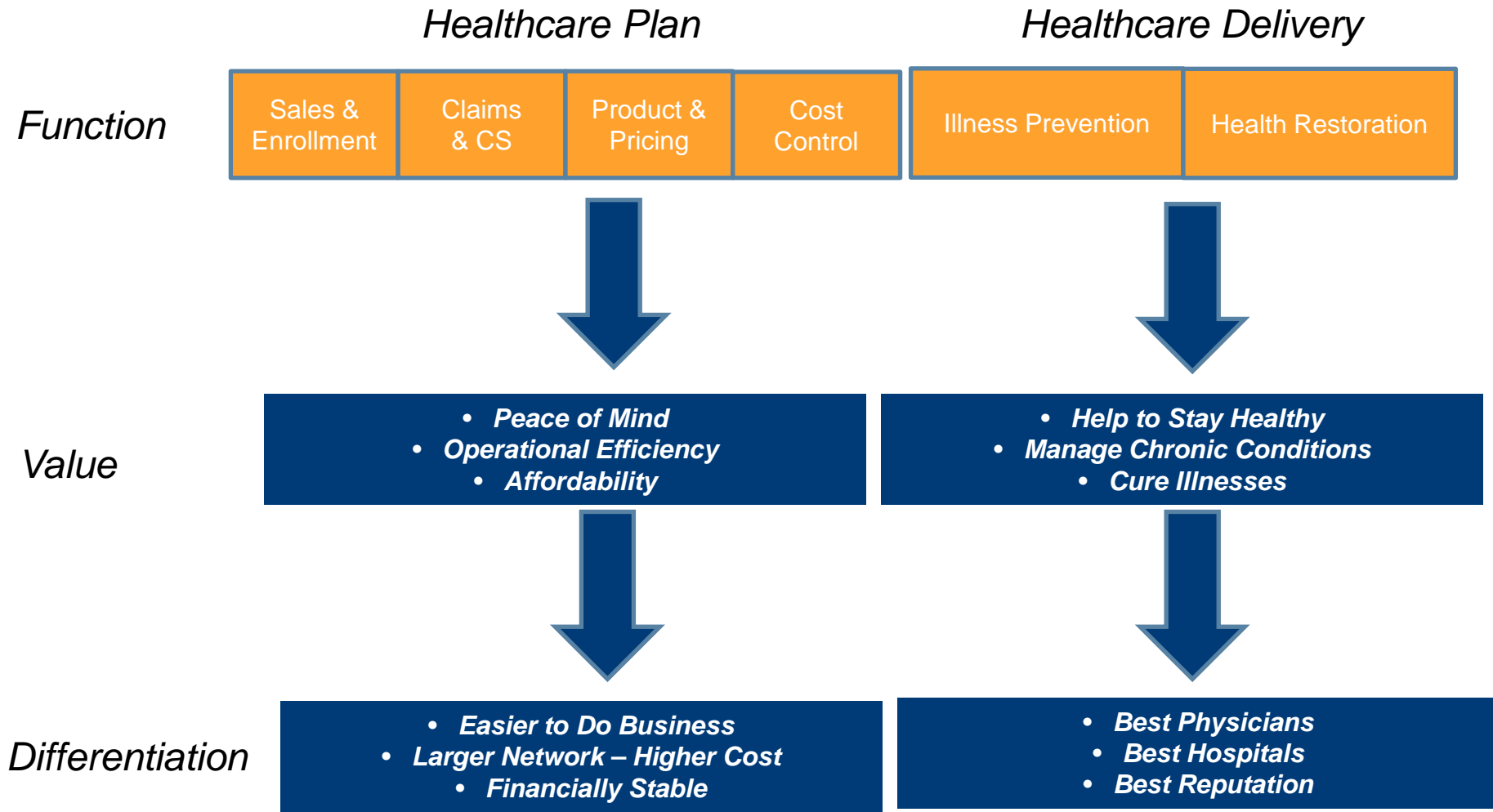
Transparency Products/Regulations:

- Reference Pricing Products
- Massachusetts: Transparency Law; Requires Providers to Provide Costs
- ACA: SBC and Quality Requirements

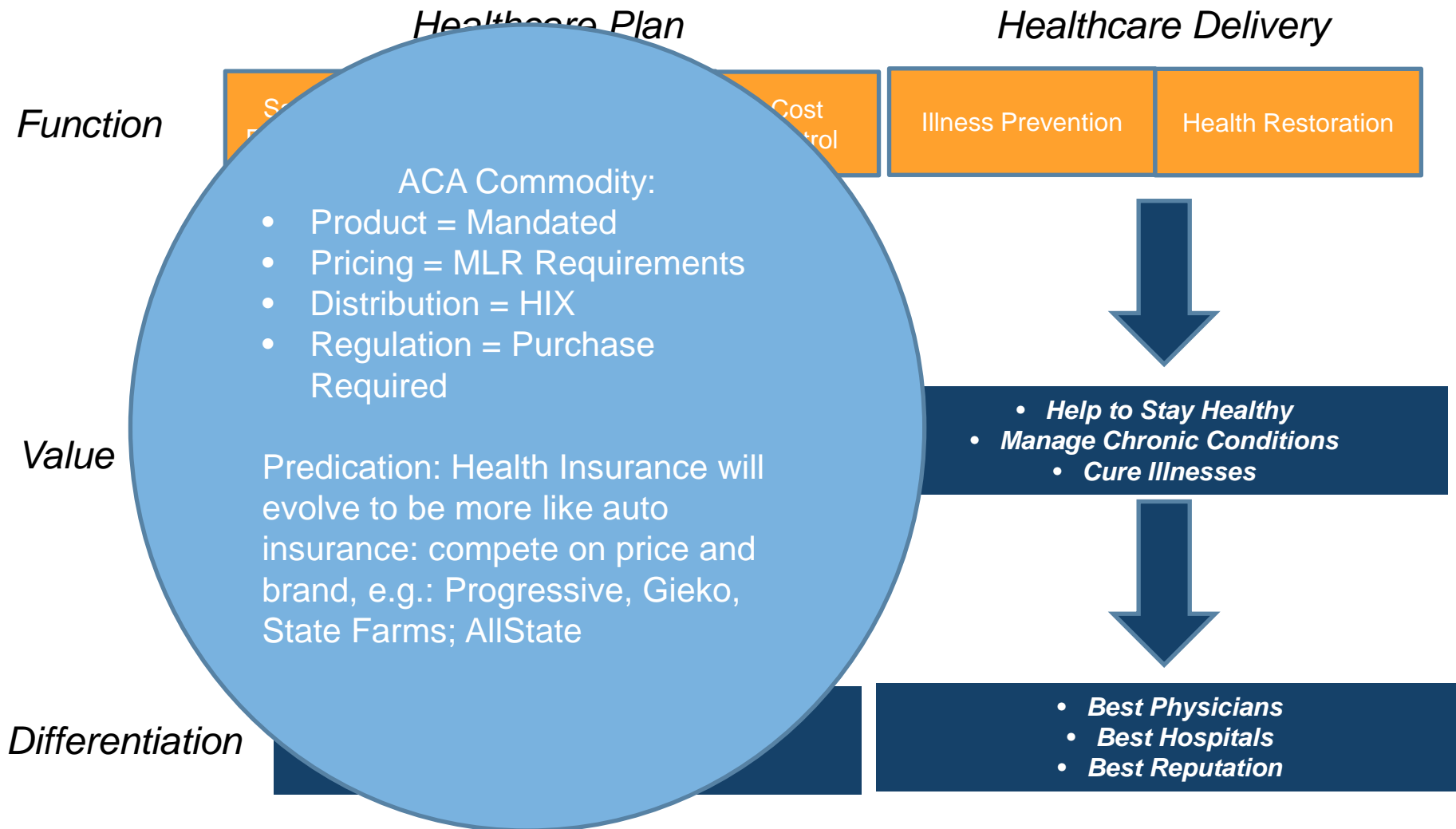
Sources: ¹www.coveredcalifornia.org, ²www.healthleaders.com, ³www.healthleaders.com, ⁴ US Census Bureau, 9/2013, ⁵www.kff.org, Employer Health Benefits Study, 2013

Traditional healthcare value chain

Healthcare plan value is cost control; healthcare delivery system value is quality



Value chain will evolve in retail market; healthcare services will be required to have transparent differentiation



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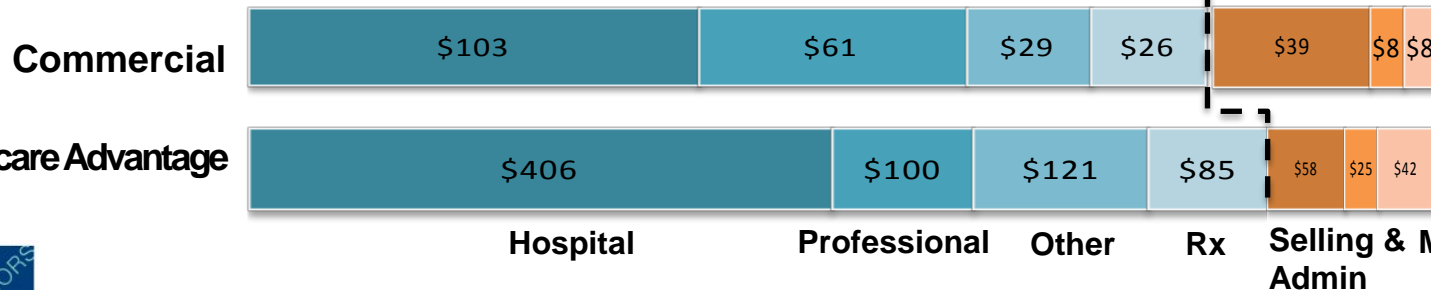
What is the potential economic value of taking on risk; what is 5% health plan margin worth? Is there more revenue available?

Health Plan Revenue



Healthcare Delivery
COST OF CARE
80-85%

Health Plan Mgmt
SG&A
15-20%



Example: Potential health plan ROI at 5% margin

Based on hitting targeted medical loss ratio

	Medicare Advantage		Commercial	
	\$PMPM	Total	\$PMPM	Total
Membership		15,000		75,000
Base Premium	\$1,092.00	\$196,560,000	\$275.00	\$247,500,000
Quality Bonus Payment 5%	\$54.60	\$9,828,000		\$0
Net Risk Adjustment 3%	\$32.76	\$5,896,800		\$0
Total Premium	\$1,179.36	\$212,284,800	\$275.00	\$247,500,000
Hospital	\$571.23	\$102,820,590	\$103.40	\$93,060,000
Professional	\$140.30	\$25,254,180	\$61.38	\$55,239,000
Other Facility & Other	\$170.37	\$30,665,790	\$28.82	\$25,938,000
Pharmacy	\$120.26	\$21,646,440	\$26.40	\$23,760,000
Total Cost of Care	\$1,002.15	\$180,387,000	\$220.00	\$197,997,000
MLR	85%	85%	80%	80%
Total SG&A	\$117.94	\$21,228,480	\$46.75	\$42,075,000
Total Margin 5%	\$59.27	\$10,669,320	\$8.25	\$7,425,000

Source: BDC Analysis; MA Plan Meeting 4-STAR Rating; Commercial based on national average revenue.

Example: value of health plan to health system

Based on meeting targeted MLR at 30% share

Combined revenue for health plan and health system example designed to reference total revenue picture. Opportunity for additional market share through network and benefit design.

	Medicare Advantage			Commercial	
	\$PMPM	Total	30% of Attributed Lives	Total	30% of Attributed Lives
Membership		15,000	4,500	75,000	22,500
Base Premium	\$1,092.00	\$196,560,000		\$247,500,000	
Quality Bonus Payment 5%	\$54.60	\$9,828,000	\$2,948,400	\$0	\$0
Net Risk Adjustment 3%	\$32.76	\$5,896,800	\$1,769,040	\$0	\$0
Total Premium	\$1,179.36	\$212,284,800	\$4,717,440	\$247,500,000	\$0
Hospital	\$571.23	\$102,820,590	\$30,846,177	\$93,060,000	\$27,918,000
Professional	\$140.30	\$25,254,180	\$7,576,254	\$55,239,000	\$16,571,700
Other Facility & Other	\$170.37	\$30,665,790		\$25,938,000	
Pharmacy	\$120.26	\$21,646,440		\$23,760,000	
Total Cost of Care	\$1,002.15	\$180,387,000	\$38,422,431	\$197,997,000	\$44,489,700

Source: BDC Analysis; MA Plan Meeting 4-STAR Rating; Commercial based on national average revenue.

Example: MA analysis designed to show impact of inpatient reductions for health plan to contribution margin

Analysis shows simple “transfer” membership analysis – does not contemplate additional opportunities for expanded MA and/or Commercial market share – backfill....

Analysis notes:

1. Milliman source data
2. Moving from Milliman Loosely Managed to Moderately Managed
3. Contribution margin is projected at 1%.
4. 50% Gainshare.

MA to Medicare Advantage Analysis	2015	2016	2017
Medicare FFS	(15%)	(20%)	(25%)
Projected Lives	15,000	15,000	15,000
Current Revenue from Medicare IP	\$60,611,803	\$60,611,803	\$60,611,803
Projected Revenue from Medicare IP	\$51,944,962	\$49,056,015	\$46,167,068
Projected Reduction in Revenue from MA Utilization Reduction	(\$8,666,841)	(\$11,555,788)	(\$14,444,735)
Medicare Contribution Margin %	1%	1%	1%
Contribution Margin Impact from IP Reductions	(\$86,668)	(\$115,558)	(\$144,447)
Current Revenue from Medicare OP	\$90,050,400	\$90,050,400	\$90,050,400
Projected Revenue from Medicare OP	\$76,095,015	\$71,443,221	\$66,791,426
Projected Reduction in Revenue from MA Utilization Reduction	(\$13,955,385)	(\$18,607,179)	(\$23,258,974)
Medicare Contribution Margin %	1%	1%	1%
Contribution Margin Impact from OP Reductions	(\$139,554)	(\$186,072)	(\$232,590)
Total Contribution Margin Impact from Total MA Reductions	(\$226,222)	(\$301,630)	(\$377,037)
Medicare Advantage			
Projected Lives	15,000	15,000	15,000
Projected MA \$PMPM Revenue	\$1,179	\$1,179	\$1,179
Total MA Projected Revenue	\$212,284,800	\$212,284,800	\$212,284,800
Projected % Reduction from FFS Medicare Costs	15%	20%	25%
Projected MA \$PMPM Care Costs	\$1,017	\$1,002	\$983
Total MA Projected Care Costs	\$183,060,000	\$180,387,000	\$176,940,000
Projected MA \$PMPM SG&A Costs	\$118	\$118	\$118
Total MA Projected SG&A Costs	\$21,228,480	\$21,228,480	\$21,228,480
Total Projected Margin	\$7,996,320	\$10,669,320	\$14,116,320
50% Gainshare of Margin	\$3,998,160	\$5,334,660	\$7,058,160
Net Gain/Loss of MA - Contribution Margin + 50% Gainshare	\$3,771,938	\$5,033,030	\$6,681,123

Source: BDC Analysis; MA Plan Meeting 4-STAR Rating.

Example: Importance of Implementation & Commitment

Provider Sponsored MA Plan Enrollment Build

PROVIDER ORGANIZATION INFO							ENROLLMENT TRAJECTORY							OVERALL MCARE			
Parent Organization	Marketing Name	State	# Counties w/ Enroll	STAR Rating	HMO/HMO POS	Local PPO	2007	2008	2009	2010	2011	2012	2013	2013 MA Share	Mcare Eligible	Indiv MA Enrollees	Indiv MA Penet
Gundersen Lutheran Health System Inc.	Gundersen Lutheran HP	IA, WI		5	1999		10,433	10,500	10,753	11,434	12,274	12,997	13,511	44.5%	95,957	30,354	32%
		MN		5	2013 MN							272					
4 Catholic Health Hospitals	Advantage Health Solutions	IN		3	2006		1,997	2,096	2,075	2,866	4,765	6,484	12,938	9.8%	697,512	131,388	19%
				2.5		2009			52	341	1,314	1,878	1,397				
Williamette Valley IPA, Cascade Comprehensive Care & Douglas County IPA	Atrio Health Plans	OR		3	2006		3,236	3,797	3,326	4,116	1,951	1,982	1,992	8.2%	366,582	153,694	42%
				3.5	2006		3,243	3,412	3,905	3,967	3,264	3,173	3,268				
				4.5		2010				411	1,883	2,605	2,635				
				4		2011					2,944	4,451	4,775				
Spectrum Health System	Priority Health	MI		4.5	2005		5,638	7,671	10,664	25,063	46,821	61,132	71,475	32.5%	1,455,843	220,258	15%
				4		2010				3,002	1,607	2,970	3,802				
Trinity Health	Carmel Health Insurance	OH		3.5	1997		21,256	22,806	25,648	27,643	28,165	29,986	35,164	18.6%	748,699	189,112	25%
				TBD		2009			113	592	679	630	756				
AVERAGE														22.7%			

Source: CMS Enrollment Data, 2007-2013
PSHP Market Analysis