



Navigating a Changing Market Strategies for Rural Hospital Financial Stability

Illinois Hospital Association
2023 IHA Small & Rural Hospitals Annual Meeting
Springfield, Illinois
June 29, 2023
Eric K. Shell, CPA, MBA



1

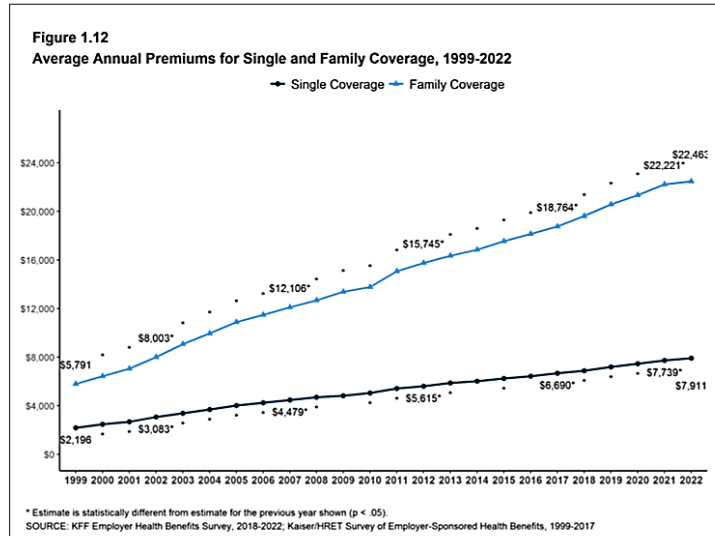
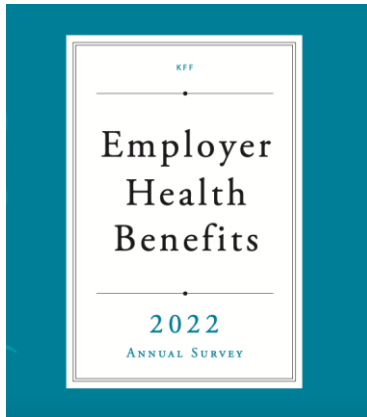
MARKET HAS NOT STOPPED MOVING DURING THE PANDEMIC

- **Cost of healthcare continues to rise**
 - Kaiser Family Foundation reports 2022 family health insurance premiums have risen to \$22.5K
- **Advances in technology and new market comfort for telehealth have led to an acceleration of new market competition**
 - Amazon
 - Walmart
 - Walgreens
 - CVS
 - Etc.
- **Hospital inpatient and outpatient volumes decline**
- **Federal government maintains commitment to transitioning payment system**
 - “WE NEED TO FIND A WAY TO BRING EVERYONE ALONG. WE CAN’T HAVE FEE-FOR-SERVICE REMAIN A COMFORTABLE PLACE TO STAY.” Dr. Liz Fowler, Director CMMI



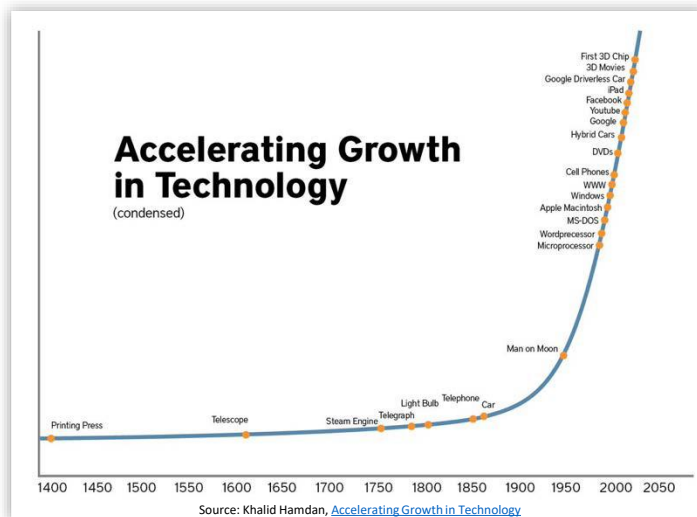
2

CALL TO ACTION: KAISER FAMILY FOUNDATION: 2022 INSURANCE PREMIUMS



3

CALL TO ACTION: ADVANCES IN TECHNOLOGY



4

CALL TO ACTION: PARTNERSHIPS GIVE INSIGHT INTO AMAZON'S HEALTHCARE STRATEGY

- Amazon acquired publicly-traded primary care company One Medical for \$3.9 billion, furthering its investment into the primary care market and offering insight into its primary care strategy. It announced plans to partner with behavioral health app Ginger.
 - One Medical offers primary care services virtually and in person to over 750,000 members. The acquisition, which must be approved, would drastically increase Amazon's primary care reach and services.
- In late August 2022 Amazon announced it will shut down Amazon Care, its original primary care offering. Industry experts suggest they will have more success with established brands such as One Medical or will pull out of the deal and go in a more lucrative direction.
- In October 2022 the company announced Amazon Pharmacy Home Delivery gained a new customer, nonprofit insurer Florida Blue, joining BCBS of Alabama, BCBS of Minnesota, BCBS of Nebraska, BCBS of North Carolina, Horizon Blue Cross Blue Shield of New Jersey and Regence BlueCross BlueShield of Oregon.
- On 11/15/22, Amazon launched [Amazon Clinic](#), venturing into the direct-to-consumer space as many move away from it
 - Amazon Clinic is a virtual storefront where patients pay directly and receive affordable telemedicine treatment for 40 common, non-urgent conditions

"We think healthcare is high on the list of experiences that need reinvention... We want to be one of the companies that helps dramatically improve the healthcare experience over the next several years."

Neil Lindsay, SVP, Amazon Health Services, Amazon Stores

Sources: Modern Healthcare, [One Medical acquisition reveals Amazon's healthcare strategy](#), Brock E.W. Turner and Jessica Kim Cohen, 7/21/22; FireHealthcare.com, [Amazon Care teaming up with Ginger to add behavioral health services](#), Heather Landi, 8/10/22; Modern Healthcare, [Amazon to shut down Amazon Care at year's end](#), Jessica Kim Cohen, 8/24/22 <https://www.modernhealthcare.com/technology/amazon-shut-down-amazon-care-years-end>; ModernHealthcare, [Amazon links pharmacy deal with Blue Cross plan](#), Nona Tepper, 10/25/22; Modern Healthcare Digital Health, [Amazon launches new virtual health service](#) Brock E.W. Turner, 11/15/22






CALL TO ACTION: INTRODUCES AMAZON PHARMACY

- Amazon introduces pharmacy services
 - Consumers can shop for best price with known prices
 - Pharmacists that work with prescriber and insurance
 - Deliver medications

amazon pharmacy

There's more to Amazon Pharmacy

Shop common medications

Prescription Required	Prescription Required	Prescription Required
		
Insulin Lispro (Pen Injector) \$50⁰⁹ \$174.24 72% OFF Includes Prime savings or view copay price in cart amazon pharmacy Free Delivery FSA or HSA eligible	Atorvastatin (Generic for Lipitor, Oral Tablet) \$13¹⁰ \$120.60 90% OFF Includes Prime savings or view copay price in cart amazon pharmacy Free Delivery FSA or HSA eligible	Pantoprazole (Generic for Protonix, Delayed Release Oral Tablet) \$14⁶⁰ \$169.50 92% OFF Includes Prime savings or view copay price in cart amazon pharmacy Free Delivery FSA or HSA eligible

BENEFITS	The average pharmacy	Amazon Pharmacy
Accepts most insurance plans	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Reviewed by pharmacists	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Available to you 24/7	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Show prices upfront	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Delivers to your door	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Meds are as low as \$1/month	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Offers 6-month supply	<input type="checkbox"/>	<input checked="" type="checkbox"/>



CALL TO ACTION: WALMART'S HEALTHCARE EXPANSION

April '22, Walmart opened five clinics in Florida, partnering with Epic to coordinate its telehealth with its in-person services. The retailer committed to improving healthcare access for Floridians and providing services 24/7.

October '22, the retail giant shared plans to significantly expand its Florida services citing the state's rapid growth. Walmart will open 16 new clinics next to its superstores in Jacksonville, Orlando, and Tampa, offering behavioral, dental and community health services.

September '22, Walmart and UnitedHealth Group announce they will provide preventive care services over 10 years to Medicare Advantage subscribers

- Walmart Health will be supported by analytics from UnitedHealth Group subsidiary Optum Health. The initiative will begin in Georgia and Florida.
- Facing competition in the Medicare Advantage market, this follows Walmart's previous affiliations with Humana and Clover Health

March '23, Walmart announced it will open 28 new health centers in 2024, expanding its reach into MO and AZ and adding in TX. This takes the total number of Walmart clinics to over 75.

Fierce Healthcare, Walmart Health is opening its latest clinics in Florida. Here's how they fit into its 'omnichannel' vision, Paige Minemyer, 4/9/22 <https://www.fiercehealthcare.com/retail/walmart-health-opening-its-latest-clinics-florida-heres-how-they-fit-its-omnichannel-vision>; Modern Healthcare, UnitedHealth into Medicare Advantage deal with Walmart, Lauren Berryman, 9/7/22 <https://www.modernhealthcare.com/medicare/unitedhealth-walmart-medicare-advantage-deal>; Modern Healthcare, Walmart to launch 16 Florida health centers next year, Marc Devereaux, 10/26/22 <https://www.modernhealthcare.com/finance/walmart-launch-16-florida-health-centers-2023>; HealthcareDive, Walmart Health plans clinic expansion in 2024, pushing into 2 new states, Rebecca Pifer, 3/2/23 <https://www.healthcaredive.com/news/walmart-health-plans-double-medical-centers-in-2024>



CALL TO ACTION: WALGREENS PUSHES INTO PRIMARY CARE AND BEYOND, AIM TO KEEP PEOPLE OUT OF HEALTHCARE SYSTEM

- As of October '21 Walgreens Boots Alliance had invested \$5.2 billion in VillageMD for physician-staffed clinics across the country and \$330 million in post-acute and home care company CareCentrix. A year later it announced plans to purchase the remaining 45% of CareCentrix and own the company outright
 - As of February '22 the partnership had opened more than 200 co-branded primary care practices
- In September '22 Walgreens spent \$1.37 billion to acquire the remaining 30% of Shields Health Solutions, a specialty pharmacy that works with 80 health systems across the country and represents over 1 million patients with complex medical conditions
- In November '22 VillageMD finalized its acquisition of Summit Health for \$8.9B
 - As part of the deal Cigna's health services arm, Evernorth, will become a minority owner of VillageMD. VillageMD will leverage its experience with value-based care to transition both companies' patients to risk-based payment.
- At a Forbes Healthcare summit, CEO Roz Brewer shared that Walgreens' push into primary **care aims to keep people healthy enough to avoid returning to the healthcare system**. The company intends to diversify its healthcare investments into pharmacy, primary care, post-acute care and technology.

"Imagine a day when 45 percent of our Walgreens stores ... where you can walk in and see a primary care physician that's attached to a Walgreens drugstore. And you come into this beautiful lobby and there are eight exam rooms with two physicians and a staff... And they can do the testing that you need that day. ... That's our goal."

Walgreens CEO Roz Brewer

Walgreens' care goal is to keep people away from the healthcare system, CEO says; Walgreens, VillageMD on track to open 200 co-branded clinics this year; Walgreens to acquire remaining stake in specialty pharmacy company; Walgreens to buy remaining stake in CareCentrix for \$392M; Walgreens-backed VillageMD in talks to merge with Summit, Bloomberg reports, Rebecca Pifer, 10/31/2022; Healthcare Dive, [Walgreens-backed VillageMD buys Summit Health for \\$9B](#), Rebecca Pifer, 11/7/22



CALL TO ACTION: CVS TARGETS 65B HEALTHCARE INTERACTIONS BY 2030

- To support community health CVS continues to expand into retail healthcare with a goal to facilitate 65 billion healthcare interactions over the next 10 years and invest \$185M into affordable housing
- Key retail strategies include
 - Continuing to grow HealthHUB stores
 - Rethinking care delivery based on lessons learned during COVID-19
 - Investing in community health
- CVS opened 1,500 HealthHUBs by the end of 2021
- Starting in 2023, the retailer's virtual care platform, CVS Health Virtual Primary Care, will be available to Aetna and Caremark members
 - The new platform will provide on-demand care, chronic condition management and mental health services and will leverage an interoperable EHR to facilitate care coordination
- The CVS housing investments went towards creating over 6,570 housing units in 64 cities across 28 states and Washington DC, with access to CVS healthcare services provided for residents

<https://www.fiercehealthcare.com/payer/cvs-wants-to-facilitate-65-billion-healthcare-interactions-over-the-next-10-years-and-invest-185m-into-affordable-housing> <https://www.fiercehealthcare.com/payers/cvs-invested-185m-housing-last-year-heres-where-those-funds-went> <https://www.fiercehealthcare.com/health-tech/cvs-health-rolls-out-virtual-primary-care-service>

"Through our affordable housing investments and our work with local organizations to provide supportive services, we're advancing health equity at the community level, helping people live healthier and creating positive change all around them."

David Casey, CVS Health Senior Vice President and Chief Diversity Officer



CALL TO ACTION: CVS AND PRIMARY CARE



CVS continues to expand its primary care with the recent purchase of home health company Signify Health



After losing concierge medicine group One Medical to Amazon, CVS signaled it may move toward smaller, regional acquisitions rather than larger ones as competitors like Amazon, Walmart and Walgreens have done



CVS is now working with Amwell to roll out the virtual care platform it announced in May 2022 that provides virtual access to on-demand primary care, chronic condition management and mental health services to eligible Aetna and CVS Caremark members



In September 2022, CVS and Signify Health announced CVS will buy the Dallas-based home health company for \$8B. This is the next step as CVS transforms from a retailer to a healthcare giant. **The purchase represents a key milestone in CVS's effort to provide comprehensive healthcare offerings, as it now includes home health and value-based care in addition to its retail clinics. Purchase was finalized in May 2023 for \$8B.**



In January '23 CVS began talks with Oak Street Health, a private-equity-backed company that runs primary care centers across the US for Medicare recipients. Oak Street Health, which serves a 42% dual-eligible population, provides primary care that addresses social determinants of health. **The deal was finalized in May 2023 for \$10.6B.**



CVS's ACO division and Chicago-based Rush University System for Health are now collaborating to coordinate care at area MinuteClinics as part of the Medicare ACO REACH program. Through the partnership, Medicare MinuteClinic patients will have access to Rush providers for follow-up care and Rush patients will have access to customized care at participating MinuteClinic locations.

Modern Healthcare, After Signify Health, CVS still looking for more deals, Nona Tepper and Lauren Berrymann, 8/6/22 <https://www.modernhealthcare.com/mergers-acquisitions/after-signify-health-cvs-still-looking-more-deals>; HFMA.org, CVS Health gains capabilities in home healthcare and value-based care with massive deal to buy Signify Health, Nick Hut, 8/27/22 <https://www.hfma.org/topics/news/2022/08/cvs-health-gains-new-capabilities-in-home-healthcare-value-based.html>; Becker's Hospital Review, CVS exploring acquisition of Oak Street Health, Naomi Diaz, 1/10/23 <https://www.beckershospitalreview.com/disruptors/cvs-exploring-acquisition-of-oak-street-health.html>; Modern Healthcare, CVS Health taps Rush for ACO REACH collaboration, 1/23/23; HFMA.org, Healthcare News of Note, CVS finalizes purchases of Signify Health, Oak Street Health, moving into home healthcare and primary care, Deborah Filipek, 5/8/23



CALL TO ACTION: ANTHEM EXPANDS VIRTUAL PRIMARY CARE SERVICES

- On 2/8/22, Anthem announced the expansion of its telehealth primary care services to 11 new states, with plans to offer virtual services to all of its service area and cover 10 million self-insured lives by the end of 2022
- Anthem launched its “virtual-first” program during open enrollment this year. *The plan requires members to see a provider via telehealth before visiting one in person and is available in six states.* Expansion of this type of plan depends on regulatory approval.
- While other insurers expanding into primary care buy up physician practices, Anthem differentiates itself by using technology to connect independent physicians and promote value-based care through facilitating use of new payment models
- The company also invests heavily in value-based care companies including Vera Health, Privia Health, Caremax and K Health
- In 2021 approximately 60% of Anthem's 45.4 million members' medical spend came from value-based relationships

"Our strategy is being a digital platform for health... That being the case, it's what can we connect and interoperate is the primary driver for us, versus needing to own our care delivery."

Rajeev Ronanki, chief digital officer

Source: Modern Healthcare, Anthem expands digital health partnerships, Nona Tepper, 2/8/22 https://www.modernhealthcare.com/insurance/anthem-expands-digital-health-partnerships?utm_source=modern-healthcare-am-wednesday

11



CALL TO ACTION: UNITEDHEALTH BUYS OPTUMCARE AND HOME HEALTH FIRM LHC

"When you begin to pencil out the math, as we move people into value-based arrangements, that will be a major driver of how we'll move to a \$100 billion book of business."

Wyatt Decker, MD
OptumHealth CEO

Managed care company **UnitedHealth Group** purchased **OptumCare**, comprised of **56,000 physicians** and **1,600 clinics**, and **plans to grow it to a \$100B business** through value-based arrangements

It also agreed to purchase home health group LHC, which employs about 30,000 people, operates in 37 states and cares for over 500,000 patients annually

Per OptumHealth (OptumCare parent) CEO Dr. Wyatt Decker, under the new arrangement physicians will be paid to keep patients healthy

OptumCare is also launching a virtual care platform – Optum Virtual Care – that supports its plan to integrate virtual care, home care, and care clinics across all 50 states

The acquisition of a home health company may impact hospital patient volumes, as patients will receive care at home instead of in the hospital

Becker's Hospital Review, How UnitedHealth plans to make Optum a \$100B business, Ayla Ellison, April 23, 2021, <https://www.beckershospitalreview.com/finance/how-unitedhealth-plans-to-make-optum-a-100b-business.html?origin=CIOE>; Beckerspayers.com, UnitedHealth to buy home-health firm LHC Group, Andrew Cass, 3/29/22 <https://www.beckerspayers.com/m-and-a/unitedhealth-to-buy-home-health-firm-lhc-group.html?origin=CIOE>

12



CALL TO ACTION: PRIMARY CARE INVESTMENTS & ALIGNMENT WITH NON-TRADITIONAL PLAYERS (RECENT HIGHLIGHTS)

Q1/2021

CVS targets 65B healthcare interactions by 2030, driven by investments in HealthHub and community health ¹

Digital health companies offering primary care bring in the second most funding in Q1 2021, driven by Ro (\$500M), Dispatch Health (\$200M), and Eden Health (\$60M) ²

Q3-Q4/2021

Carbon Health banks another \$350M from PE firm to become 'largest primary care provider in the U.S.' ⁴

OneMedical acquires Iara Health, a leading value-based primary care group serving Medicare patients at 47 offices. "Together, we'll deliver exceptional, human-centered, technology-powered primary care to more people in more places — across every stage of life" ⁵

UnitedHealthcare buys OptumCare, which comprises 56,000 physicians and 1,600 clinics, and plans to grow it to a \$100B business through value-based arrangements ³

OptumCare is also launching a virtual care platform called Optum Virtual Care that supports its plan to integrate virtual care, home care and care clinics across all 50 states

Humana plans to expand its health centers for older adults with \$600M investment from PE firm ⁶

PE firm invests \$500M in FL-Florida based primary care physician group and managed services organization ⁷

Aledade (software company helping physicians and primary care transition to value-based care) launches new health services unit via an acquisition of Iris healthcare ⁸

Q2/2021

Q1/2022

Sources:

- <https://www.fortunehealthcare.com/payer/cvs-wants-to-fulfill-65b-healthcare-interactions-by-2030-heres-how>
- <https://roche.com/departments/q1-2021-funding-report-digital-health-is-at-the-core>
- <https://www.modernhealthcare.com/news/carbon-health-banks-350m-to-become-largest-primary-care-provider>
- <https://www.modernhealthcare.com/news/one-medical-acquires-iara-health>
- <https://www.modernhealthcare.com/news/optum-buys-optumcare>

- <https://www.modernhealthcare.com/news/humana-grows-private-equity-backed-primary-care-with-600m-investment>
- <https://www.modernhealthcare.com/news/pe-firm-invests-500m-in-florida-based-primary-care-physician-group>
- <https://www.modernhealthcare.com/news/aledade-acquires-iris-health>

13



STROUDWATER

CALL TO ACTION: PRIMARY CARE INVESTMENTS & ALIGNMENT WITH NON-TRADITIONAL PLAYERS (RECENT HIGHLIGHTS)

Q2-Q3/2022

Amazon and CVS compete to acquire primary care company One Medical; Amazon prevails and buys the company for \$3.9 billion ¹

CVS, Amazon, UnitedHealth Group and Option Care Health vie for ownership of, health risk-assessment provider Signify Health; CVS wins with a purchase price of approximately \$8B ²

CVS reportedly enters a bidding war with Humana to buy Cano Health, a technology-enabled primary care practice ³

Q1/2023

CVS acquires Oak Street Health for \$10.6B in an all-cash transaction at \$39 per share further expanding CVS's push into primary care ⁵

Walgreen's VillageMD acquires Summit Health for \$8.9B becoming the largest investment in primary care in 2022 ⁴

Q4/2022

Sources:

- <https://www.fortunehealthcare.com/health-tech/amazon-steps-out-39b-primary-care-startup-one-medical>
- <https://www.fortunehealthcare.com/health-tech/cvs-wins-bidding-war-signify-health-will-acquire-company-8b>
- <https://www.modernhealthcare.com/news/cvs-reportedly-enters-bidding-war-with-humana-to-buy-cano-health>
- <https://www.fortunehealthcare.com/health-tech/walgreens-village-md-acquires-summit-health-for-89b>

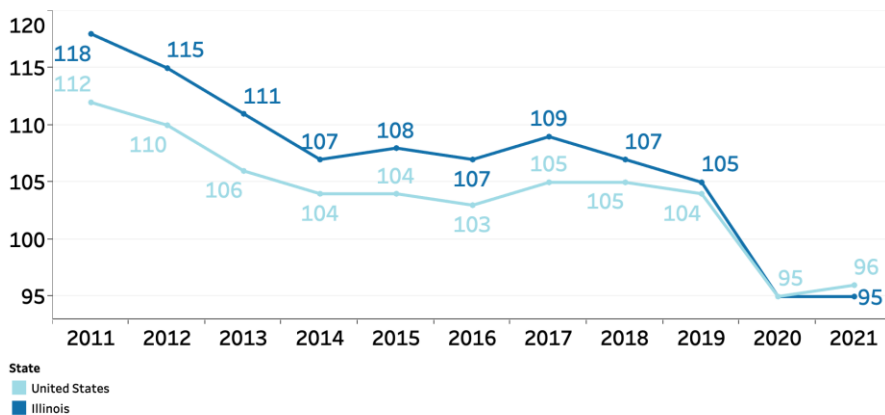
14



STROUDWATER

CALL TO ACTION – DECLINING IP VOLUME

United States & Illinois Admissions per 1000



Source: KFF.org - Updated 3/7/2023

Data are for community hospitals, which represent 85% of all hospitals. Federal hospitals, long term care hospitals, psychiatric hospitals, institutions for the mentally retarded, and alcoholism and other chemical dependency hospitals are not included.

15



CALL TO ACTION – DECLINING OP VOLUME



In 2018, US hospital outpatient visits declined for the first time since 1983, specifically in the number of emergency outpatient visits



Per the American Hospital Association's [2020 Hospital Statistics report](#) 6,146 US hospitals delivered 879.6 million outpatient visits in 2018, 0.9% less than in 2017, when they delivered 880.5 million outpatient visits



The report states that the amount of **outpatient care** delivered **has most likely increased**, but that **care is being delivered in competitive new options** such as urgent care centers and retail clinics such as those recently launched by CVS Health



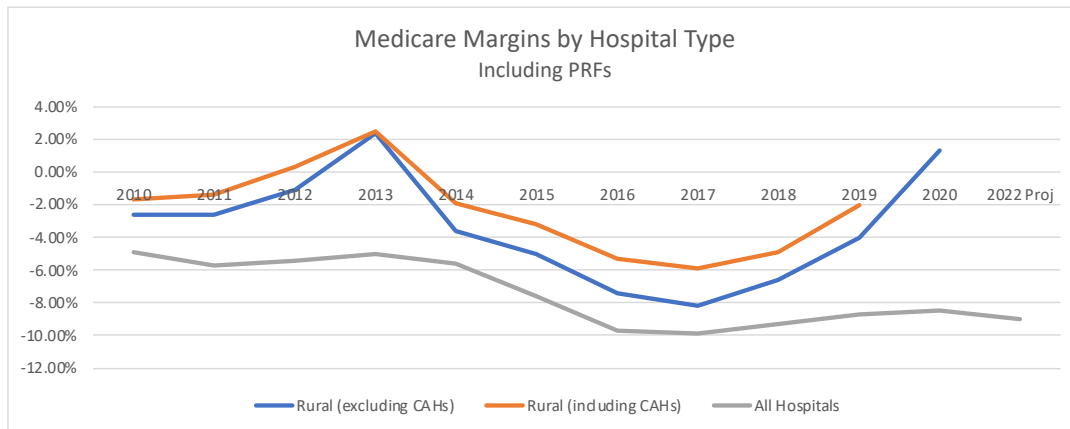
Insurers have contributed to the trend, with UnitedHealthcare recently refusing to pay for certain outpatient surgeries in hospital settings to save money

Source: Modern Healthcare, U.S. hospitals see first decline in outpatient visits since 1983, Tara Bannow, 1/7/20, https://www.modernhealthcare.com/operations/us-hospitals-see-first-decline-outpatient-visits-1983?utm_source=modern-healthcare-am-wednesday

16



CALL TO ACTION: DECLINING MEDICARE MARGINS



NEW CMMI DIRECTOR DR. LIZ FOWLER ON “STRATEGIC REFRESH”

“WE NEED TO FIND A WAY TO BRING EVERYONE ALONG. WE CAN’T HAVE FEE-FOR-SERVICE REMAIN A COMFORTABLE PLACE TO STAY.”

“We need to have a clear path for the innovators who are ready and willing and able to take on...risk, but I think we also need to push the laggards and then we need to reach those who have challenges participating....It may not be one-size-fits-all.”

On CMMI innovation models: “A lot of what we’ve done has been aimed toward certification of models to become a permanent part of Medicare....In trying to get a model certified, it really does suggest a very specific model and a very specific way of thinking about evaluations and the assessment by actuaries. I wonder if we can instead think about the overall goal being transformation of the system instead of certification, or both.”



Source: HFMA.org, Why the federal agency that oversees healthcare payment innovation is rethinking its approach, Nick Hut, 4/26/21 https://www.hfma.org/topics/news/2021/04/why-the-federal-agency-...utm_source=rsoa&PostID=29248522&MessageRunDetailID=5032322143

CMS 2024 INPATIENT PERSPECTIVE PAYMENT PROPOSED RULE (4/10/23)

➤ Payment Rate Update

PROPOSED FY 2024 APPLICABLE PERCENTAGE INCREASES FOR THE IPPS

FY 2024	Hospital Submitted Quality Data and is a Meaningful EHR User	Hospital Submitted Quality Data and is NOT a Meaningful EHR User	Hospital Did NOT Submit Quality Data and is a Meaningful EHR User	Hospital Did NOT Submit Quality Data and is NOT a Meaningful EHR User
Proposed Market Basket Rate-of-Increase	3.0	3.0	3.0	3.0
Proposed Adjustment for Failure to Submit Quality Data under Section 1886(b)(3)(B)(viii) of the Act	0.0	0.0	-0.75	-0.75
Proposed Adjustment for Failure to be a Meaningful EHR User under Section 1886(b)(3)(B)(ix) of the Act	0.0	-2.25	0.0	-2.25
Proposed Productivity Adjustment under Section 1886(b)(3)(B)(xi) of the Act	-0.2	-0.2	-0.2	-0.2
Proposed Applicable Percentage Increase Applied to Standardized Amount	2.8	0.55	2.05	-0.2

Source: CMS Fact Sheet, 4/18/2022; NRHA Summary of 2024 IPPS Proposed Rule 4/11/2023



CY2023 MEDICARE PFS – MSSP PROPOSED RULE (7/07/2022) AND FINAL RULE (11/1/2022) (CONTINUED)

- CMS issued a proposed rule that announces and solicits public comments on proposed policy changes for Medicare payments under the PFS, and other Part B issues, on or after January 1, 2023 (continued)
 - **Rule was finalized on 11/1/2022**
- Key elements related to MSSP include:
 - Finalized proposal to provide advance investment payments (AIPs) to low revenue ACOs, inexperienced with performance-based risk Medicare initiatives, that are new to the program.
 - **One-time fixed payment of \$250K with quarterly payments** for first two years of 5-year agreement period
 - Requirement that advanced payments be used for improving healthcare provider infrastructure, increase staffing or provide accountable care to underserved beneficiaries
 - Application period during CY23 for 1/1/24 start
 - Advanced payments would increase with higher levels of dual eligible beneficiaries
 - Advance payments would be paid back from future shared savings
 - Expand opportunities for certain low revenue ACOs participating in the BASIC track to share in savings even if they do not meet the minimum savings rate

Source: CMS.gov Calendar Year 2023 Medicare Physician Fee Schedule Proposed Rule Fact Sheet, July 7, 2022
 Source: CMS.gov Calendar Year 2023 Medicare Physician Fee Schedule Final Rule Fact Sheet, November 1, 2022
 Source: NRHA Summary of Final CY 2023 Medicare Physician Fee Schedule and other Changes to Part B Payment and Coverage Policies



CALL TO ACTION: IN SUMMARY



Traditional fee-for-service payment will continue to transition to value-based payment



Pressure for operational efficiencies and human and capital resources will continue to accelerate



Clinical integration will create advantages to systems of accountable care (Value based payment, re-admission rates and preventable re-admissions, bundled payments, accountable care organizations, etc.)



Flexibility must be ingrained into any short to medium term strategies as a direct result of increased regulatory and environmental uncertainty

21



FUTURE HOSPITAL FINANCIAL VALUE EQUATION

> Definitions

> Patient Value

$$\text{Patient Value} = \frac{\text{Quality}}{\text{Cost}} \times \text{Population}$$

> Accountable Care:

> A mechanism for *providers to monetize the value derived from increasing quality and reducing costs*

> Accountable care includes many models including bundled payments, value-based payment program, provider self-insured health plans, Medicare defined ACO, capitated provider sponsored healthcare, etc.

> Different “this time”

- > Providers monetize value
- > Government “All In”
- > New information systems to manage costs and quality
- > Agreed upon evidence-based protocols
- > Going back is not an option

22



FUTURE HEALTHCARE PROVIDER FINANCIAL VALUE EQUATION

➤ ACO Relationship to Small and Rural Healthcare Providers

- Revenue stream of future tied to Primary Care Physicians (PCP) and their patients
- Small and rural healthcare providers bring value / negotiating power to affiliation relationships as generally PCP based
 - Smaller community healthcare providers have value through alignment with revenue drivers (PCPs) rather than cost drivers but must position themselves for new market:
 - Alignment with PCPs in local service area
 - Develop a position of strength by becoming highly efficient
 - Demonstrate high quality through monitoring and actively pursuing quality goals



23

THE PREMISE

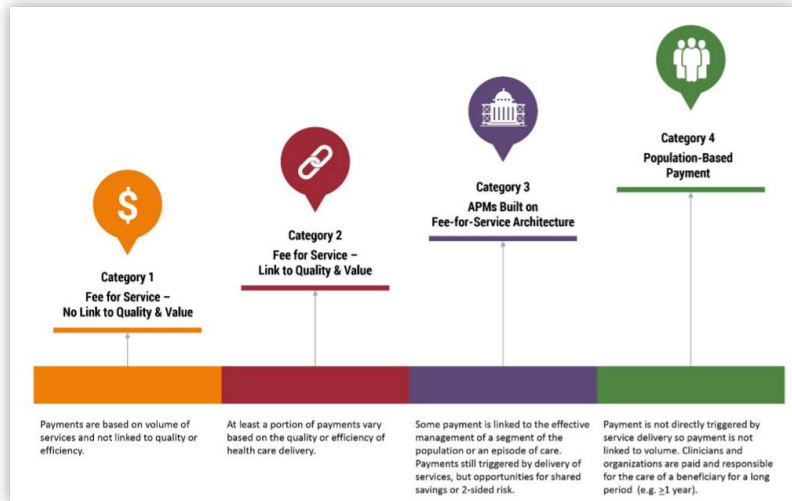


- | | | |
|---|---|---|
| ➤ Macro-economic payment system <ul style="list-style-type: none"> ➤ Government payers changing from fee-for-service (FFS) to population-based payment system (PBPS) ➤ CMMI is considering making value-based payment models mandatory ➤ Private payers follow government payers | ➤ Provider imperatives <ul style="list-style-type: none"> ➤ Fee-for-service (FFS): <ul style="list-style-type: none"> ➤ Maximization of price and utilization ➤ Management of costs ➤ Provider Based Payment System (PBPS): <ul style="list-style-type: none"> ➤ Management of care of a defined population ➤ Providers assume risk | ➤ Provider organization evolution from: <ul style="list-style-type: none"> ➤ Independent organizations competing with each other for market share → ➤ Aligned organizations competing with other aligned organizations for covered lives based on quality and value ➤ Network and care management organization must develop new competencies: <ul style="list-style-type: none"> ➤ Network development ➤ Care management ➤ Risk contracting & management |
|---|---|---|



24

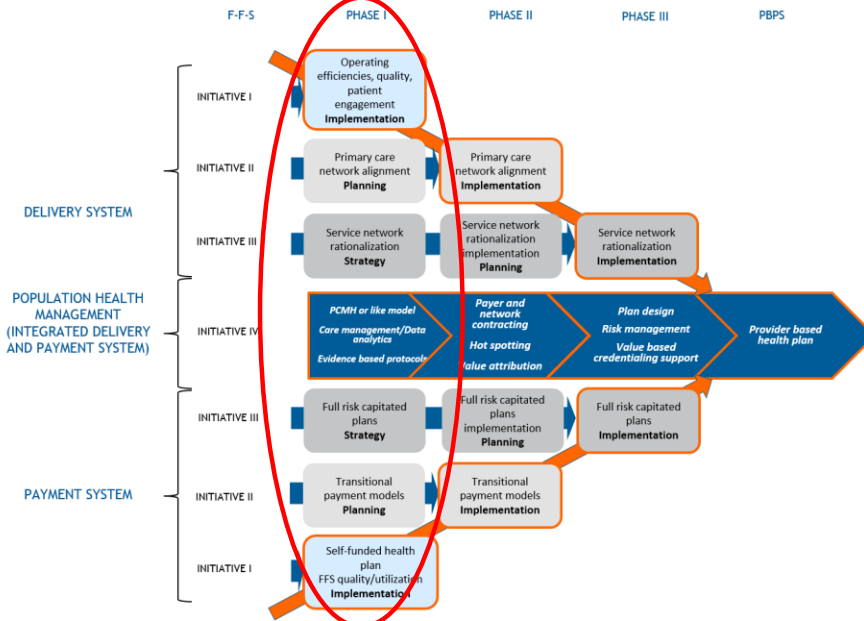
TRANSITION FRAMEWORK –VALUE-BASED JOURNEY



CHALLENGE: CROSSING THE SHAKY BRIDGE



TRANSITION FRAMEWORK

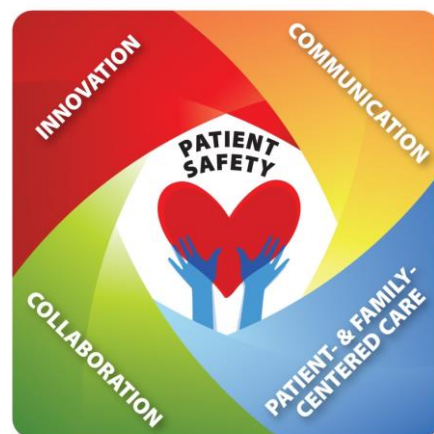


27



INITIATIVE I – OPERATING EFFICIENCIES, PATIENT SAFETY AND QUALITY

- Hospitals not operating at efficient levels are currently, or will be, struggling financially
- “Efficient” is defined as
 - Appropriate patient volumes meeting needs of their service area
 - Revenue cycle practices operating with best practice processes
 - Expenses managed aggressively
 - Physician practices managed effectively
 - Effective organizational design



Graphic: National Patient Safety Foundation

28



OPERATING EFFICIENCIES, PATIENT SAFETY AND QUALITY

- Focus on Quality and Patient Safety
 - As a strategic imperative
 - As a competitive advantage

U.S. HHS Hospital Compare Measures	National Avg.	MA Average	Fairview Hospital	Berkshire Medical Center	Baystate Medical Center	Columbia Memorial Hospital	Sharon Hospital	Saint Peter's Hospital	Brigham and Women's Hospital	Mass General Hospital	Albany Medical Center	Charlotte Hungerford Hospital
Patient Survey Summary Star Rating:			5	3	3	2	4	3	3	4	2	3
Patient Satisfaction (HCAHPS) Average:	71%	70%	84%	68%	66%	61%	73%	67%	71%	74%	64%	65%
Nurses "Always" communicated well:	80%	80%	92%	81%	75%	73%	84%	77%	80%	83%	75%	77%
Doctors "Always" communicated well:	82%	81%	90%	78%	77%	74%	84%	76%	80%	82%	70%	75%
"Always" received help when wanted:	68%	66%	88%	64%	59%	58%	71%	59%	69%	65%	62%	60%
Pain "Always" well controlled:	71%	71%	83%	73%	68%	70%	72%	70%	69%	72%	65%	69%
Staff "Always" explained med's before administering:	65%	64%	78%	64%	61%	56%	69%	59%	61%	66%	58%	58%
Room and bathroom "Always" clean:	74%	72%	86%	73%	67%	63%	78%	63%	66%	72%	66%	72%
Area around room "Always" quiet at night:	62%	53%	68%	46%	48%	45%	60%	47%	56%	54%	43%	40%
YES, given at home recovery information:	87%	89%	94%	89%	88%	83%	85%	87%	89%	90%	83%	91%
"Strongly Agree" they understood care after discharge:	52%	53%	70%	50%	49%	41%	51%	49%	51%	59%	46%	47%
Gave hospital rating of 9 or 10 (0-10 scale):	72%	70%	88%	65%	65%	53%	73%	69%	80%	82%	65%	60%
YES, definitely recommend the hospital:	71%	74%	91%	65%	73%	50%	72%	76%	84%	90%	70%	61%

Source: www.hospitalcompare.hhs.gov

Highest Score ■
 Above State Avg. ■
 Below State Avg. ■
 Lowest Score ■



29

INITIATIVE II – PRIMARY CARE ALIGNMENT

- Understand that revenue streams of the future will be tied to primary care physicians, which often comprise a majority of the rural and small hospital healthcare delivery network
 - Thus, small and rural hospitals, through alignment with PCPs, will have extraordinary value relative to costs
- Physician Relationships
 - Hospital align with employed and 30independent providers to enable interdependence with medical staff and support clinical integration efforts
 - Contract (e.g., employ, management agreements)
 - Functional (share medical records, joint development of evidence-based protocols)
 - Governance (Board, executive leadership, planning committees, etc.)
 - Potential Model for Rural:
 - New PHO/CIN/IHN



30

INITIATIVE III – RATIONALIZE SERVICE NETWORK

- Develop system integration strategy
 - Evaluate wide range of affiliation options ranging from network relationships, to interdependence models, to full asset ownership models
 - Interdependence models through alignment on contractual, functional, and governance levels, may be option for rural hospitals that want to remain “independent”
 - Explore / Seek to establish interdependent relationships among small and rural hospitals understanding their unique value relative to future revenue streams
- Identify the number of providers needed in the service area based on population and the impact of an integrated regional healthcare system
- Conduct focused analysis of procedures leaving the market
 - Understand real value to hospitals
 - Under F-F-S
 - Under PBPS (Cost of out of network claims)



31

PAYMENT SYSTEM STRATEGY – INITIATIVE I

Develop self-funded employer health plan

- Hospital is already 100% at risk for medical claims thus no risk for improving health of employee “population”
- Change benefits to encourage greater “consumerism”
 - Differential premium for elective “risky” behavior
- “Enroll” employee population in health programs – health coaches, chronic disease programs, etc.

FFS Quality and Utilization Incentives

- Maximize FFS incentives for improving quality or reducing inappropriate utilization (e.g., inappropriate ER visits, re-admissions, etc.)
- Annual Well visits, Chronic Care Management (CCM) and Transitional Care Management (TCM) FFS payments
- Maximize MIPS incentive payments
 - MIPS ACO



32

PAYMENT SYSTEM STRATEGY – INITIATIVE II

Initiative II: Implementation planning for transitional payment models

- Transitional payment models include:
 - FFS against capitation benchmark w/ shared savings
 - Shared savings model Medicare ACOs
 - Shared savings models with other governmental and commercial insurers
 - Partial capitation and sub-capitation options with shared savings
- Prioritize insurance market opportunities
- Take the initiative with insurers to gauge interest and opportunities for collaborating on transitional payment models
- Explore direct contracting opportunities with self-funded employers

33



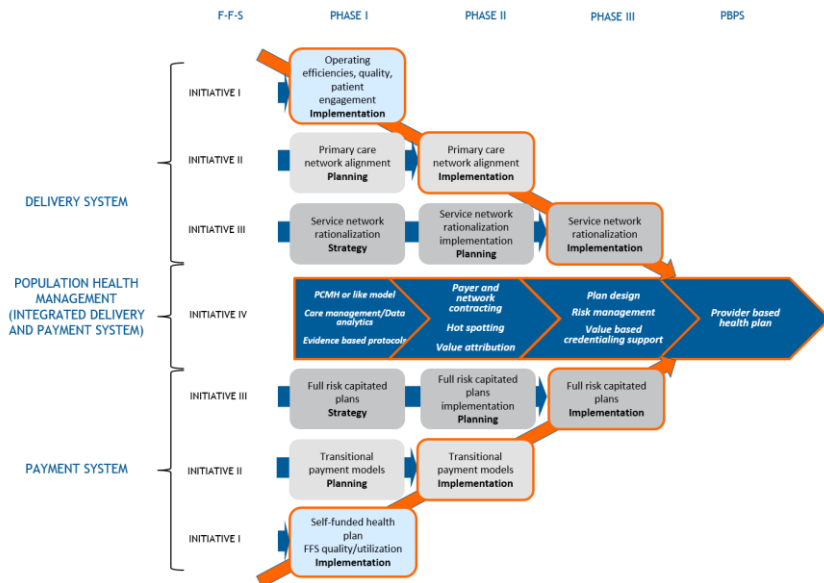
POPULATION HEALTH STRATEGIES – PHASE I

- Phase I: Develop Population Health building blocks
 - Goal: Infrastructure to manage self-insured lives and maximize FFS Utilization and quality incentives
 - Initiatives:
 - PCMH or like structure
 - Care management
 - Discharge planning across the continuum
 - Transportation, PCP, meds, home support, etc.
 - Transitions of care (checking in on treatment plan)
 - Medication reconciliation
 - Post discharge follow-up calls (instructions, teach back, medication check-in)
 - Identifying community resources
 - Maintain patient contact for 30 days
 - Develop claims analysis capabilities/infrastructure
 - Develop evidenced based protocols

34



TRANSITION FRAMEWORK – IN REVIEW



35

LESSONS LEARNED

- Transition to population-based payment system will be evolutionary and not revolutionary
- There is no risk-free payment system
 - Fee-For-Service
 - Population Based Payment
- Value-Based Risk = Residual Claim on Health
 - But only to the extent that providers receive full per capita payment
- Benefits provided to one payer are reaped by other payers
- 80-20 Fixed-variable cost understanding is critical
 - Claims costs confuse healthcare economics as they are used for a proxy for the cost of delivering healthcare
 - Variable costs are equal to claims cost only when services are provided out of network
 - There will be short term incentives to increase FFS volume until 80% of payment is Population-Based
- Full transition to population-based payment will take years but when complete, will fundamentally align provider organization incentives with the greater population's interest



CONCLUSIONS/RECOMMENDATIONS

- For decades, rural hospitals have dealt with many challenges including low volumes, declining populations, difficulties with provider recruitment, limited capital constraining necessary investments, etc.
 - The current environment driven by healthcare reform and market realities now offers a new set of challenges. Many rural healthcare providers have not yet considered either the magnitude of the changes or the required strategies to appropriately address the changes
- Locally delivered healthcare (including rural and small community hospitals) has high value in the emerging delivery system
- “Shaky Bridge” crossing will require planned, proactive approach
 - Critical to maintain alignment between delivery system models and payment systems building flexibility into the delivery system model for the changing payment system



37

CONCLUSIONS/RECOMMENDATIONS (CONTINUED)

- Important strategies for providers to consider include:
 - Increase leadership awareness of new environment realities
 - Strategic plan to incorporate new strategic imperatives – “Bridge Strategy”
 - Improve operational efficiency of provider organizations
 - Adapt effective quality measurement and improvement systems as a strategic priority
 - Align/partner with medical staff members contractually, functionally, and through governance where appropriate
 - Seek interdependent relationships with developing regional systems
 - Develop strategies to proactively move towards value-based payment



38