# THE ECONOMICS OF CHANGE: CHALLENGES AND OPPORTUNITIES


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# BIG POTENTIAL

Smile:  It's Contagious


Not Self-Help.  Your network matters.
Not Survival of the Fittest.  Survival of the Best Fit

Get Linked to the Right People
"Light up Together"
The Power of Inclusion

# WISDOM FROM GERGEN

- Major Uncertainties and Economic Challenges (especially the Deficit and Debt)
- International Challenges
  - American Leadership in the Post World War II Order
  - Syria, North Korea and Iran will come to a head soon
  - Global Trade Wars in the offing
- The Trump Factor
  - “Moral Tone for the Country”
  - Wide range of possibilities but President will likely be there until 2020
  - Elections Matter
- Hope for the Future and Help is on The Way
  - Macron, Trudeau
  - Women Ascendant in Political Leadership
  - Veterans:  Modest, Brave, Patriotic, Bipartisan, Disciplined and Moderate

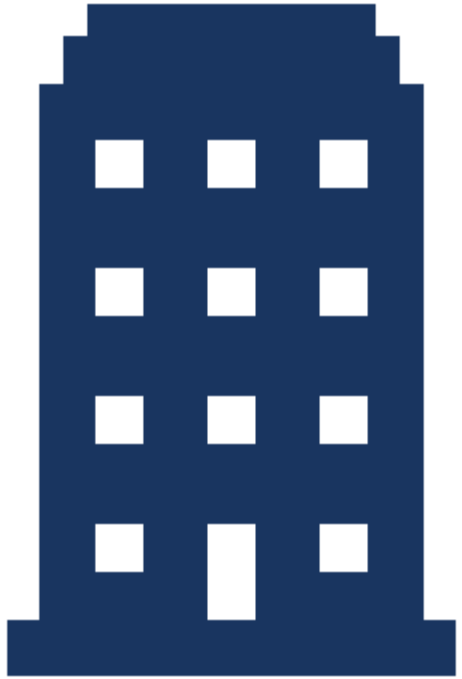
# OUTLINE

- The Economics of Change:  Challenges and Opportunities
  - Political and Policy Uncertainty
  - Unaffordability for Business, Government and Households
  - Scale, Consolidation and Disruption
- Strategic Implications

# POLITICAL AND POLICY UNCERTAINTY

# Three Payers

LEAVITT PARTNERS



Business

Government

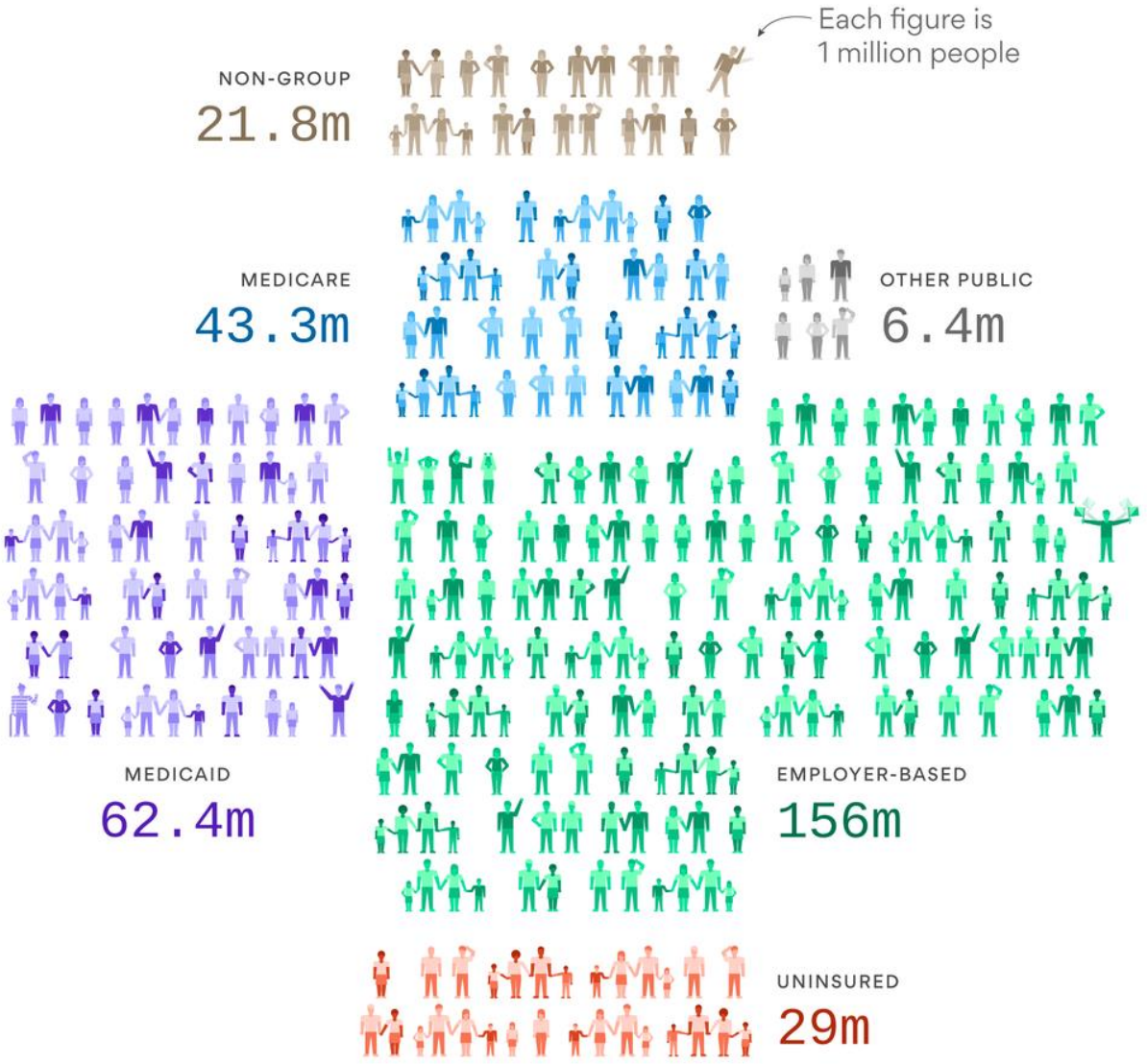
Households

But ultimately **it all comes from households** whether as taxes, foregone income at work, or directly as out of pocket costs and premiums paid by consumers

# How Americans Get Health Insurance, 2017

LEAVITT PARTNERS

- ACA has impacted a small portion of the insurance market relative to how it is covered in the public debates on health care
- Medicaid is now the largest public insurance program and covers many of the neediest beneficiaries as well as expansion populations
- Medicare is highly valued and Medicare Advantage grows
- Employer-Sponsored health insurance for most Americans and it is the financial lifeblood of the delivery system




SOURCE: Axios interpretation of KFF data, July 2017

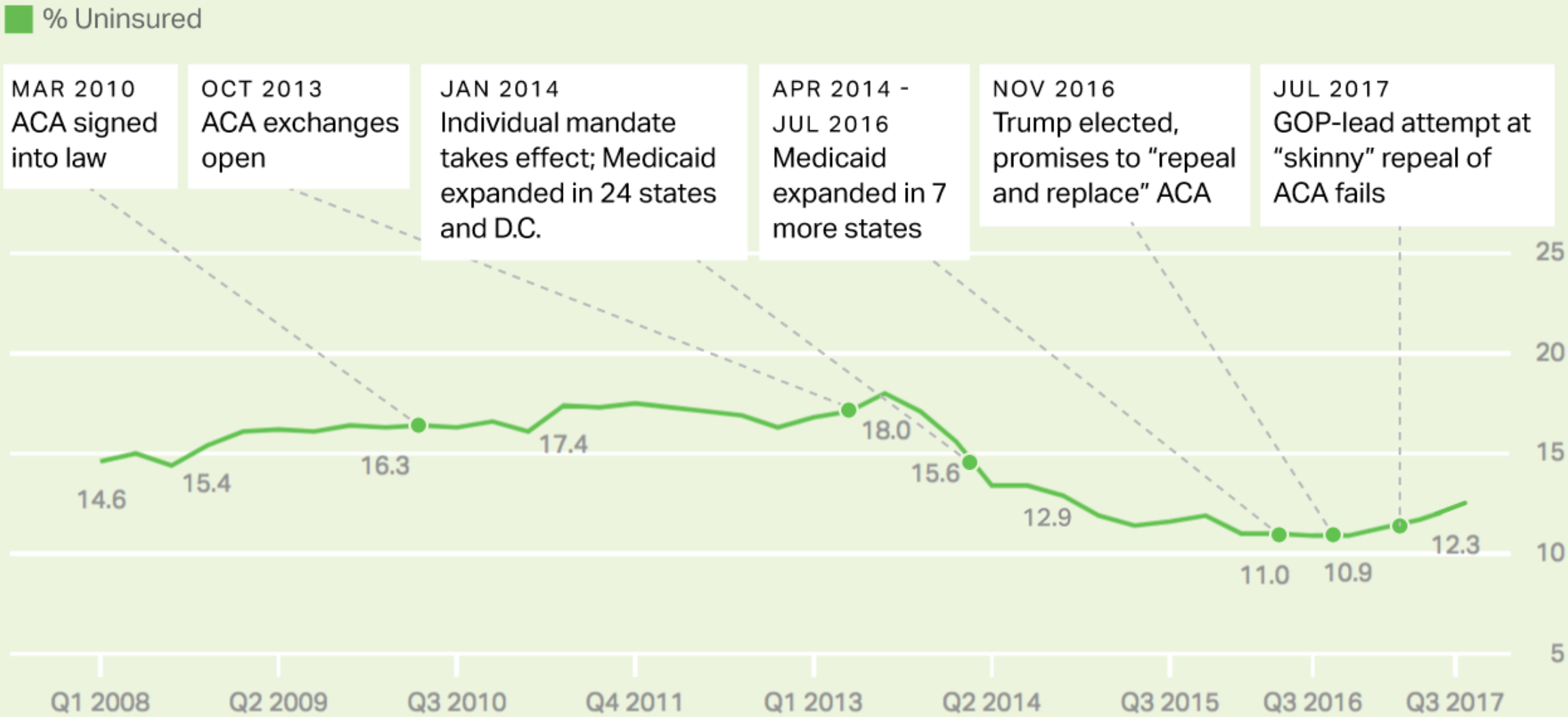
# Top Half Of The Income Distribution Are Mostly Privately Insured, Bottom Half Are Mostly Publicly Insured, 2015

LEAVITT PARTNERS

| Household Income | Number of Households (millions) | Any Health Insurance (percent) | Private Health Insurance (percent) | Government Health Insurance (percent) | Uninsured (percent) |
|---|---|---|---|---|---|
| Less than $25,000 | 52.0 | 85.2% | 30.8% | 66.6% | 14.8% |
| $25,000-49,999 | 65.3 | 87.5% | 53.2% | 50.8% | 12.5% |
| $50,000-$74,999 | 55.1 | 90.4% | 70.4% | 34.6% | 9.6% |
| $75,000-$99,999 | 43.1 | 92.7% | 79.7% | 27.2% | 7.3% |
| $100,000 or more | 103.3 | 95.5% | 87.4% | 19.1% | 4.5% |

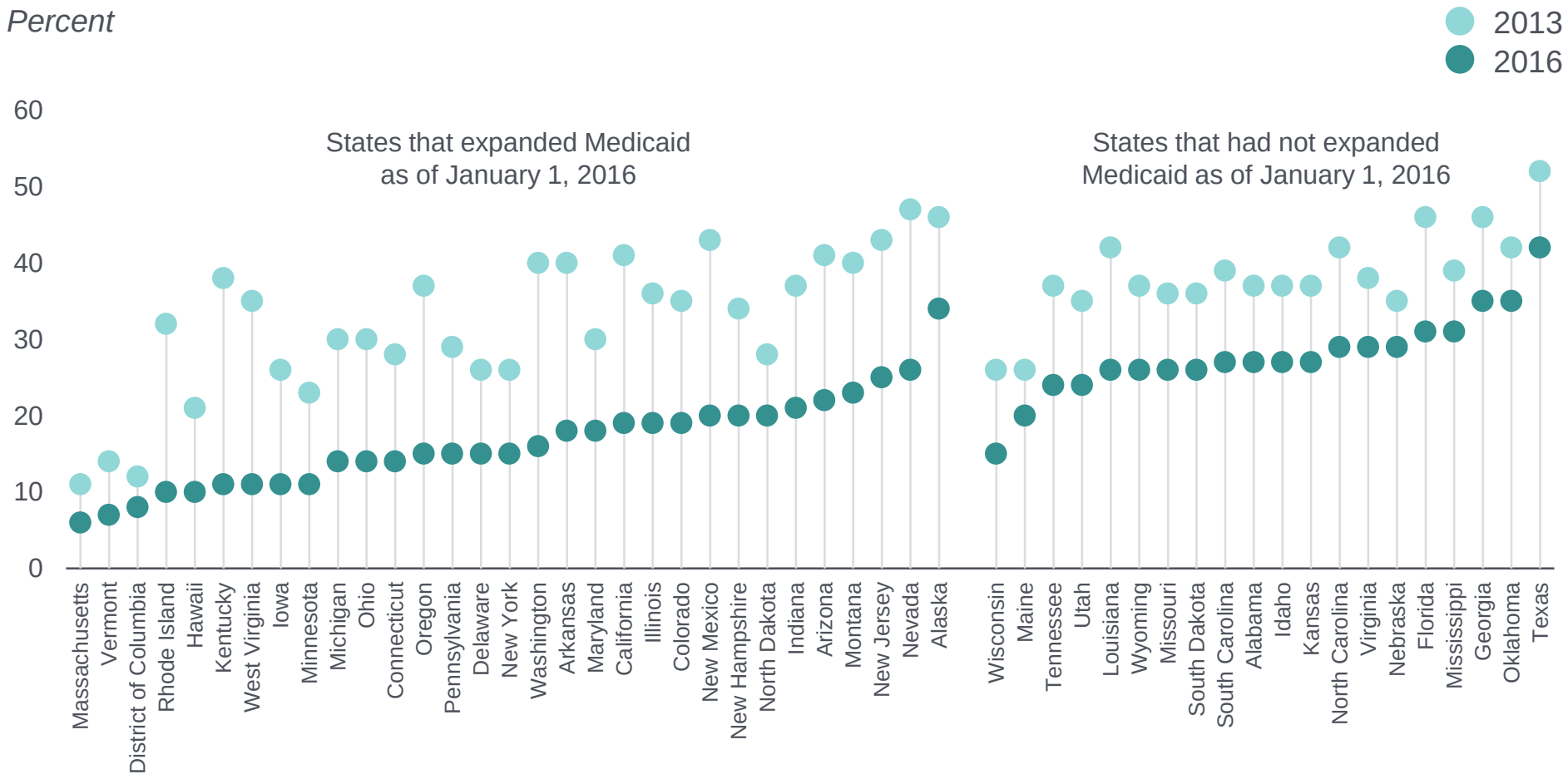
SOURCE: US Census Bureau, cited in Federal Reserve , 2017

# Percentage of U.S. Adults Without Health Insurance, 2008-2017




GALLUP-SHARECARE WELL-BEING INDEX

# STATES THAT EXPANDED MEDICAID SAW THE GREATEST REDUCTIONS IN UNINSURED LOW-INCOME ADULTS AGES 19–64



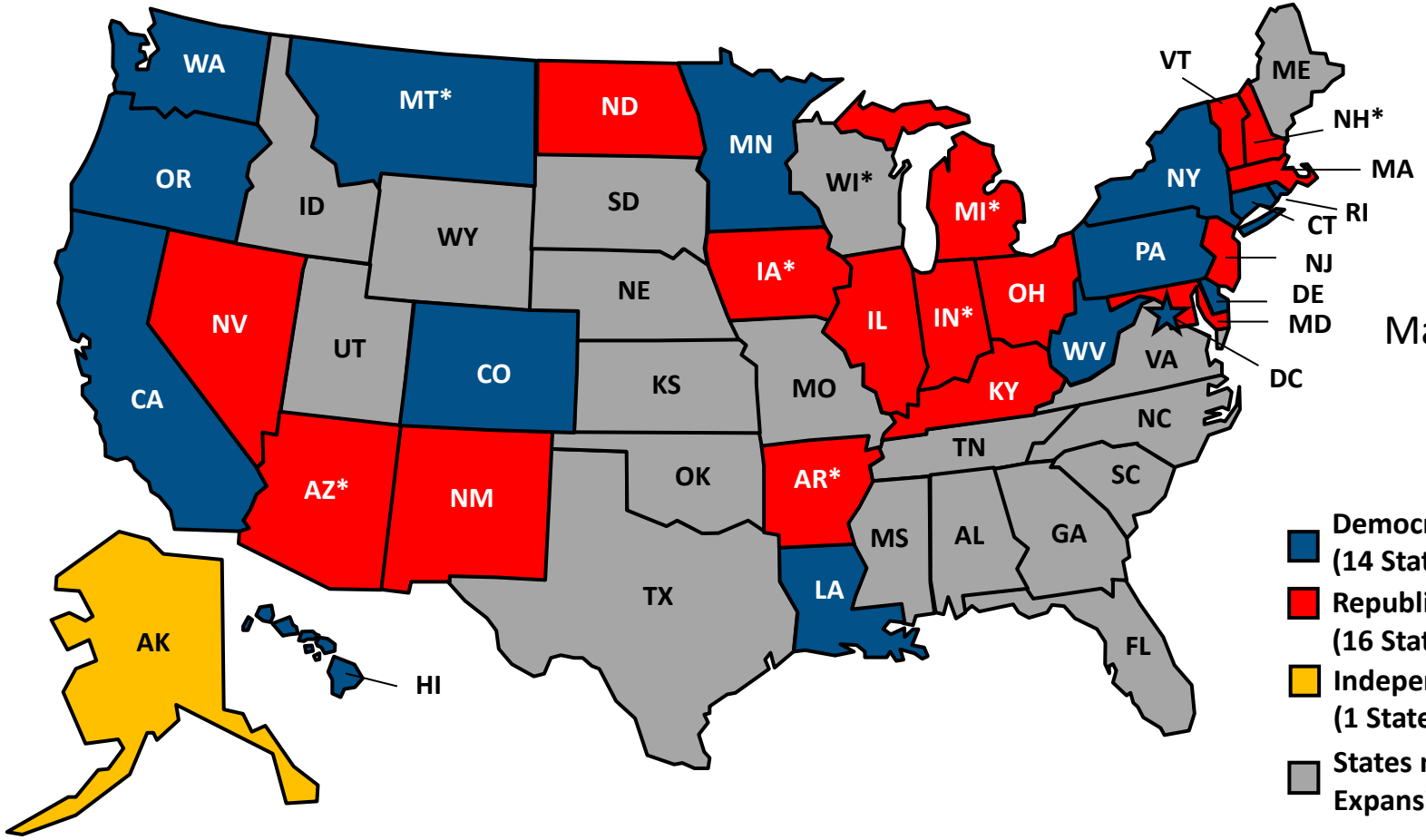

Notes: Low-income defined as living in a household with income <200% of the federal poverty level. States are arranged in rank order based on their current data year (2016) value. Louisiana expanded its Medicaid program after January 1, 2016. For the purposes of this exhibit, we count the District of Columbia as a state.

Data source: U.S. Census Bureau, 2013 and 2016 1-Year American Community Surveys, Public Use Micro Sample (ACS PUMS).

The Commonwealth Fund

Source: S. L. Hayes, S. R. Collins, D. Radley, and D. McCarthy, *What's at Stake: States' Progress on Health Coverage and Access to Care, 2013–2016,* The Commonwealth Fund, December 2017.

# 32 STATES EXPANDED COVERAGE FOR ADULTS THROUGH THE ACA EXPANSION (17 STATES WITH REPUBLICAN OR INDEPENDENT GOVERNORS)




Maine voted to expand Medicaid

- Democratic Governor (14 States + DC)
- Republican Governor (16 States)
- Independent Governor (1 State)
- States not Implementing Expansion (19 States)

NOTES: Coverage under the Medicaid expansion became effective January 1, 2014 in all but seven expansion states: Michigan (4/1/2014), New Hampshire (8/15/2014), Pennsylvania (1/1/2015), Indiana (2/1/2015), Alaska (9/1/2015), Montana (1/1/2016), and Louisiana (7/1/2016). Seven states that will have Republican governors as of January 2017 originally implemented expansion under Democratic governors (AR, IL, KY, MA, MD, NH, VT), and one state has a Democratic governor but originally implemented expansion under a Republican governor (PA). *AR, AZ, IA, IN, MI, MT, and NH have approved Section 1115 expansion waivers.

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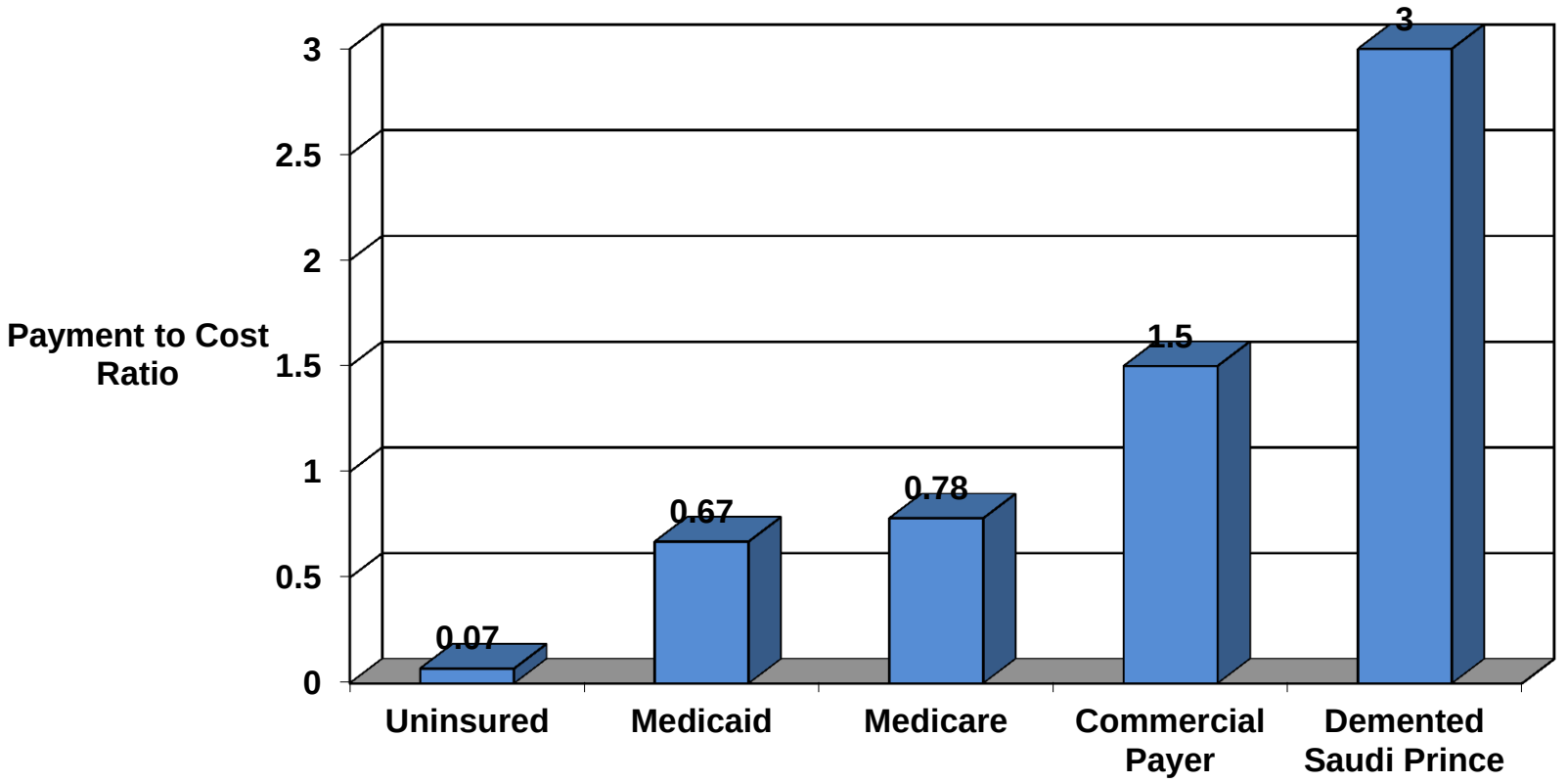
# PAYMENT TO COST RATIO (ILLUSTRATIVE)




Source: Morrison Estimates, in other words a good guess

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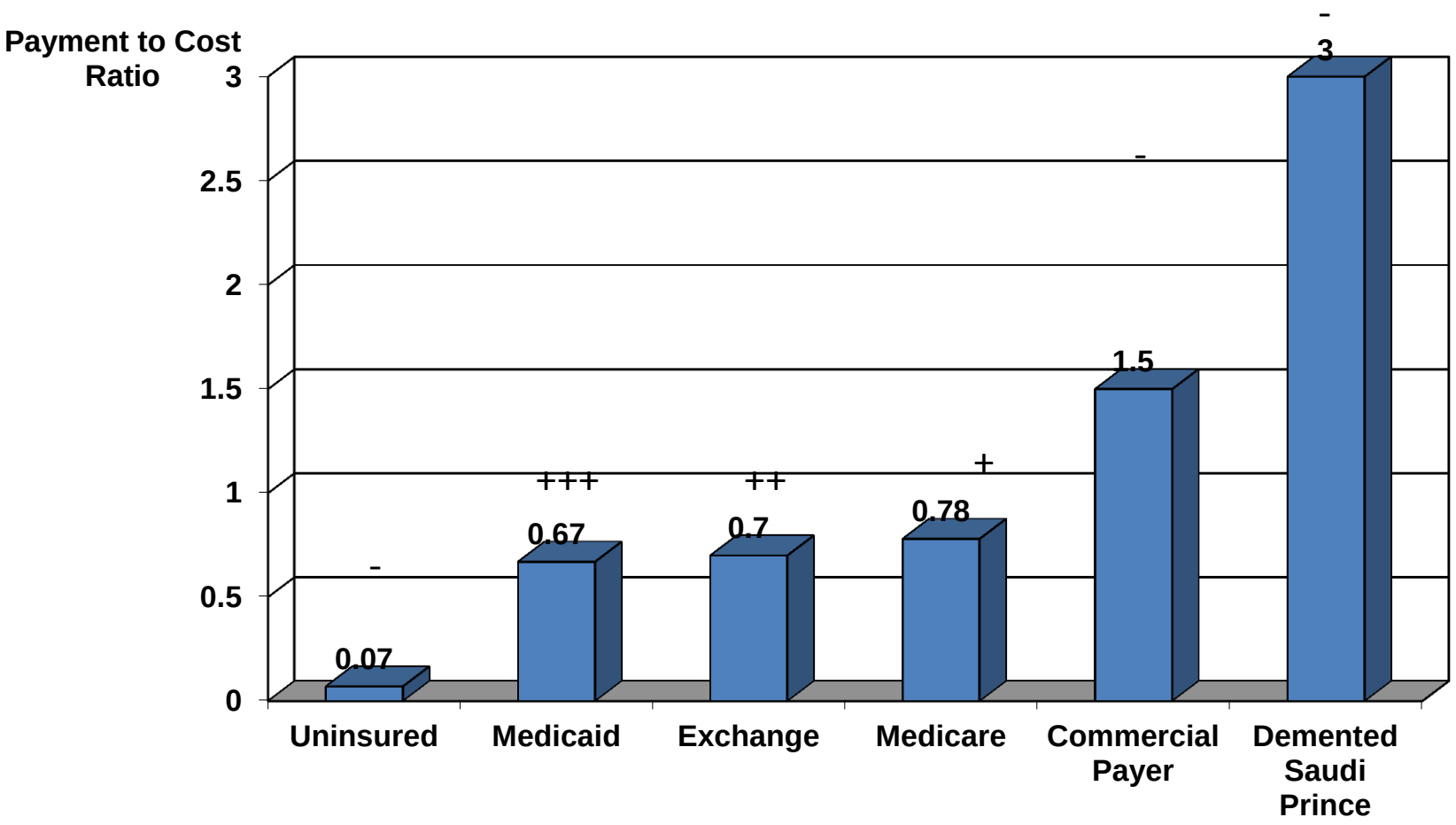
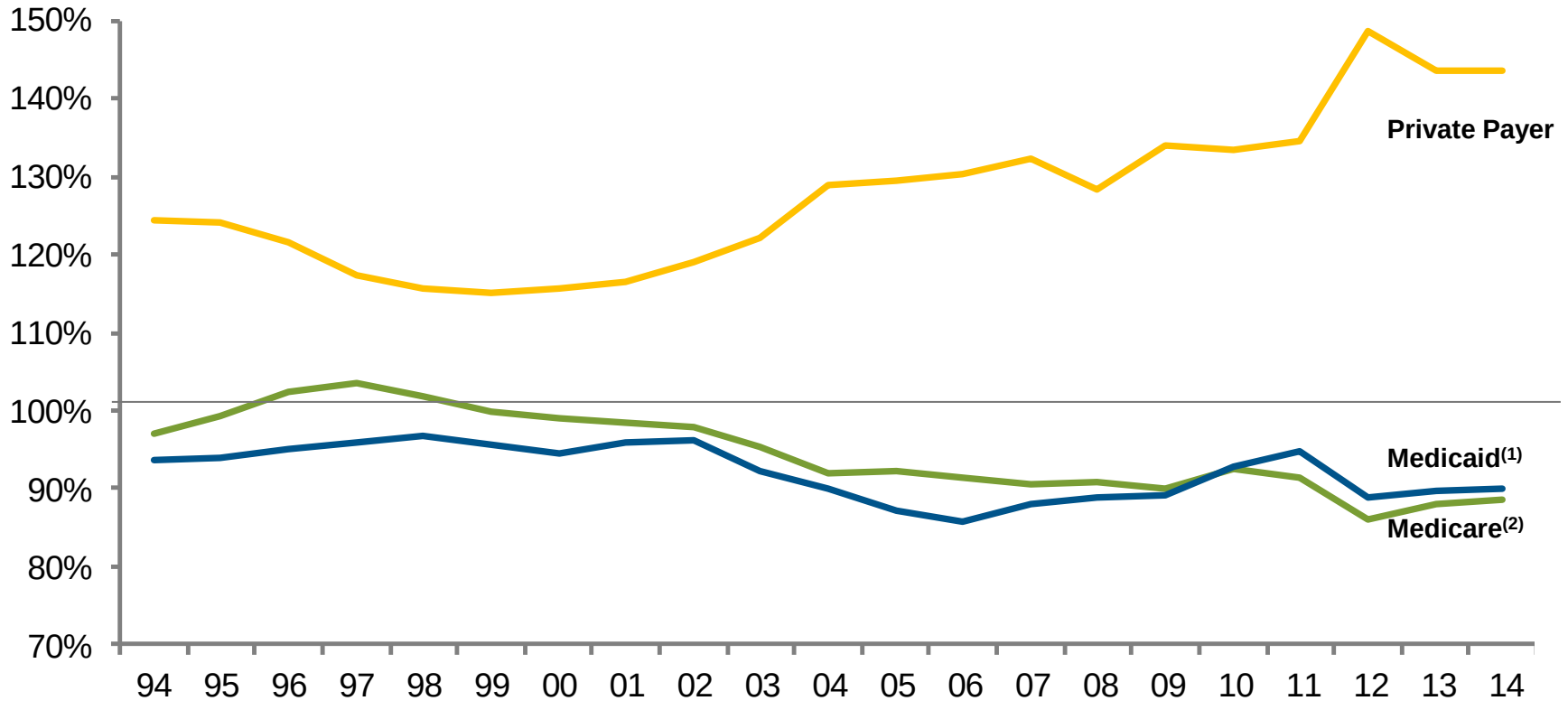



Source: Morrison Estimates, in other words a good guess

# AGGREGATE HOSPITAL PAYMENT-TO-COST RATIOS FOR PRIVATE PAYERS, MEDICARE AND MEDICAID, 1994 – 2014

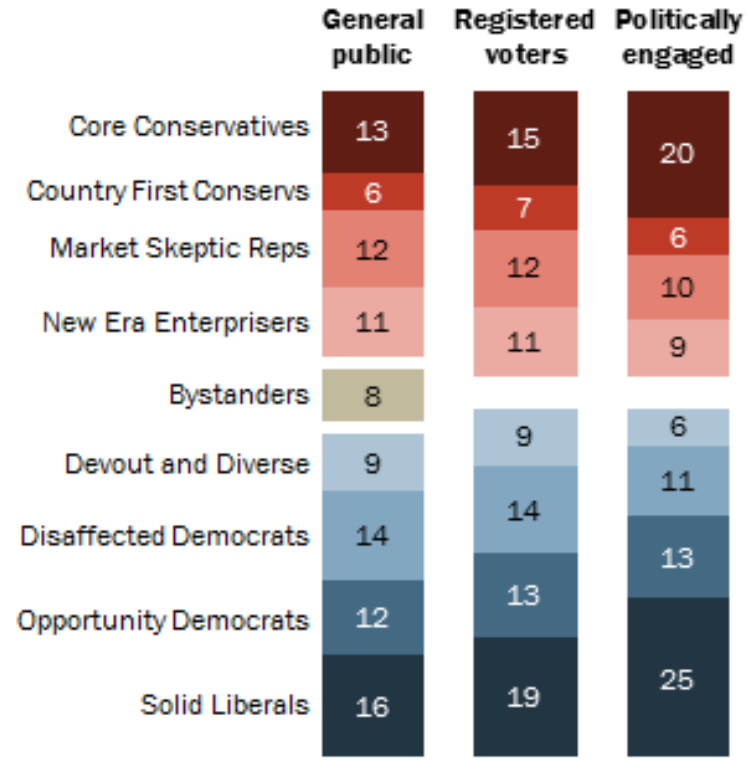



Source: Analysis of American Hospital Association Annual Survey data, 2014, for community hospitals.
(1) Includes Medicaid Disproportionate Share payments.
(2) Includes Medicare Disproportionate Share payments.

# A POLARIZED ELECTORATE: BECOMING MORE POLAR

## The 2017 political typology: Anchored by Core Conservatives, Solid Liberals

*Typology groups as a percentage of ... (%)*

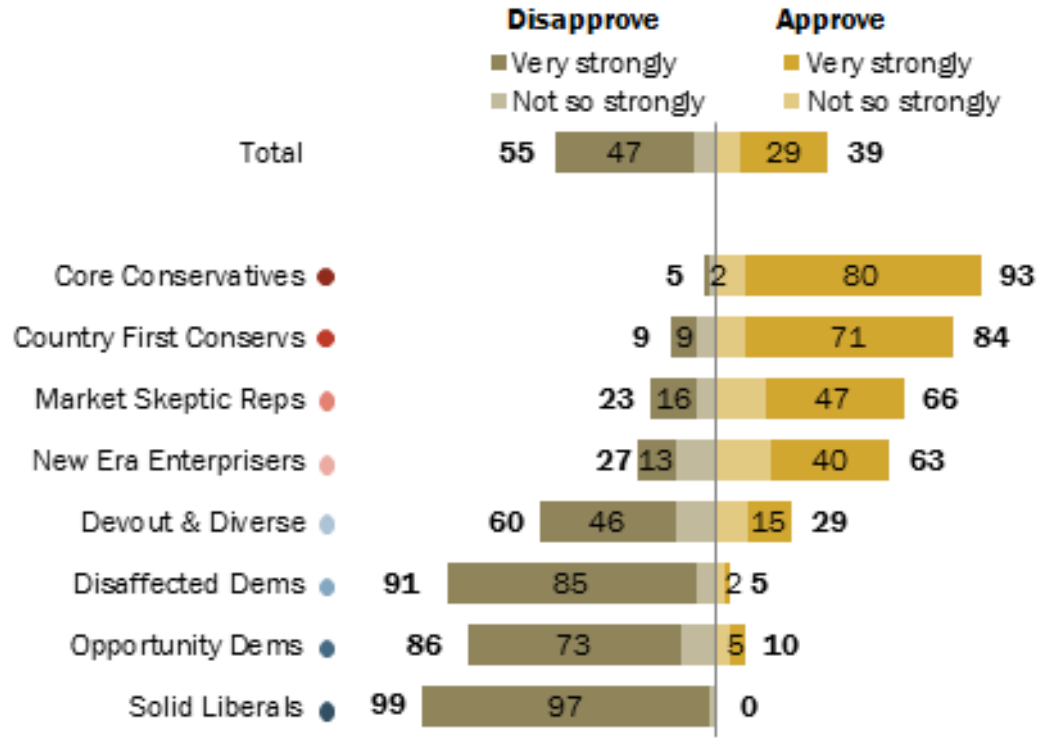



Source: Survey conducted June 8-18 and June 27-July 9, 2017.

PEW RESEARCH CENTER

## Strong approval for Trump in the two conservative groups; nearly all Solid Liberals strongly disapprove

*% who ____ of the job Donald Trump is doing as president*

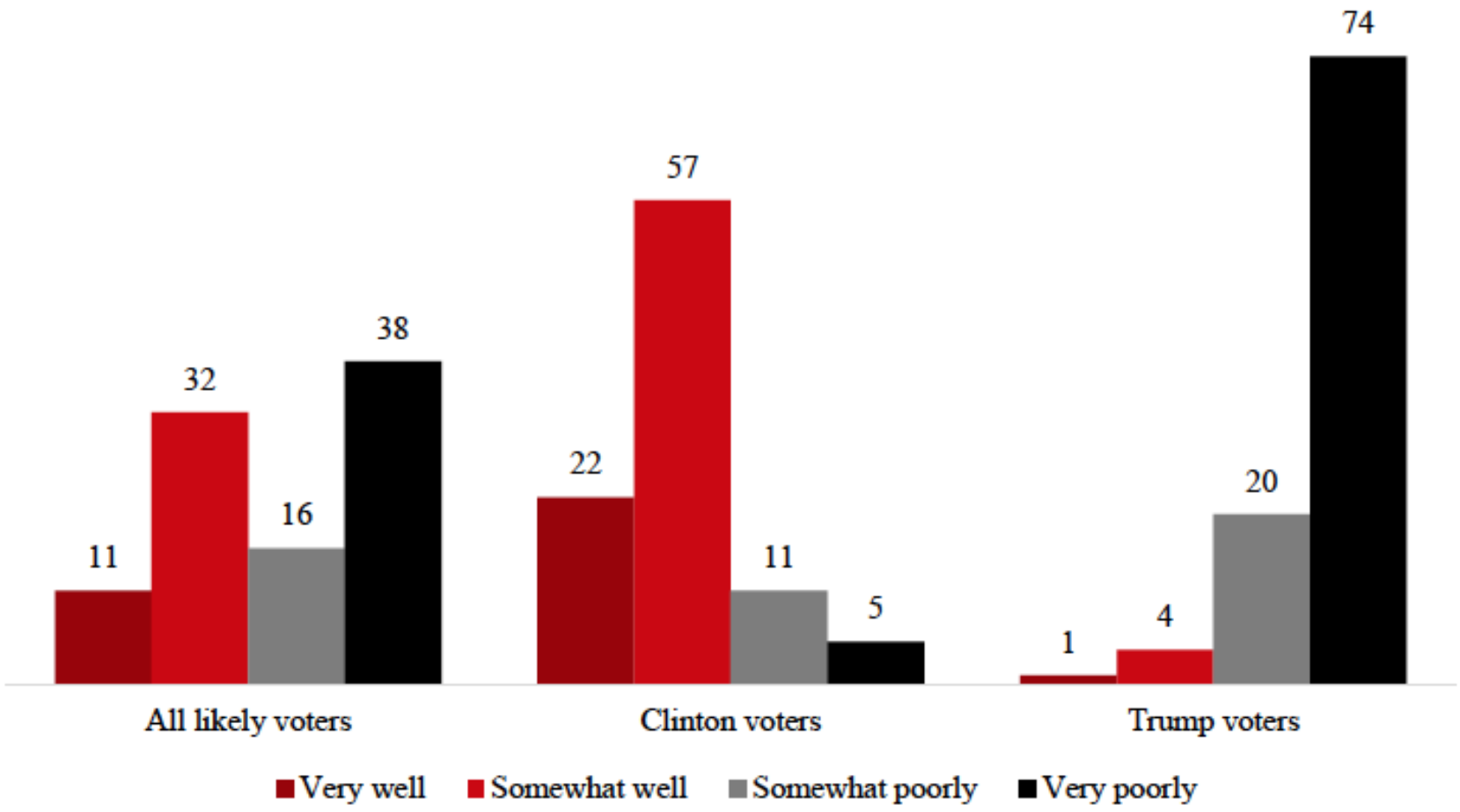



Source: Survey conducted June 8-18, 2017.

PEW RESEARCH CENTER

# THE PARTISAN DIVIDE ON HEALTHCARE

Figure 3:
Voters' Evaluations of How Well the ACA is Working

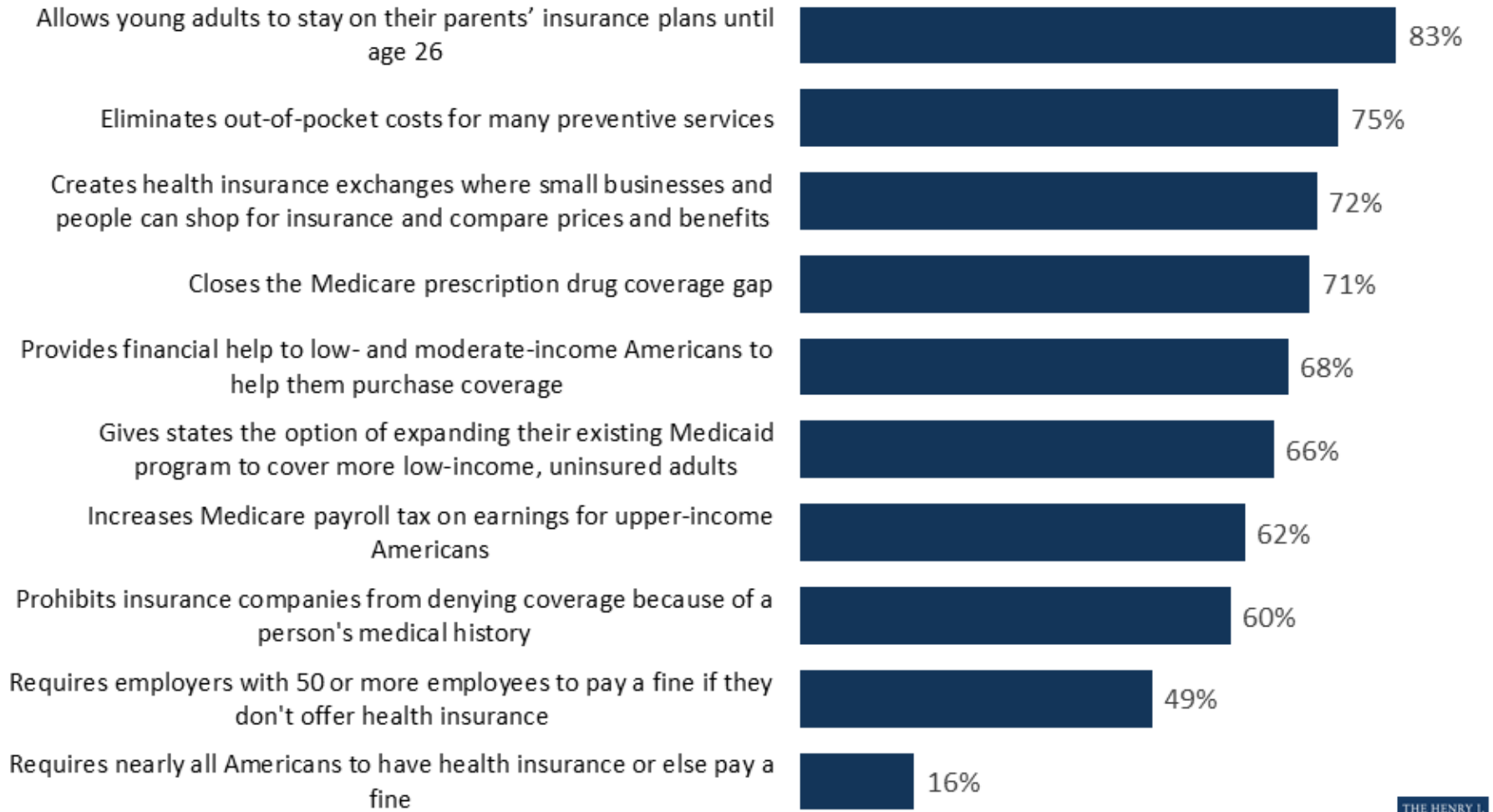



Source: Harvard/Politico October 2016

Figure 12

# Majority of Trump Voters Have Favorable Opinion of Many ACA Provisions

AMONG TRUMP VOTERS: Percent who favor each of the following specific elements of the health care law:




NOTE: Some items asked of half samples. Question wording abbreviated. See topline for full question wording.
SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted November 15-21, 2016)

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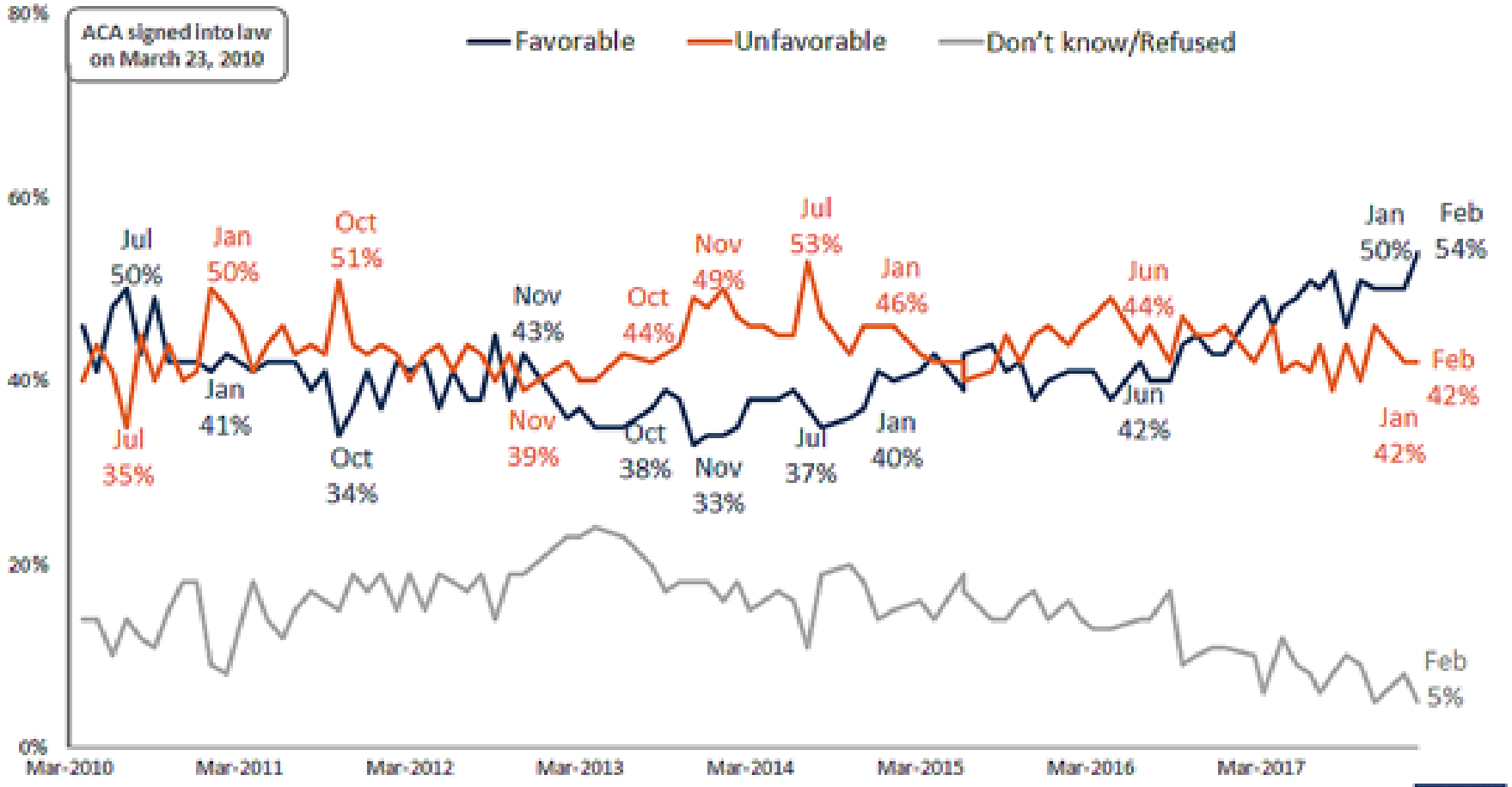
# Over Half of the Public Holds a Favorable View of the ACA, Marking the Highest Level of Favorability Measured Since 2010

As you may know a health reform bill was signed into law in 2010, known commonly as the Affordable Care Act or Obamacare. Given what you know about the health reform law, do you have a generally favorable or generally unfavorable opinion of it?




SOURCE: Kaiser Family Foundation Health Tracking Polls

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# Health Care Is A "Budget Buster" At The Federal Level

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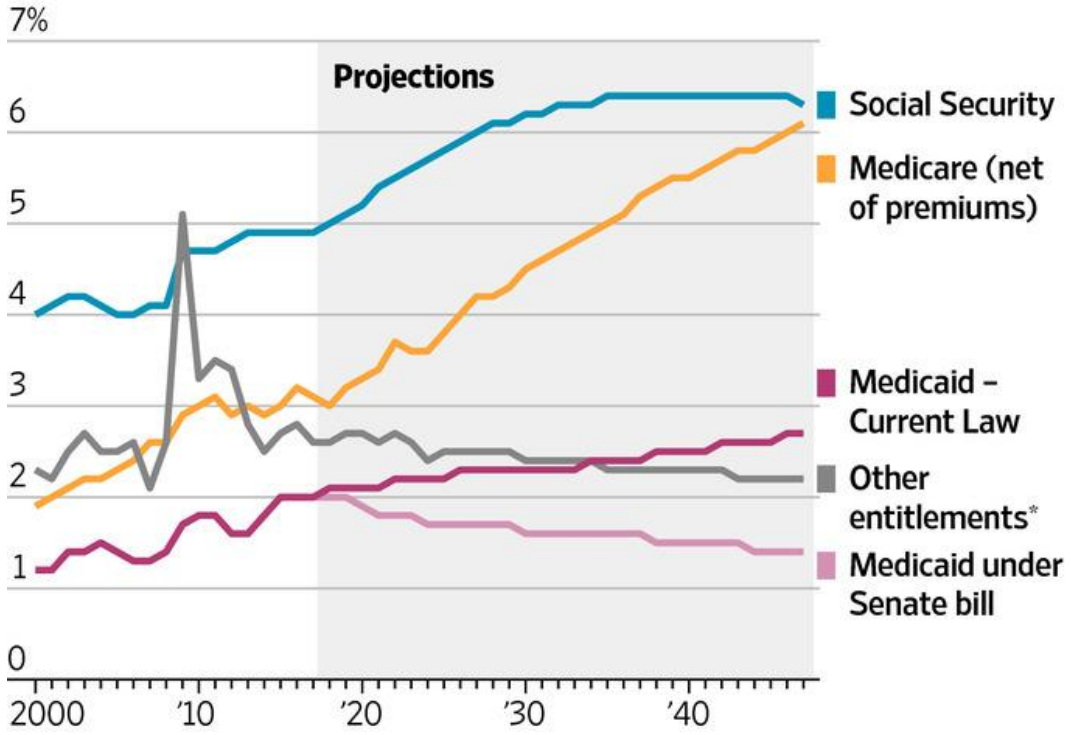
## Where the Costs Are

Social Security and Medicare as a share of GDP are growing much more rapidly than Medicaid, which would actually fall under the Senate proposal.



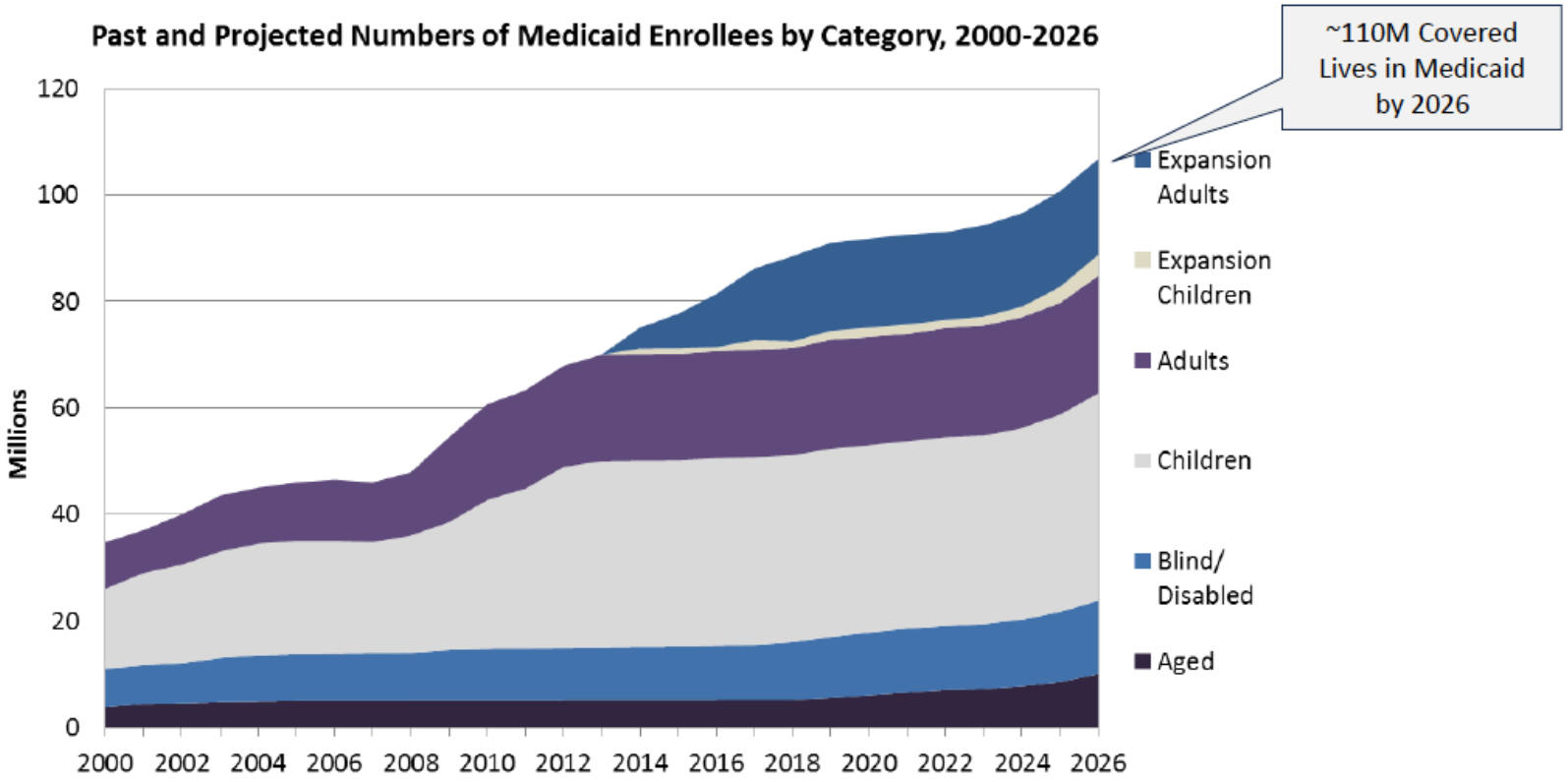

*Includes refundable tax credits, food stamps, welfare, veterans pensions, and the Trouble Asset Relief Program; excludes ACA subsidies and Children's Health Insurance Program
Sources: Congressional Budget Office; Committee for a Responsible Federal Budget (Medicaid estimates)

THE WALL STREET JOURNAL.

# Before Repeal and Replace: Medicaid Projected to Reach 110 Million

LEAVITT PARTNERS

## Projected Medicaid Enrollment




SOURCE: LP Analysis based on Medicaid Spending and Enrollment Detail for CBO's March 2016 Baseline.

Note: Enrollment numbers are "total ever enrolled."

# REPUBLICAN REFORM PRINCIPLES

- Make Consumers Responsible
- Make States Responsible
- Make Price and Quality Transparent
- Make Insurance Cheaper
- Make it More Market Oriented with Less Regulations
- Make Medicare Modern (Maybe Later)
- Make Medicaid a Managed Care Program
- Make the Deficit and Debt Go Down
- But……Don’t get Rid of Guaranteed Issuance
- And don’t throw 20 million off the insurance rolls

# MAKE INSURANCE CHEAPER

- Cheaper for whom?
- More competition, maybe….
- Get Rid of the Lines
- But the key is what is covered and how much providers are paid
- State High Risk Pools Cut off the tail of high spenders a tiny little bit but at a high cost
- Change the Essential Benefits to “Remove the Frills”
- Lower the Actuarial Value of the Plans
- Change the Age Bands
- Remove Guaranteed Issuance (This is the Big One)
- Remove Lifetime Caps

# REPEAL AND REPLACE IS LIKE BREAKING UP THE BEATLES: JUST KEEP GEORGE AND RINGO AND EXPECT IT TO SOUND GOOD

Taxes and Fees Raised

Mandates

Subsidies to Medicaid and Exchanges

Guaranteed Issuance

Stay on Parents Plan

”All you are left with is Ringo” Chris Jennings

“Republican policies are ideologically coherent, they just aren’t actuarially coherent.” Ian Morrison

# IDEOLOGICAL REPEAL AND REPLACE

- Use Executive Orders
  - Association Health Plans
  - "Across State Lines"
  - Essential Benefits Erosion
- Cut CSRs (maybe we don't want them back)
- Zero out the individual mandate fine for 2019 and beyond
- Cut Medicare and Medicaid Budgets
- Give back Obamacare Taxes to rich people in Tax Reform
- Don't enforce the Law
- "The Secretary shall".....Maybe Not
- Waiver Authority to states
  - Fees for Medicaid
  - Work Requirements
  - Short term plans
  - Essential Benefits/Life time Caps?
- New DHHS Head
- Position this as Repeal and Replace, short term
- Go for Block Grants long term
- Irony: 2018 Signups went well 12.2 million and 80% can get plans for less than $75 per month, 11 million will effectuate

Sources: Charles Gaba ACA Signups, @Aslavitt, Leavitt Partners

**TOP STATES IN 2018 EXCHANGE ENROLLMENT**

| STATE | ENROLLMENT (000) |
|---|---|
| FLORIDA | 1,760 |
| CALIFORNIA | 1,401 |
| TEXAS | 1,227 |
| NORTH CAROLINA | 549 |
| GEORGIA | 493 |
| PENNSYLVANIA | 426 |
| VIRGINIA | 410 |
| MICHIGAN | 321 |
| NEW JERSEY | 295 |
| MASSACHUSETTS | 238 |
| MO, WI, NY, OH | 238-242 |

# MEDICAID EXPANSION MATTERS: SOME DID, SOME DIDN'T AND AMONG THOSE WHO DID SOME RED SOME BLUE

| | Population | Medicaid Pre ACA | Medicaid Post ACA November 2017 | Exchange Enrollment 2018 Paid QHP |
|---|---|---|---|---|
| Oklahoma | 3,921,000 | 790,051 | 793,326 0% | 131,657 |
| Nebraska | 1,876,100 | 244,600 | 240,981 -1% | 75,934 |
| Kansas | 2,865,000 | 378,160 | 387,500 +3% | 88,902 |
| Arkansas | 2,945,300 | 556,851 | 905,869 +63% | 63,364 |
| Colorado | 5,509,200 | 783,420 | 1,352,546 +73% | 155,125 |
| Arizona | 6,890,200 | 1,201,770 | 1,728,003 +41% | 155,125 |

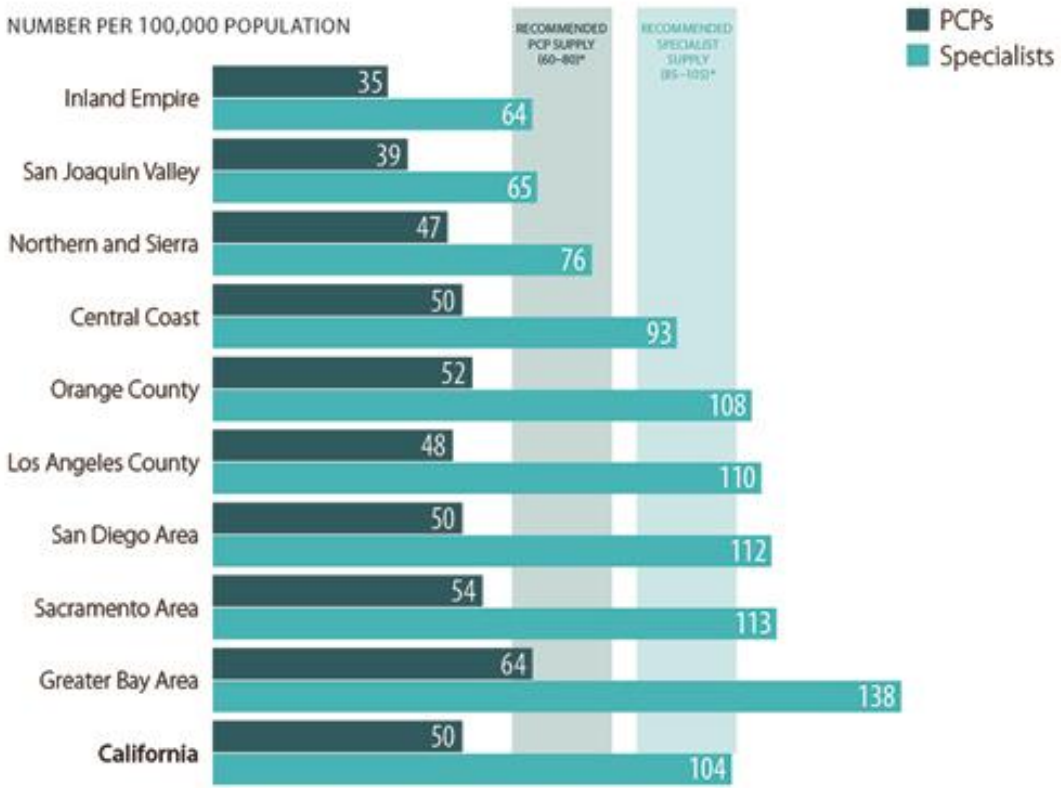
Source: Charles Gaba ACA Signups, 2018 and KFF 2018

# CALIFORNIA CONTEXT

- A quarter of all newly insured in the US are Californians
- California received $20 billion per year of net new federal money ($15 billion for Medicaid expansion, $5 billion in exchange subsidies) these numbers are growing each year
- Roughly a third of Californians are on Medi-Cal (40% in LA County, over 50% in much of the Central Valley)
- California has maxed out Medicaid matching dollars using provider taxes and waivers
- Currently 65% of Medicaid is paid by the Federal government (historically that was less than 50%)
- California has about the lowest rate of provider reimbursement for Medicaid
- Kaiser has doubled its Medicaid enrollment program wide since 2013 to 942,000 (up from 377,000 to 709,000 in California alone)
- In California 40% price differential North to South on commercial rates
- HMO higher performing on Value than PPO
- Medical groups are key to value
- Covered California is the highest functioning exchange in the country, but dependent on the flow of federal dollars for subsidies

Sources: KFF, CHCF, Covered California 2017, Kaiser Permanente

# Primary Care Physicians and Specialists
## by California Region, 2015



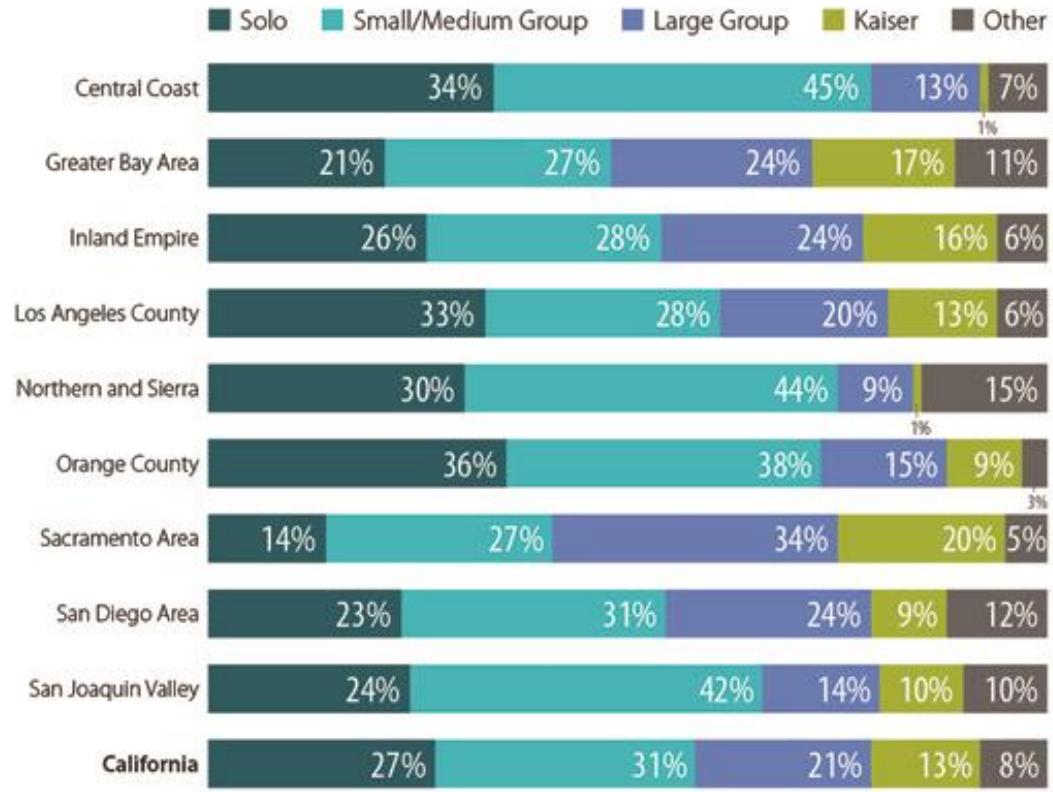

*The Council on Graduate Medical Education (COGME), part of the US Department of Health and Human Services, studies physician workforce trends and needs. COGME ratios include doctors of osteopathic medicine (DOs) and are shown as ranges in the chart above.

Notes: Data include active MDs working 20 or more hours in patient care per week, excluding residents and fellows. There is a slight difference in regional per population estimates of physicians since not all respondents provided geographic information. See Appendix A for a list of counties within each region.

Sources: Survey of Licensees (private tabulation), Medical Board of California, 2015; *Annual Estimates of the Resident Population by Sex, Age, Race, and Hispanic Origin for the United States and States: April 1, 2010 to July 1, 2015*, US Census Bureau, June 2015.



# Physicians, by Practice Setting and Region
## California, 2015




Notes: Data include active MDs providing at least 20 hours of patient care per week, and are based on a supplemental survey that elicited responses from 18% (approximately 11,000) of the active patient care physicians whose licenses were due for renewal between March 2015 and December 2015. Percentages are percentages of physicians who reported a practice type. *Small/Medium Group* consists of practices with no more than 49 physicians, excluding Kaiser Permanente. *Other* includes community clinics, public clinics, rural clinics, military facilities, VA medical centers, and other settings. One percent of respondents to the supplemental survey did not provide a practice setting.

Source: Voluntary Supplemental Survey (private tabulation), Medical Board of California, 2015.

# WHAT MAY NOT CHANGE AS MUCH: PAYMENT AND DELIVERY REFORM

- Shift from volume to value
- ACOs
- MACRA
- Bundled Payments
- Payment reform in public and private sector
- Managed Medicaid, but more state flexibility
- Increased transparency on cost and quality
- Medicare Advantage growth
- Consolidation of providers (hospitals, specialists, and alternate site)
- Disruptive primary care models
- Population health and continuum of care

# PAYMENT REFORM PROGRESS REPORT

- Mostly FFS with Tricks
- If providers and plans just share all the savings with each other how have you helped me as a taxpayer, a patient, and employer, or an enrollee?
- And have you advanced quality, outcomes, patient experience, provider experience or made them worse?
- Nichols reviewing Payment Models:
  - Improvement in care and cost performance takes time
  - Identifying target patients may be more important  than PCMH for all (although all may eventually appreciate it some day)
  - Savings may result in unexpected places such as post-acute care
  - Bending the cost curve is hard work and requires up front investment, planning and commitment
  - Savings are still small from win-win models which may encourage policymakers to eventually seek more top down “balloon in the box” type models

Source:  Nichols et al at http://healthaffairs.org/blog/2017/08/14/what-should-we-conclude-from-mixed-results-in-payment-reform-evaluations/

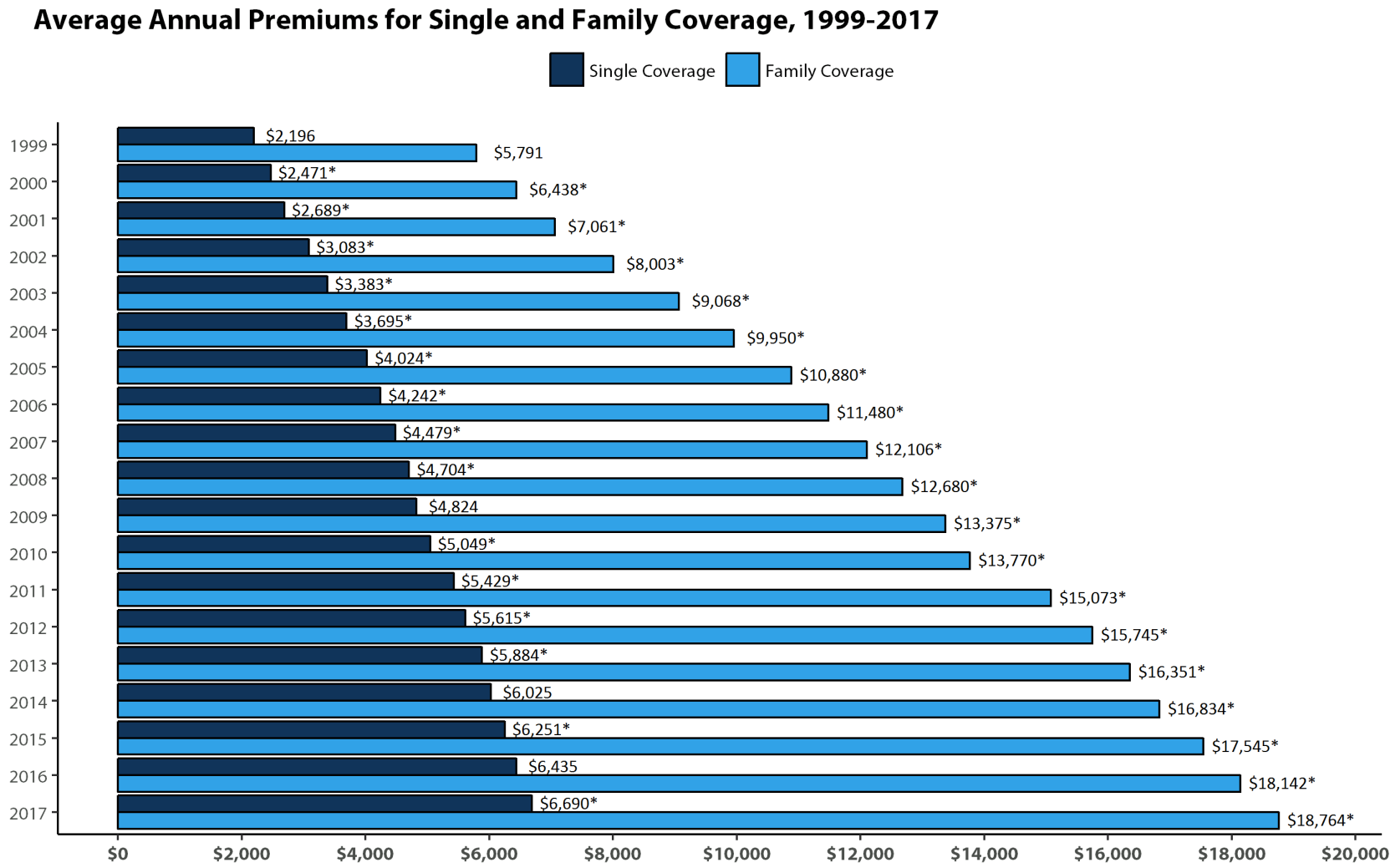
# UNAFFORDABILITY

# SERVING SHALLOW-POCKETED CONSUMERS

# FIVE DIMENSIONS OF CONSUMERISM

- Increased use of **transparency and consumer navigation tools to guide choices**, particularly when those choices have significant financial incentives attached, such as in narrow networks, reference pricing, high-deductible health plans, tiered benefit designs and so forth.
- Importance of **consumer experience to providers and plans, both in terms of patient acquisition, retention and loyalty, as well as patient satisfaction** (which increasingly carries dollars with it in terms of patient experience measures in value-based payment)
- Rising Consumer Importance of meeting consumers' expectations (particularly tech-savvy Millennials), all of whom increasingly have **ever higher expectations of service industries driven by their positive experience with high-technology–enabled consumer offerings** such as Netflix, Amazon, Uber and Airbnb.
- **Consumers need to be more proactive and engaged in their own health and wellness** and take more personal responsibility for their health and lifestyle choices. As one doctor asked me recently, "When are the patients going to be accountable?"
- **Rising out-of-pocket cost burden** being placed on consumers going forward – and the battle that ensues for wallet share in the wellness, health and health care fields that are now colliding.

# AVERAGE ANNUAL PREMIUM FOR EMPLOYER SPONSORED COVERAGE 1999-2017

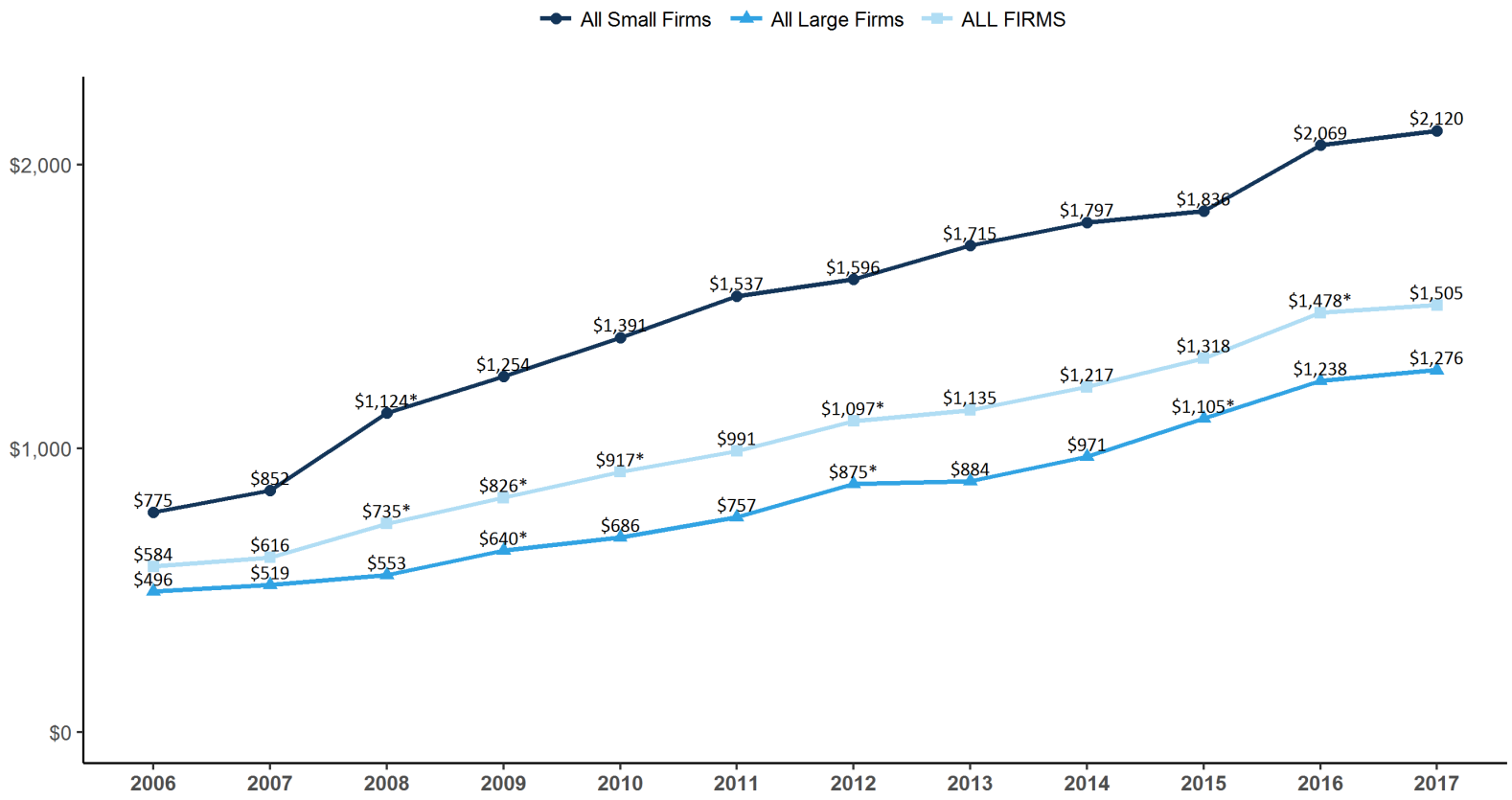



* Estimate is statistically different from estimate for the previous year shown ($p < .05$).

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2017

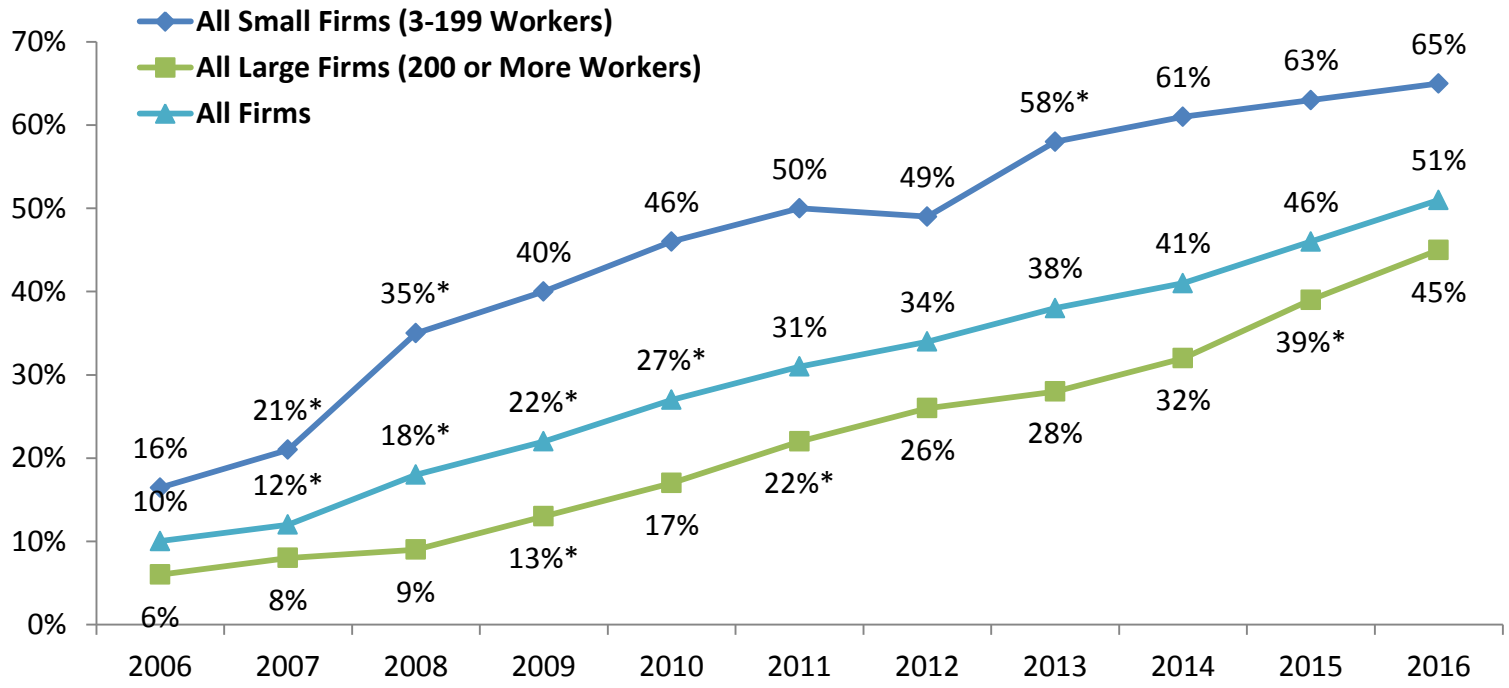
# DEDUCTIBLES CONTINUE TO RISE FOR EMPLOYER SPONSORED COVERAGE 2006-2017

**Figure 7.X1**
**Average General Annual Health Plan Deductible for Single Coverage, By Firm Size, 2006-2017**




* Estimate is statistically different from estimate for the previous year shown ($p < .05$).
NOTE: Small Firms have 3-199 workers and Large Firms have 200 or more workers. Average general annual health plan deductibles for PPOs, POS plans, and HDHP/SOs are for in-network services.
SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2017

# PERCENTAGE OF COVERED WORKERS ENROLLED IN A PLAN WITH A GENERAL ANNUAL DEDUCTIBLE OF $1,000 OR MORE FOR SINGLE COVERAGE, BY FIRM SIZE, 2006-2015




* Estimate is statistically different from estimate for the previous year shown (p<.05).

NOTE: These estimates include workers enrolled in HDHP/SOs and other plan types. Average general annual health plan deductibles for PPOs, POS plans, and HDHP/SOs are for in-network services.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2015.

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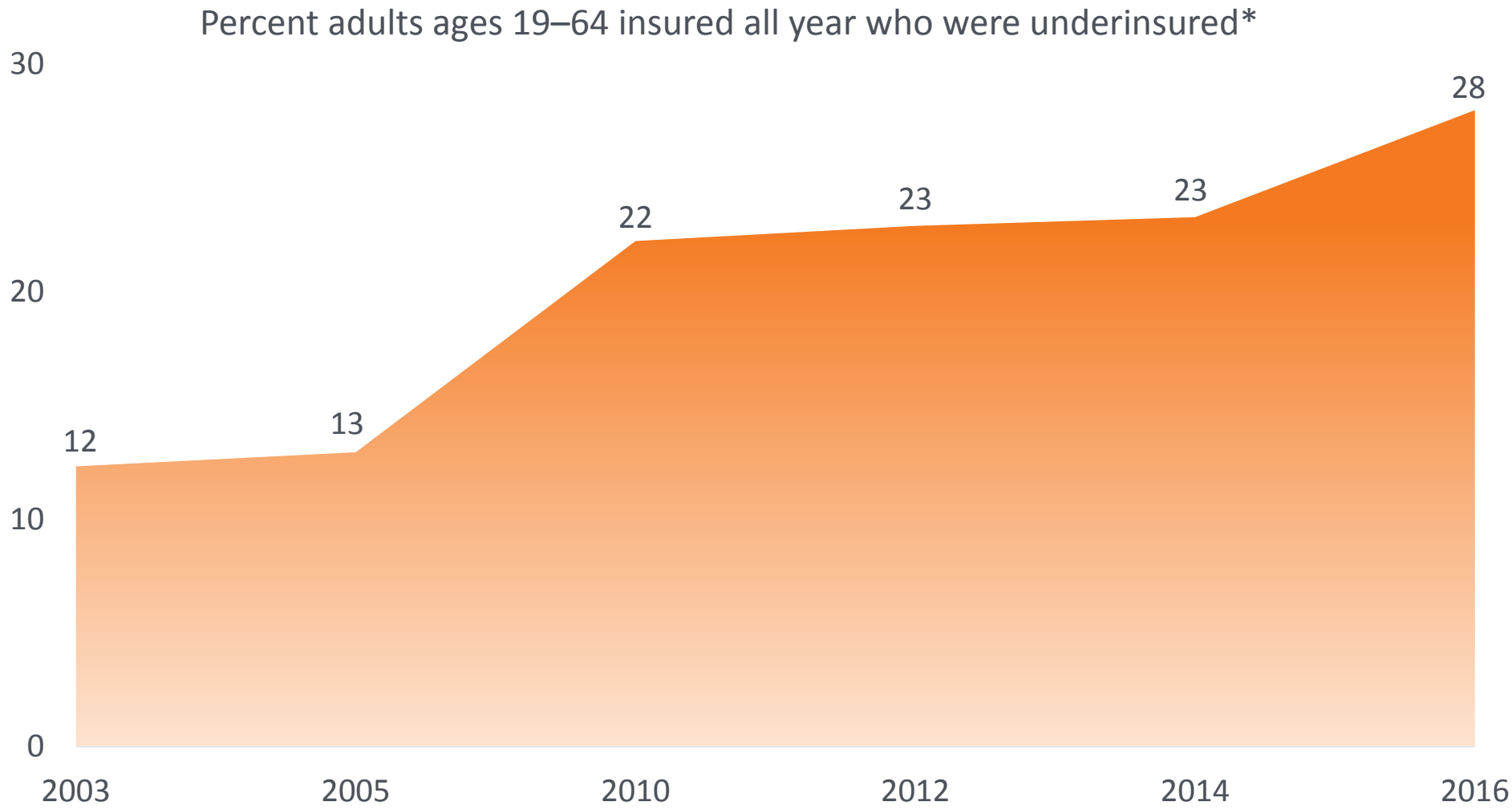
# MORE THAN ONE-QUARTER OF INSURED ADULTS WERE UNDERINSURED IN 2016




* Underinsured defined as insured all year but experienced one of the following: out-of-pocket costs, excluding premiums, equaled 10% or more of income; out-of-pocket costs, excluding premiums, equaled 5% or more of income if low-income (<200% of poverty); or deductibles equaled 5% or more of income.

Data: Commonwealth Fund Biennial Health Insurance Surveys (2003, 2005, 2010, 2012, 2014, and 2016).

The Commonwealth Fund

Source: S. R. Collins, M. Z. Gunja, and M. M. Doty, *How Well Does Insurance Coverage Protect Consumers from Health Care Costs? Findings from the Commonwealth Fund Biennial Health Insurance Survey, 2016,* The Commonwealth Fund, October 2017.

# UNDERINSURED RATES BY SOURCE OF COVERAGE

| *Percent adults ages 19–64 insured all year who were underinsured** | 2003 | 2005 | 2010 | 2012 | 2014 | 2016 |
|---|---|---|---|---|---|---|
| **Total** | **12%** | **13%** | **22%** | **23%** | **23%** | **28%** |
| **Insurance source at time of survey**** | | | | | | |
| Employer-provided coverage | 10% | 12% | 17% | 20% | 20% | 24% |
| Individual coverage^ | 17% | 19% | 37% | 45% | 37% | 44% |
| Marketplace^^ | — | — | — | — | — | 44% |
| Medicaid | 22% | 16% | 32% | 31% | 22% | 26% |
| Medicare (under age 65, disabled) | 39% | 24% | 45% | 32% | 42% | 47% |
| **Firm size (*base: full- or part-time workers with coverage through their own employer*)^^^** | | | | | | |
| 2–99 employees | — | 14% | 16% | 26% | 26% | 22% |
| 100 or more employees | — | 11% | 16% | 16% | 14% | 22% |

* Underinsured defined as insured all year but experienced one of the following: out-of-pocket costs, excluding premiums, equaled 10% or more of income; out-of-pocket costs, excluding premiums, equaled 5% or more of income if low-income (<200% of poverty); or deductibles equaled 5% or more of income. ** Adults with coverage through another source are not shown here. Respondents may have had another type of coverage at some point during the year, but had coverage for the entire previous 12 months. ^ For 2014 and 2016, includes those who get their individual coverage through the marketplace and outside of the marketplace. ^^ Adults enrolled in marketplace coverage are not shown for 2014 because no one in the sample would have had marketplace coverage for the full year. ^^^ Does not include adults who are self-employed. — Data not available.

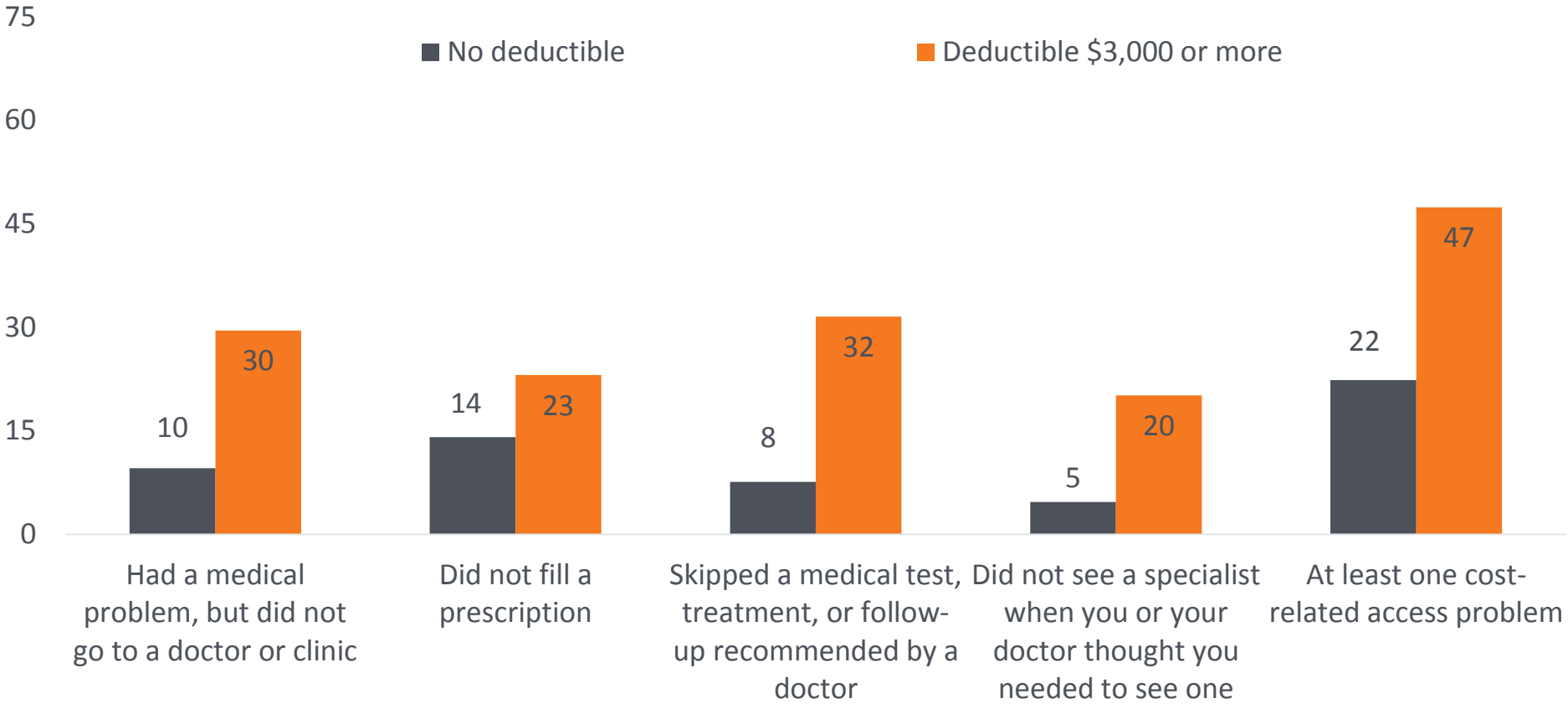
Data: Commonwealth Fund Biennial Health Insurance Surveys (2003, 2005, 2010, 2012, 2014, and 2016).



Source: S. R. Collins, M. Z. Gunja, and M. M. Doty, *How Well Does Insurance Coverage Protect Consumers from Health Care Costs? Findings from the Commonwealth Fund Biennial Health Insurance Survey, 2016,* The Commonwealth Fund, October 2017.

# ADULTS WITH HIGH DEDUCTIBLES REPORTED PROBLEMS GETTING NEEDED CARE BECAUSE OF COST

***Percent adults ages 19–64 with private coverage who were insured all year***

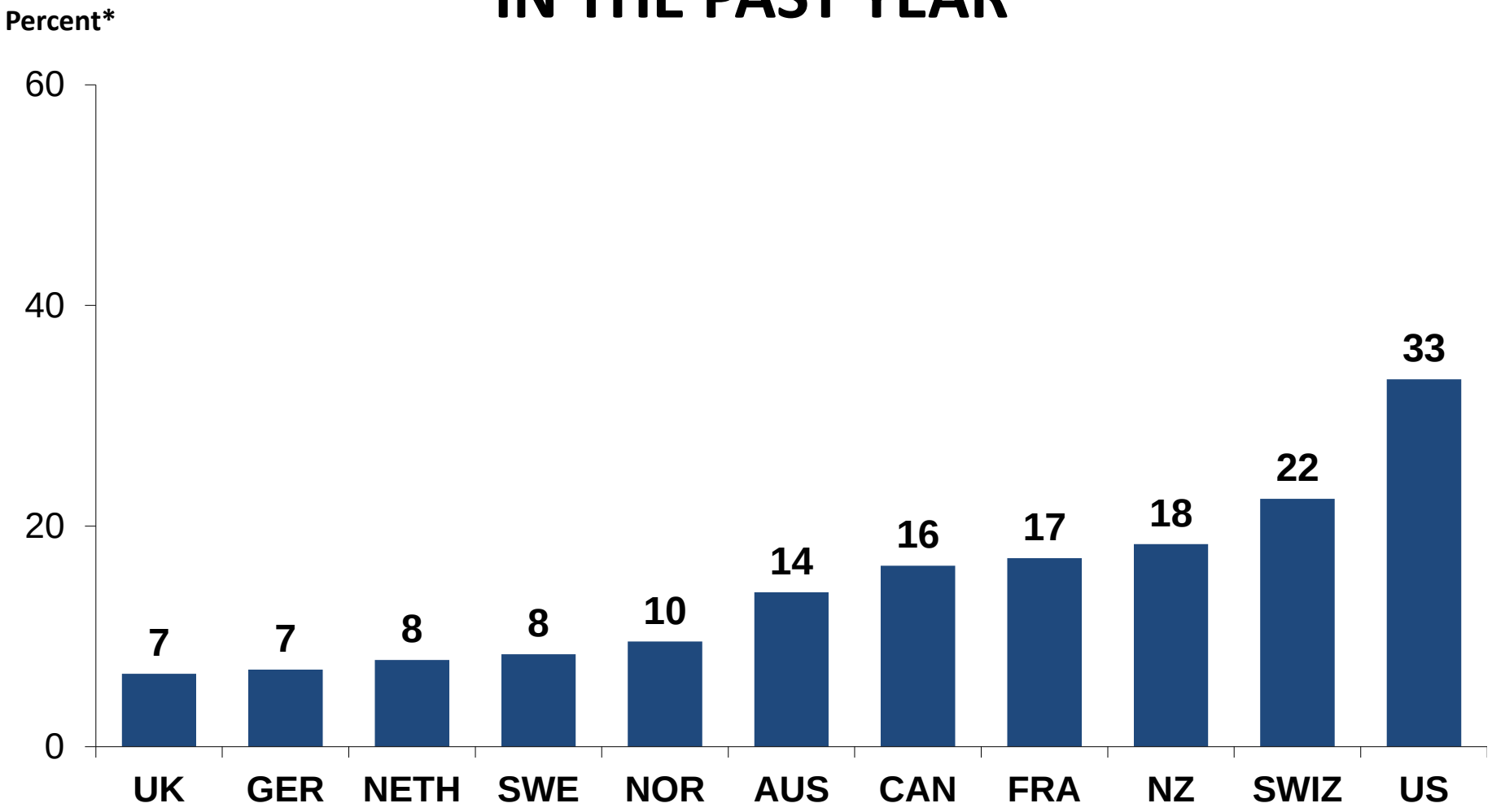



Data: Commonwealth Fund Biennial Health Insurance Survey (2016)

The Commonwealth Fund

Source: S. R. Collins, M. Z. Gunja, and M. M. Doty, *How Well Does Insurance Coverage Protect Consumers from Health Care Costs? Findings from the Commonwealth Fund Biennial Health Insurance Survey, 2016,* The Commonwealth Fund, October 2017.

# COST-RELATED ACCESS BARRIERS IN THE PAST YEAR



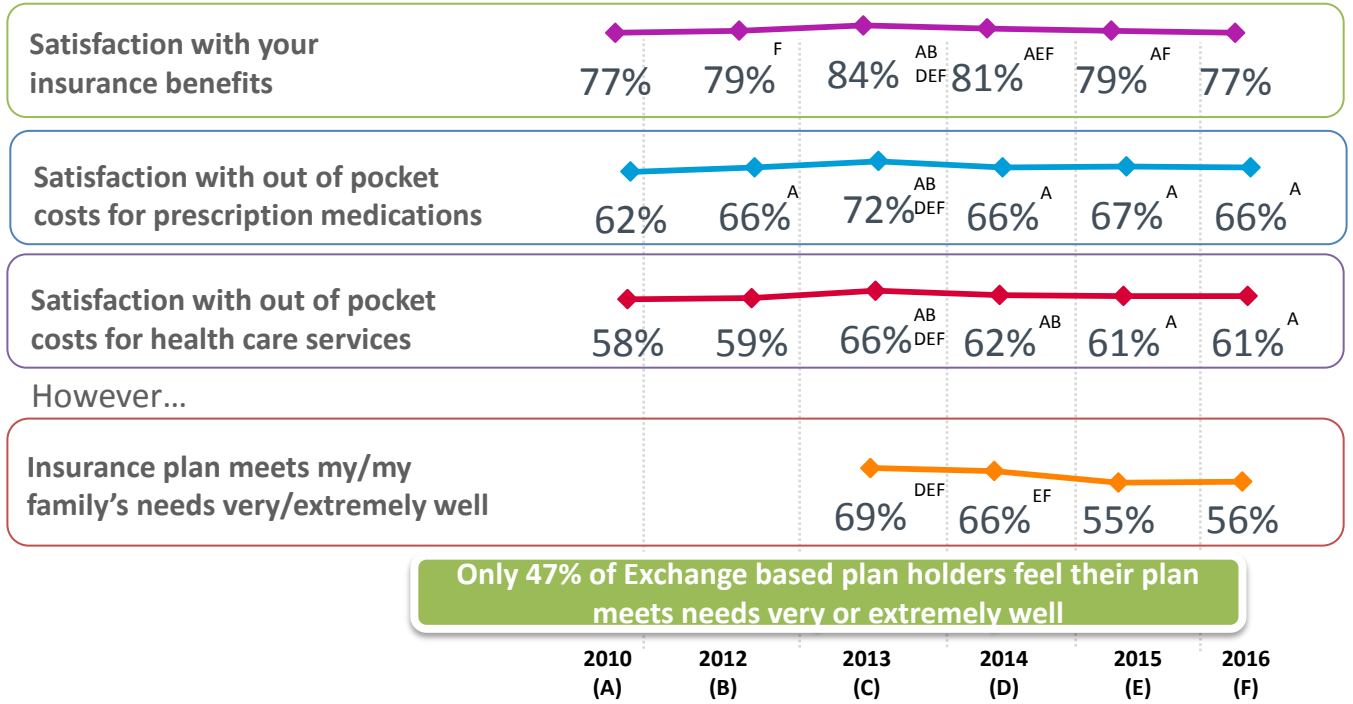

*Had a medical problem but did not visit doctor; skipped medical test, treatment or follow up recommended by doctor; and/or did not fill prescription or skipped doses

Source: 2016 Commonwealth Fund International Health Policy Survey

The COMMONWEALTH FUND

# DOES SATISFACTION MATTER? COMPARED TO WHAT?

General Impression of Health Insurance
(Top-2 Box %)




Prepared for: Strategic Health Perspectives
Base: All US Adults (2010 n=2775, 2012 n=2000, 2013 n=2501, 2014 n=2501, 2015 n=5037, 2016 n=10011 split sampled)
Source: Q600: How satisfied or dissatisfied are you with each of the following?; Q185: Thinking now about all the different components of your health insurance plan, how well does your plan meet your/your family's health needs?

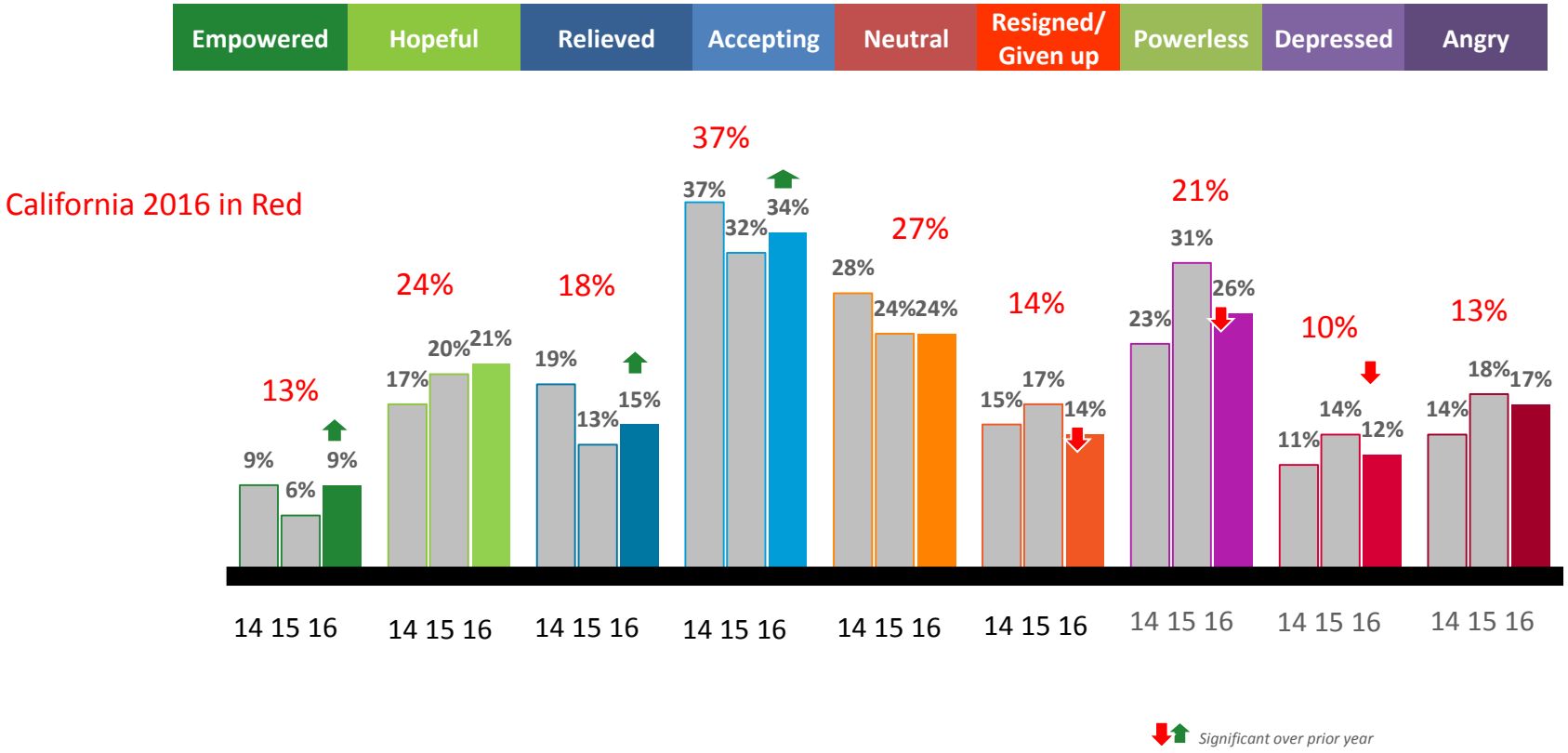
*Significance tested at 95%*

# CONSUMERS EMOTIONS TOWARDS HEALTHCARE THEY RECEIVE

## Not much change nationally, but Californians are significantly more positive in 2016

Some change towards the positive, but 1 in 4 consumers remains powerless

Consumer Emotions Towards Healthcare They Receive

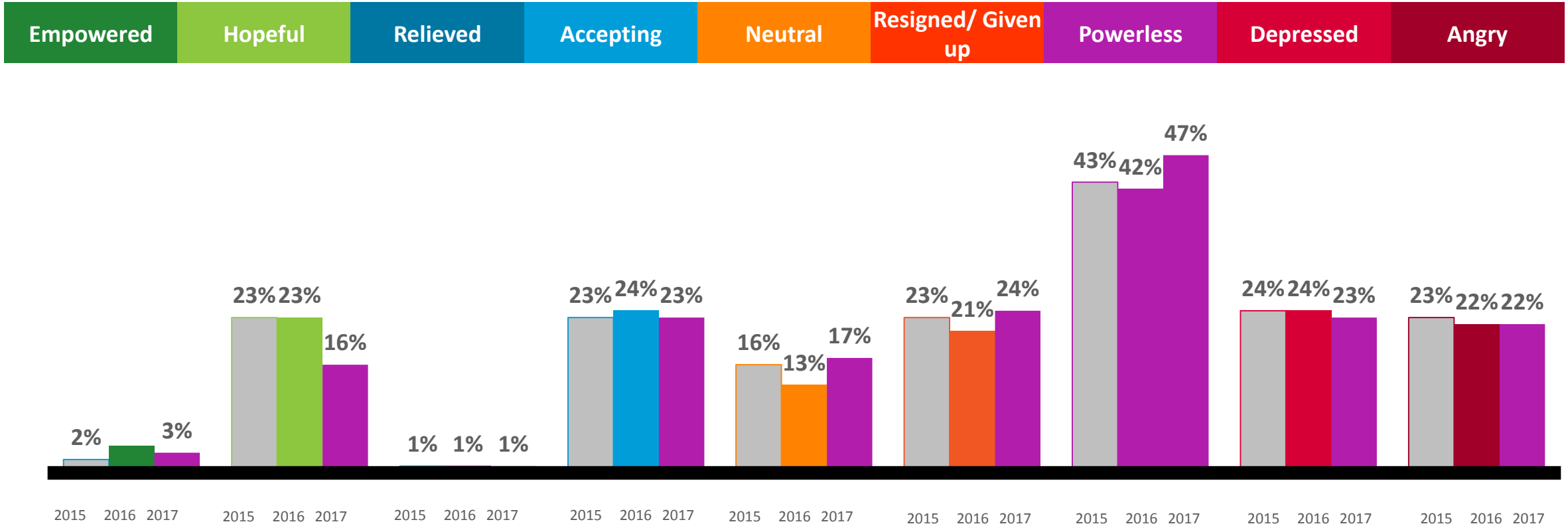



Base: All US Adults (2014 n=2501, 2015 n=5037, 2016 n=30052)
Source: **Q90** How would you describe your feelings about the health care you receive today, including how much you pay for it and the benefits you receive? Please select all that apply.

# PHYSICIANS TOO FEEL POWERLESS IN CURRENT SYSTEM

One in four physicians is depressed or angry about the health care system today – no change since last year.
Almost half now feel Powerless

## Physicians' Emotions Towards Current Health Care System*




***Base: All Physicians (2016: n=599; 2015: n=626)***
***Q1850:*** *How would you describe your feelings about the health care system today? Please select all that apply.*

# SHALLOW-POCKETED CONSUMERS CREATE CHALLENGES AND OPPORTUNITIES

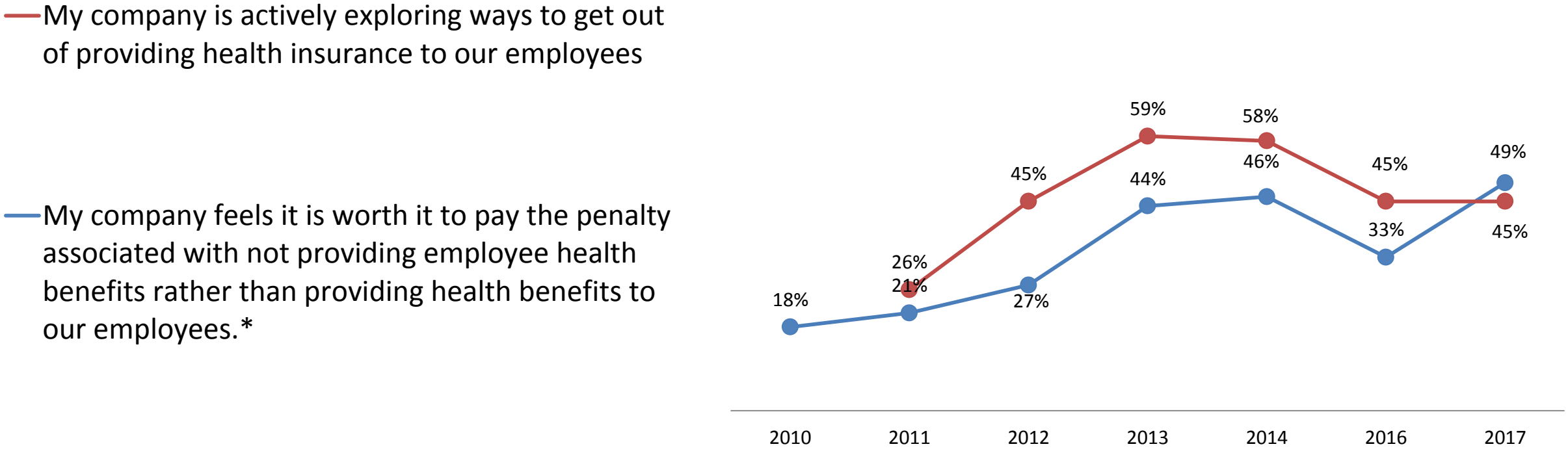
- Consumer/Patient experience matters in value payment for all payers
- High Deductible Care becoming norm In employer sponsored market and exchanges
- HDHP is a blunt instrument and applies to pediatrics too*
- Consumers (particularly women) are becoming key decision-makers in selecting services under these budget constraints
- Loyalty can be bought/changed through cost sharing
- Increased Competition for the Out of Pocket dollar from worksite clinics, retail clinics, pharmacy and free-standing urgent care, ERS and micro-hospitals
- Self-Insured using new channels for employees e.g. Lemon-Aid, Book MD and Omada
- Convenience is key to many consumer choices
- Considerable competition and cream skimming potential by income and geography
- Potential disruptors from Amazon to Apple
- Retail Clinic and Urgent Care activity may be additive not substitutive
- Raise Issues: “Fragmentation of care, relevancy, loyalty, and patient flow”

* Fung et al JAMA Pediatr, 2014 Jul:168(7):649-56

# EMPLOYERS:  STAY OR GO?

# FEWER EMPLOYERS ARE LOOKING FOR AN EXIT;
# 88% CONTINUE TO FEEL RESPONSIBILITY FOR EMPLOYEE HEALTH NEEDS

Company's Position on Employer-Sponsored Healthcare: Providing Benefits
(Top-2 Box % - Describes Completely/Very Well)

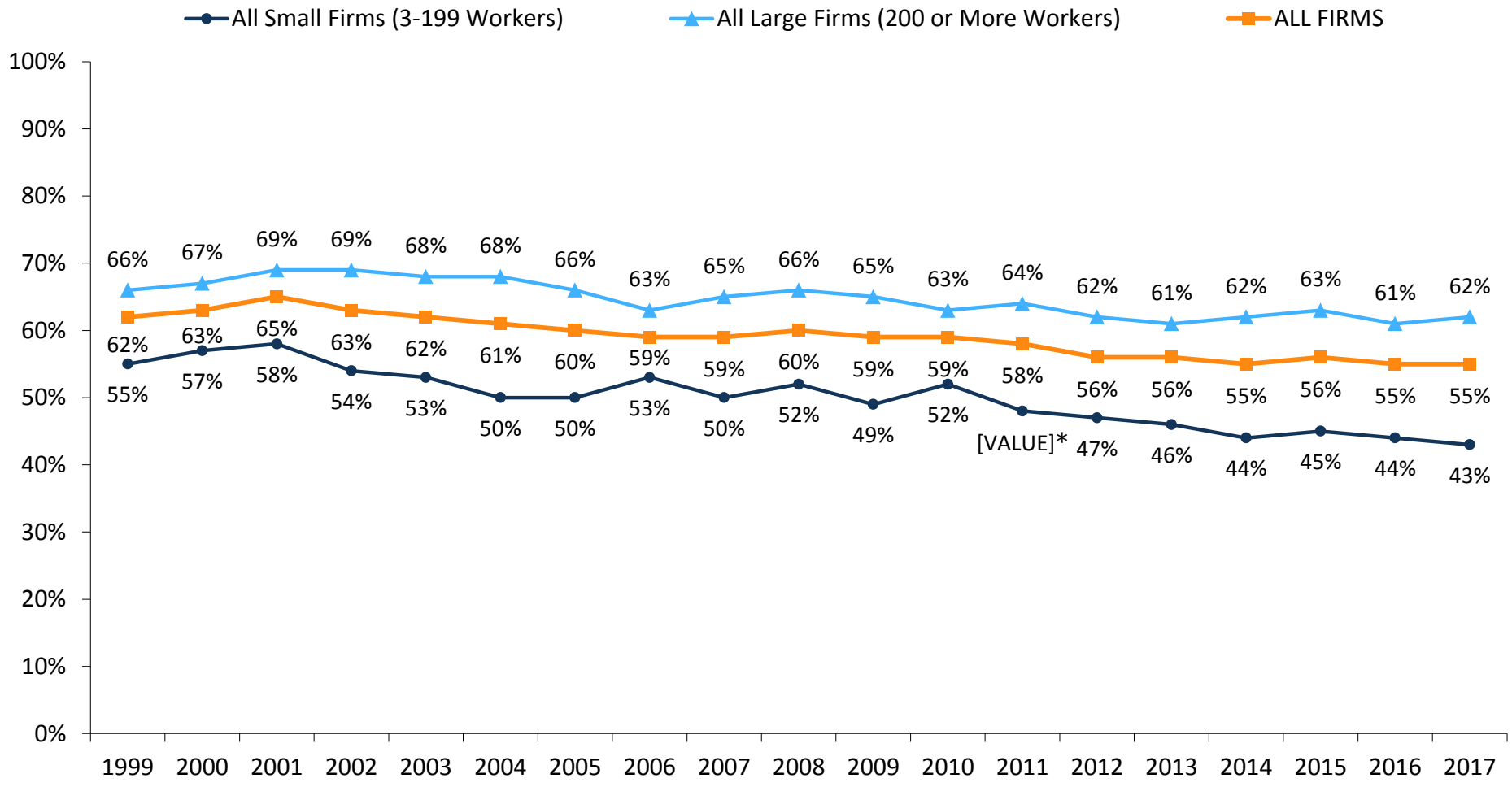



** Asked only of Employers with 50 or more employees*

Base: All Employer Health Benefit Decision Makers (n=340)

Q800: Please indicate your level of agreement with the following statements. Do you strongly agree, somewhat agree, somewhat disagree or strongly disagree?

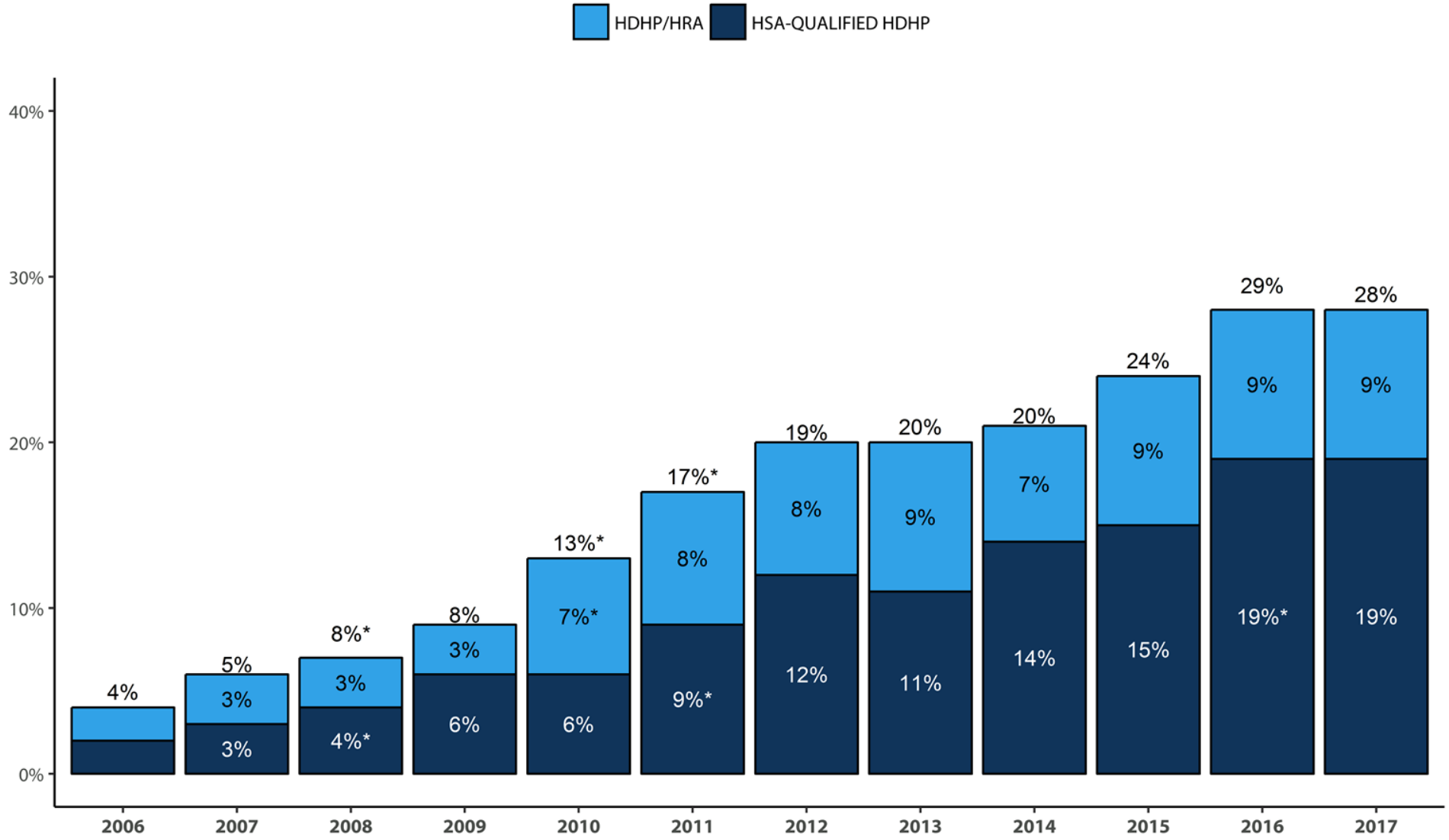
# PERCENTAGE OF ALL WORKERS COVERED BY THEIR EMPLOYER'S HEALTH BENEFITS, BOTH IN FIRMS OFFERING AND NOT OFFERING HEALTH BENEFITS, BY FIRM SIZE, 1999-2017




* Estimate is statistically different from estimate for the previous year shown ($p < .05$).

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2017.

## Percentage of Covered Workers Enrolled in an HDHP/HRA or HSA-Qualified HDHP, 2006-2017




* Estimate is statistically different from estimate for the previous year shown ($p < .05$).

NOTE: Covered workers enrolled in an HDHP/SO are enrolled in either an HDHP/HRA or a HSA-Qualified HDHP.

SOURCE: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006-2017

# EMPLOYERS MOST CONCERNED ABOUT HOSPITAL PRICES, SPECIALTY PHARMACEUTICALS AND CANCER CARE

Level of Concern for Healthcare Cost Drivers, Total Employer Benefit Decision-Makers
(Top 2 Box: Extremely/Very Concerned)

| | 2013 | 2014 | 2016 | 2017 |
|---|---|---|---|---|
| Hospital inpatient prices | - | - | 60% | 69% |
| Specialty pharmaceuticals | 47% | 54% | 55% | 60% |
| Cancer care | 54% | 56% | 54% | 62% |
| Hospital outpatient prices | 47% | 49% | 50% | 55% |
| General pharmaceuticals | 46% | 50% | 50% | 62% |
| Physician prices | 54% | 53% | 48% | 65% |
| Obese patients generally | 45% | 53% | 48% | 52% |
| Health plan fees for care management | 45% | 44% | 44% | 57% |
| Diagnostic imaging | 43% | 47% | 41% | 55% |
| Hospital outpatient utilization | 40% | 50% | 40% | 55% |
| Innovative, breakthrough treatments/cures for disease | - | 46% | 40% | 52% |
| Orthopedic surgery (hips/knees/etc) | 41% | 44% | 39% | 49% |
| Diabetes patients | - | - | 39% | 54% |
| Physician utilization | 45% | 45% | 37% | 50% |
| NICU/early childhood disease costs | -- | -- | 36% | 46% |
| Low-back pain treatment | 43% | 40% | 34% | 46% |
| Maternity care | 41% | 40% | 32% | 45% |
| Routine preventative testing | 40% | 43% | 31% | 46% |

Base: All Employer Health Benefit Decision Makers (bases vary)
Q1707: Please indicate your level of concern for the following drivers of health care costs

.SOURCE: SHP 2013-2016, Leavitt Partners, 2017

# SCALE, CONSOLIDATION AND DISRUPTION

# MERGER MANIA: SOME EXAMPLES

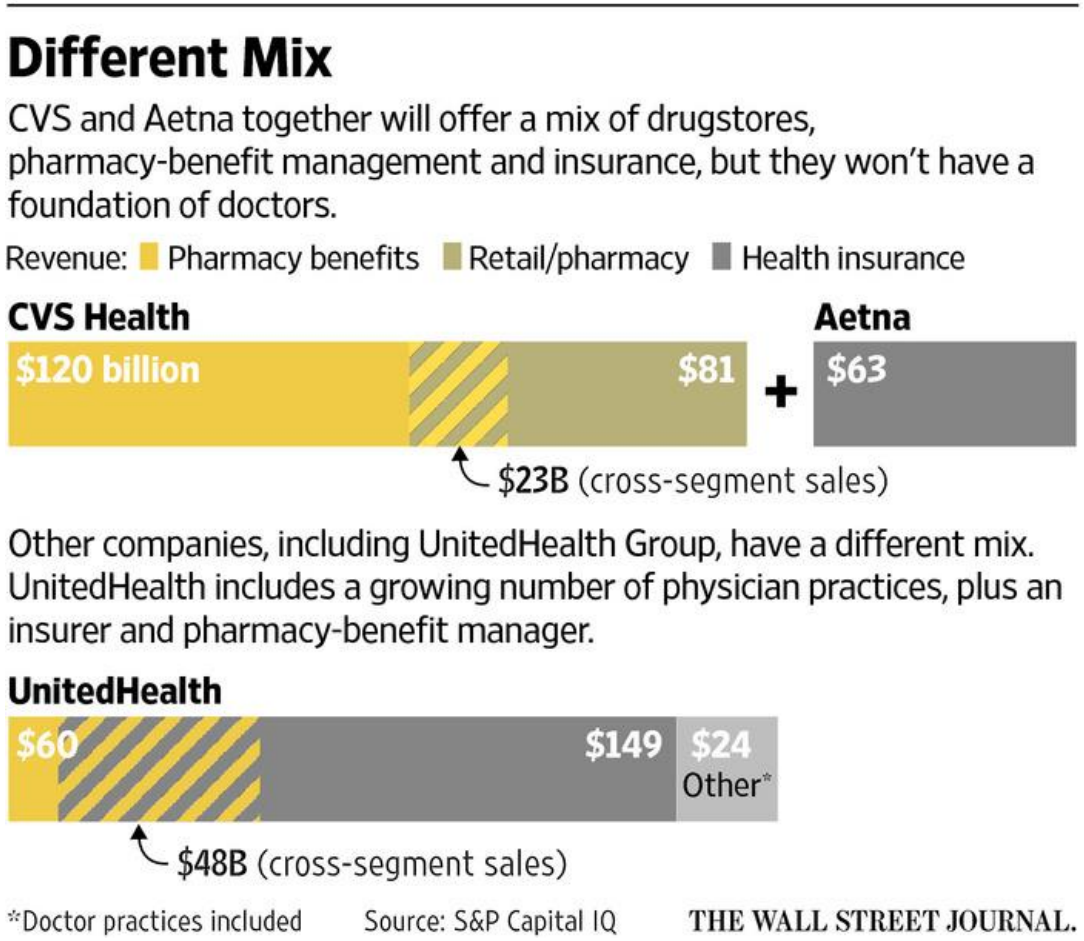
- National Faith Based Systems coming together with non-overlapping geographies
  - Catholic Health Initiatives-Dignity Health $28 billion
  - Bon Secours-Mercy $ 8 billion
- Regional Powerhouses Aligning
  - Advocate-Aurora $11 billion
  - UNC-Carolinas Health (JV) now Atrium $14 billion
- Vertical Integration Insurers/Provider/Retail Pharmacy
  - CVS-Aetna $264 billion
  - CIGNA Buys Express Scripts $67 billion
  - United Health (Optum)-DaVita Physicians $200 billion ($5 billion)
  - Wal-Mart in talks with Humana
  - Welsh Carson-Humana-Kindred ($4 billion)

Sources: Modern Healthcare, Industry Press Releases

# DISRUPTORS AND ENABLERS

- Disruptors
  - Amazon (ABC)
  - CVS Aetna
  - Apple, Google
  - Health 2.0
  - Disruption from within e.g. Kaiser, Providence
- Technology Enablers
  - Ubiquitous smartphones
  - AI and Machine Learning
  - Speech driven solutions for consumers and providers
  - Big Data
  - Cloud Solutions
  - Open Data and API

# CVS-Aetna becomes CVS Health




- Retail Pharmacy with Clinic Footprint acquires national insurer with ACO and data expertise
- Vision of local footprint for chronic care management and health and wellness
- Execution risk
- "Beyond Pink Eye"
- Health and Wellness as Substitutive versus Additive to Medical Care
- Specialty pharma and PBMs are in cross-hairs of national employers
- Intense competition for wallet share of shallow pocketed consumers
- Whose problem does this solve?

# CIGNA BUYS EXPRESS SCRIPTS



- CIGNA agree to buy Express Scripts for a total of $76 billion ($52 billion in cash and stock , $15 Billion in assumed debt)
- “When we think about Express Scripts, it has PBM capabilities, but it has 27,000 individuals and a significant number of consumer touchpoints around health and well being,” Cigna CEO David Cordani said in an interview Thursday morning. “It expands our service portfolio beyond that of a PBM.”
- Cigna began exploring the tie-up seriously late last year, Mr. Cordani said. One of the drivers for the deal is its ability to broaden Cigna’s offerings and reach. “Having the capabilities to serve an individual whether they are healthy, healthy at risk, chronic or acute is important,” he said.
- Cigna shareholders will own about 64% of the combined company, which will retain Cigna’s name, and Express Scripts shareholders will own about 36%.
- Express Scripts share rose 18% premarket Thursday, while Cigna shares are inactive.

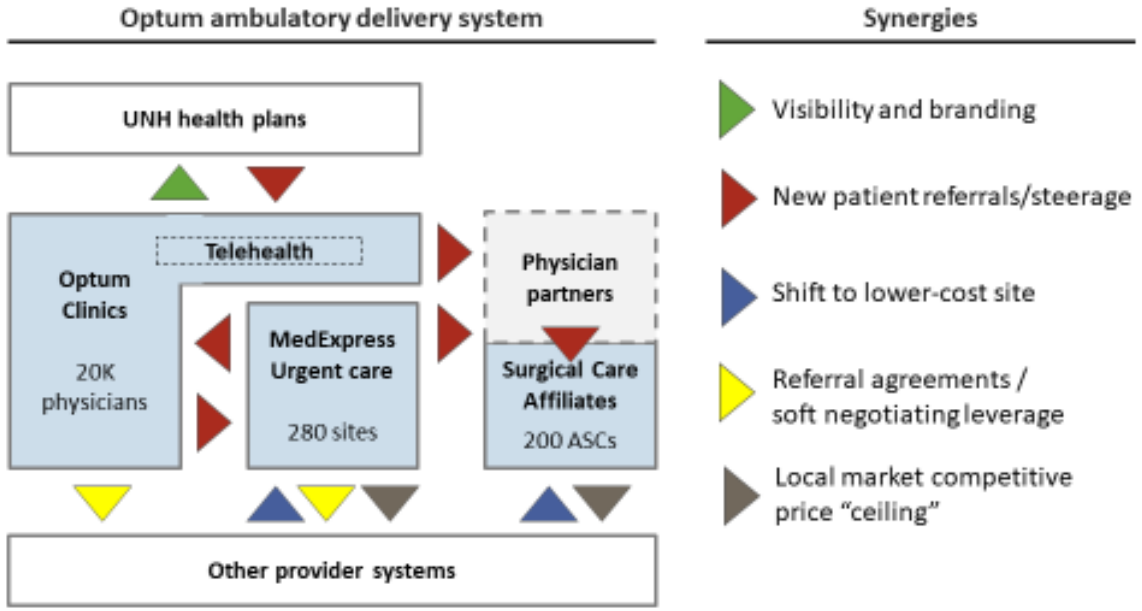
Source: WSJ, March 8th, 2018

# AMAZON, BERKSHIRE HATHAWAY, JP MORGAN

- Big Brands come together and announce joint venture to disrupt healthcare for own employees, insurers stock price hit immediately
- But…..
  - 1 million lives is less than 1% of privately insured spread all over the country
  - Can they really scale technology and innovation in an industry that has resisted it?
  - What can they do about price, absent concentrated local clout?
- JP Morgan CEO reassured banking clients in health insurance this is just a GPO deal
- Long history of “Cranky, Confused, Aimless and Spineless Employers”
- Employers own the margin in healthcare
- But they struggle to apply power in collective action and reluctant to risk their own brand in being tough on healthcare
- They can innovate and pilot
- You need CMS as the big dog changing the game at scale

# OPTUMIZE

## Optum's emerging ambulatory system offers multiple strategic benefits




Source: Recon analysis

## Optum has substantial geographic overlaps across ambulatory assets

**Share of population of Hospital Referral Regions with Optum Health delivery sites (%)**

| Markets with… | Clinics and IPAs | Urgent care | ASCs | Total |
|---|---|---|---|---|
| All three delivery models | 12 | | | **12** |
| Two delivery models* | 12 | 21 | 21 | **27** |
| One delivery model only | 2 | 12 | 17 | **31** |
| **Total** | **26** | **45** | **50** | **70** |
| No Optum presence | 30 | | | **30** |

* = One model is show in column title, other models may be either of the two others. In the "clinics" column, the 12% includes regions where there are clinics and either urgent care or ASCs
"Hospital referral regions" (HRRs) are aggregates of Hospital Service Districts where patients are referred for tertiary services (cardiovascular and neurological). There are 306 HRRs in the US.
Source: Optum websites, press releases, Census, Recon analysis

Source: The Healthcare Blog, Dec 13, 2017 Tory Wolff, Recon Strategies

# DISRUPTOR IMPLICATIONS

- Simple is Complex:  It takes massive back end sophistication
  - Consumer Engagement
    - Aon Consumer Survey found 41% of Millennials say:  “I have stopped trying to figure out what I should pay for medical services and just pay the bill when it comes.”
  - Benefit Design that makes consumers default to the right thing
  - Advanced Technology that support simple consumer facing solutions
- Meet People in their Lives
- Leverage Social Determinants of Health
- Use digital technology to help not hurt
- Innovation at Scale
- Focus more on helping the sick and the poor, not just delighting the rich and the well
- Disrupt yourself

# IMPLICATIONS : BIG PICTURE POLITICS AND POLICY

- Prepare for less financial support from DC for Medicaid and exchanges and more state flexibility through waivers (e.g. work requirements)
- Expect intense Medicare and Medicaid reimbursement pressure in longer run because of the massive deficit, debt and tax cuts
- Anticipate belt tightening in the eco-system, generally as margins tighten
- Expect even more consolidation as weaker players capitulate
- Anticipate mixed signals on volume to value from CMS: “we support but we don’t mandate”
- Hope that there is no extreme retaliatory behavior toward Blue states from Trump Administration if Repeal and Replace is really dead
- Expect California and other Blue states to push ahead on reform despite all this
- Expect some Red States to pick up on Conservative forms of Medicaid expansion
- If it gets Bluer: Do the math to see if you would actually be better off than your current deal
- If it gets Redder: More devolved to the states and “Block Grantanistas” Plotting but not Succeeding
- Flexibility without money is not flexibility

# THE END GAME

- Integrated Care
  - Integrated Health Systems of different flavors built around Medical Groups
  - “Fair share” of Medicaid and the Uninsured allocated through auto-enrollment
  - Targeted total cost of care targets tied to economic growth
  - Increased focus on population health
  - Large Self-Insured Employers given flexibility
- Medical Darwinism
  - 50+ million uninsured
  - Best care in the world based primarily on ability to pay
  - Doctors walk away from the poor
  - Widening performance disparities within and between states
- Single Payer
  - “You are not Canadian”
  - FFS Hamster Care
  - Massive transfer of income from rich to poor
  - Reduce the prices and incomes of all actors through government monopsony
  - “Balloon in a Box”
  - Change the mix:  Get Rid of the Specialists
  - Good Luck With That

# NO MATTER WHAT: PURSUE THE VALUE AGENDA

- Focus on getting the cost structure down
  - Culture:  Make it everyone's problem
  - Engagement  with medical staff on physician sensitive preferences
  - Cost Discipline as a strategic priority
  - Drive care to lower cost settings
  - Waste avoidance, clinical standardization and variation elimination
  - Labor substitution such as scope of practice extenders, telehealth and alternate sites
  - Strategy versus Operational Excellence
- Quality
  - Lead don't follow
  - Tie brand and reputation efforts to true scientifically defensible outcome measures
  - Work together to make everyone better
- Scale
  - Scale matters in health insurance, PBMS, Supply Chain, Capital Creation but is it key for providers?
  - For providers:  You need to be big where you are but be prepared to integrate with others

# NO MATTER WHAT: PURSUE THE VALUE AGENDA

- Integrate for Higher Performance
  - Across the continuum of care:  Brad Gilbert “When I left it just stopped.”
  - Across Stakeholders:  Plans and Providers
  - Across sites of care: Alternate site, ambulatory, retail, telehealth and the home
  - With physicians:  New Models and New Partners to engage physicians in total costs of care
  - Integrate Behavioral Health and Medical Care
  - Go Direct with employers…….on their terms with competitive prices, specific outcomes, and member responsiveness
- Be Inclusive
  - Engage all stakeholders
  - Innovate Together
  - Cover All Californians