

State of the Union: The New Era of Health Care Reform

Health System Strategy Amid Empowered Consumers,
Activated Employers, and Reactive Insurers

The 42nd and 45th Presidents of the United States



Hope and Change, Eight Years On

Surely President Obama's Signature Achievement

A Grand Promise for Change



“The bill I’m signing will set in motion reforms that generations of Americans have fought for and marched for and hungered to see.”

*Barack Obama,
on the Affordable Care Act,
March 23, 2010*

“This is a big [expletive] deal”

*Joe Biden,
on the Affordable Care Act,
March 23, 2010*

Evaluating the ACA Against its Intentions

Major Reform Goals



Obama-era Enabling Legislation



February 17, 2009:
Health Information Technology
for Economic and Clinical Health
(HITECH) Act



March 23, 2010:
Patient Protection and
Affordable Care Act



April 16, 2015:
Medicare Access and
CHIP Reauthorization Act
(MACRA)

Replacing Fee-for-Service: A Stalled Transition

1



Replace Costly Fee-for-Service Incentive Structures



*Chosen Method:
Medicare-led Payment Reform*

- FFS Cuts
- New payment models
- Intent to catalyze broader commercial market change

Overall Grade:



MACRA:

- Large, limited-time incentive to adopt downside risk models
- Wide range of potential impact in complex MIPS track

Grade:

?

Bundled Payments

- Noticeable cost savings to Medicare
- Significant provider interest
- Limited scalability without further mandates

Grade:

B

ACO Programs

- Very little cost savings in aggregate so far
- Constant battle to retain participants while also accelerating migration to downside risk
- Unattractiveness of ACO programs driving many to Medicare Advantage

Grade:

C-

Improving Health Care Quality: Mixed and Complex

2



**Improve Health
Care Quality**



*Chosen Method:
Incentives + Transparency*

- IT mandates
- Pay-for-Performance programs
- Market-facing transparency

Overall Grade:



IT Infrastructure and Interoperability

- EHR implementation proceeding; likely much more aggressively than without intervention
- Costs crowding out other investment

Grade:

B-

Pay-for-Performance Programs

- Providers responded quickly to readmission, HAC incentives
- Infrastructure in place to scale up financial consequence if needed
- Overengineered metrics proving burdensome

Grade:

B+/C-

Market Transparency

- Government-run transparency platforms of limited use, infrequently used

Grade:

D

Expanding Coverage by Reforming Existing System

Correcting for the Deficiencies of the Market



Insurer Regulations

- Essential health benefits
- Guaranteed issue
- Dependent coverage to age 26
- Community rating



Employer mandate

Intended to prevent dumping into new safety nets



Individual mandate

Intended to preserve quality of risk pools



Exchange subsidies

- Commercial insurance sold on consumer-facing marketplaces
- Subsidies for those between 100%-400% of federal poverty line



Medicaid expansion

- Intended to apply to all adults under 138% of federal poverty line
- Supreme Court decision gave states option not to expand

Above-Market Supply



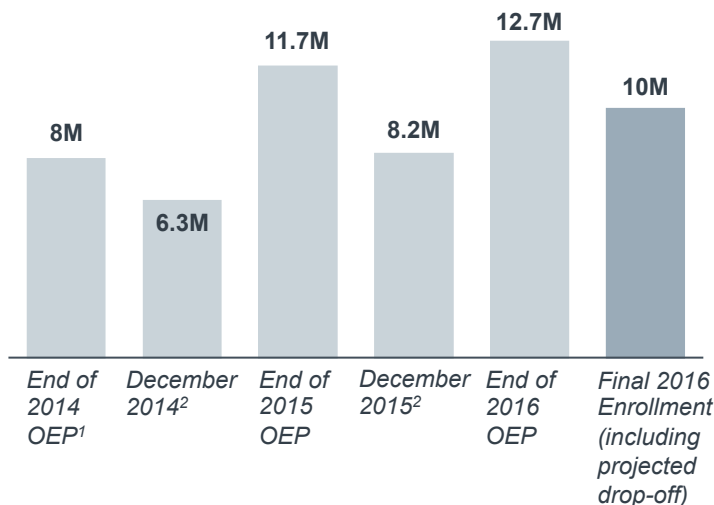
Above-Market Demand

Attempting to Create an Orderly Marketplace

Enrollment Not Hitting Original Estimates, but Not Dropping Either

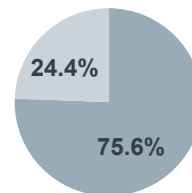
Exchange Enrollment

2014-2016



State-run vs. Federally-facilitated Exchanges

Enrollment on
state run
exchanges



Enrollment on
federally
facilitated
exchanges

“Young Invincibles” Still Scarce

2.7M



2016 federal exchange enrollees aged 18-34 (compared to 2.5M in 2015)

Source: HHS, “Health Insurance Marketplace Open Enrollment Snapshot – Week 13,” February 4, 2016; HHS, “Health Insurance Marketplace Open Enrollment Snapshot – Week 7,” December 22, 2015; HHS, “Health Insurance Marketplace 2015 Open Enrollment Period: December Enrollment Report,” Dec. 30, 2014; HHS, “Health Insurance Marketplace 2015 Open Enrollment Period: March Enrollment Report,” March 10, 2015; HHS, “Open Enrollment Week 13: February 7, 2015 – February 15, 2015, available at: <http://www.hhs.gov/healthcare/facts/blog>; HHS, “Open Enrollment Week 14: February 16, 2015 – February 22, 2015, available at: www.hhs.gov/healthcare/facts/blog; CBO, January 2015 Baseline: Insurance Coverage Provisions for the Affordable Care Act, available at: www.cbo.gov; Washington Times, “Obamacare Official: 7.3 Million Americans Are Still Enrolled and Paid Up,” Sept. 18, 2014, available at: <http://www.washingtontimes.com>; Kaiser Family Foundation, “Total Marketplace Enrollment and Financial Assistance,” June 30, 2015; Pradhan R, “White House

1) Open Enrollment Period.

2) Drop-off due to individuals not paying premiums or voluntarily dropping coverage.

Birth of a Market Not Without Pangs

CO-OPs¹, Established Carriers Struggling

Financial, Enrollment Losses Mounting

HCSC
Health Care Service Corporation

\$1.5B

Individual market
losses, 2015

Anthem 

-110K

Change in individual
enrollment, 2014-2015

“[In 2014] insurers would have had to price average premiums more than **25 percent higher** in order to avoid losses”

*Mercatus Center,
George Mason University*

Startup Ventures Largely Failing

Notable CO-OP failures:



52%

of CO-OPs
closed by 2016

“To date, more than half a million Americans have lost coverage thanks to the failure of these co-ops”

*Adrian Smith
The Wall Street Journal*

Difficulties Facing Exchange Plans



Adverse selection



Miscalibrated risk pricing



Risk corridor underpayment



Misuse of special enrollment period

Source: Smith A “ObamaCare’s Cascading Co-op Failures” The Wall Street Journal, November 2, 2015; Blase B et al. “The Affordable Care Act in 2014: Significant Insurer Losses Despite Substantial Subsidies” Mercatus Center, George Mason University; Sachdev A “Blue Cross Parent Lost \$1.5 Billion on Individual Health Plans Last Year” Chicago Tribune, March 11, 2016; Commonwealth Fund, “Why Are Many CO-OPs Failing? How New Nonprofit Health Plans Have Responded to Market Competition,” December 10, 2015, available: www.commonwealthfund.org; Health Care Advisory Board interviews and analysis.

¹) Consumer Oriented and Operated Plans.

United Dropping Out of Most Exchange Markets

Mid-to-High Pricing Strategy Neither Won Share Nor Paid Bills

UnitedHealthcare®

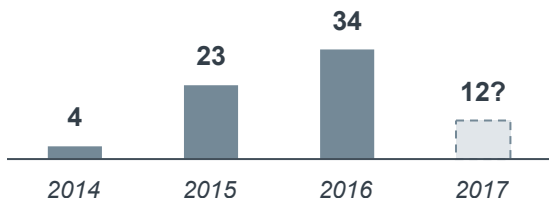
“We cannot broadly serve [the exchange market] on an effective and sustained basis.”

Stephem J. Hemsley
CEO of UnitedHealth Group

\$650M

Anticipated 2016 loss on exchange products

States with United Health Exchange Plans

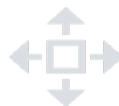


Much Ado About Nothing?



1.6%

United's exchange enrollees as percentage of United's total beneficiaries



6.2%

United's overall exchange market share of enrollees



1%

Estimated impact on premiums of United's withdrawal



77%

Percentage of exchange enrollees in markets with 3 or more carriers even after United's withdrawal

Other Carriers Remain Enthused



“We remain committed to the public exchange market and the vital role it plays in providing many individuals with access to affordable, high-quality health care.”

*Spokesperson
Anthem*

1-2%



3-4%

Raised guidance on
exchange product
profit margins



“Centene’s exchange experience continues to be favorable. We are achieving margins at the higher end of our targeted range.”

*Michael Neidorff
CEO, Centene*

Targeting the Lower End of the Market

90%

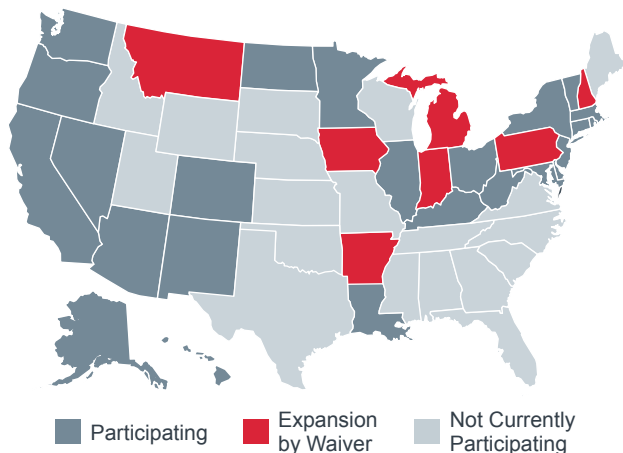
Centene exchange
enrollees eligible for
premium subsidies

Medicaid Expansion Unexpectedly Fragmented

Benefit Clear for Hospitals, But Opposition Remains

31 States and DC Have Approved Expansion¹

As of May 2016



11.7M

Net increase in Medicaid, CHIP²
enrollment, July-Sept. 2013 to
Feb. 2015³

Medicaid Expansion Positively Impacting Hospital Finances



Medicaid Admissions increased
21% for investor-owned hospitals in
expansion states



Self-Pay Admissions decreased by
47% for investor-owned hospitals in
expansion states



Uncompensated Care costs
reduced by **\$5 billion** in expansion
states in 2014

27% vs. 8%

Growth in Medicaid, CHIP enrollment
in expansion vs. non-expansion
states, July-Sept. 2013 to Feb. 2015

1) Montana's expansion requires federal waiver approval.

2) Children's Health Insurance Program.

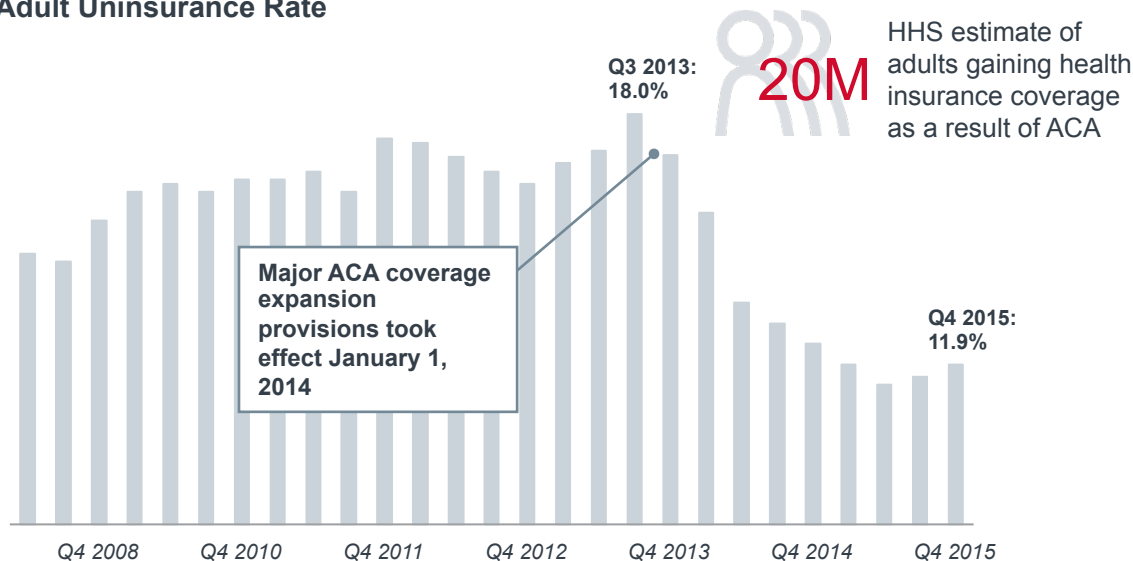
3) Excludes CT and ME.

Source: Kaiser Family Foundation, "Current Status of State Medicaid Expansion Decisions," January 27, 2015, available at: www.kff.org; Fausset R and Goodnough A, "Louisiana's New Governor Signs an Order to Expand Medicaid," *New York Times*, January 12, 2016; HHS, "Insurance Expansion, Hospital Uncompensated Care, and the Affordable Care Act", March 23, 2015, available at: www.aspe.hhs.gov; PwC Health Research Institute, "The Health System Values and Have Nots of ACA Expansion", 2014, available at: www.pwc.com; CMS, "Medicaid & CHIP: February 2015 Monthly Applications, Eligibility Determinations and Enrollment Report", May 1, 2015, available at: www.medicaid.gov; Health Care Advisory Board interviews and analysis.

Coverage Expansion Impact Unmistakable

“Universal Coverage” Still a Distant Goal, but Millions More Now Covered

US Adult Uninsurance Rate



Universal, Affordable Coverage: Clear Progress



**Achieve Universal,
Affordable Coverage**



*Chosen Method:
Expansion of Existing System*

- Insurance market regulation
- Expanded public coverage
- Market-based exchanges

Overall Grade:



Insurance Regulation

Grade:

- Guaranteed issue, other provisions fundamentally reshaped coverage access
- Political fights persist; mandates weak

A-

Insurance Exchanges

Grade:

- Enrollment stable
- Premium growth reasonable; “death spiral” largely avoided
- Market-driven value dynamic accelerating

B+

Medicaid Expansion

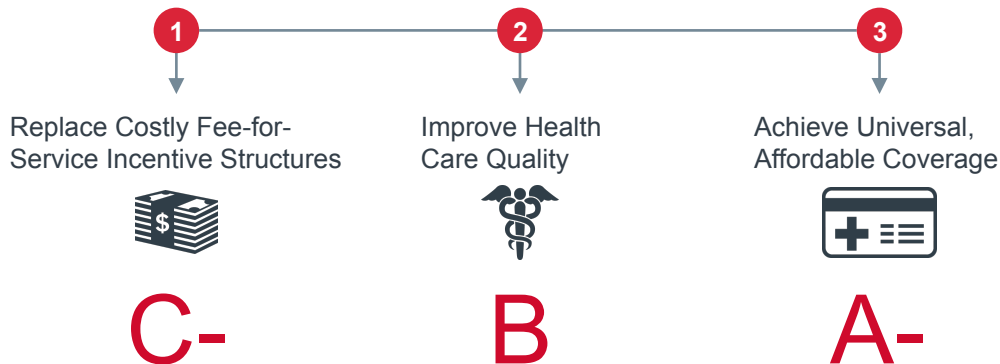
Grade:

- 31 states + DC have expanded coverage
- 19 states not yet expanding
- 16 million more Medicaid/CHIP enrollees, largely in expansion states
- Waivers offer flexibility to some state models

B

Final Grade: Incomplete

Progress Towards Administration's Own Goals Only Part of the Picture



Unfinished Business:



Reengineer health care **delivery** system, not just payment system, to generate greater value



Catalyze private market reform, not just entitlement program reform

Government Shifting Risk to Providers in Many Forms

“Population Health Risk” Only the Tip of the Iceberg



Actuarial Risk

Alternative payment models, Medicare Advantage placing burden to control total costs on providers



Financial Risk

Public-side payment cuts stretch commercial cross-subsidy to breaking point; IT and clinical transformation investments further strain balance sheets



Clinical Risk

Providers now financially responsible for consequences of sub-par clinical quality, inefficient care delivery

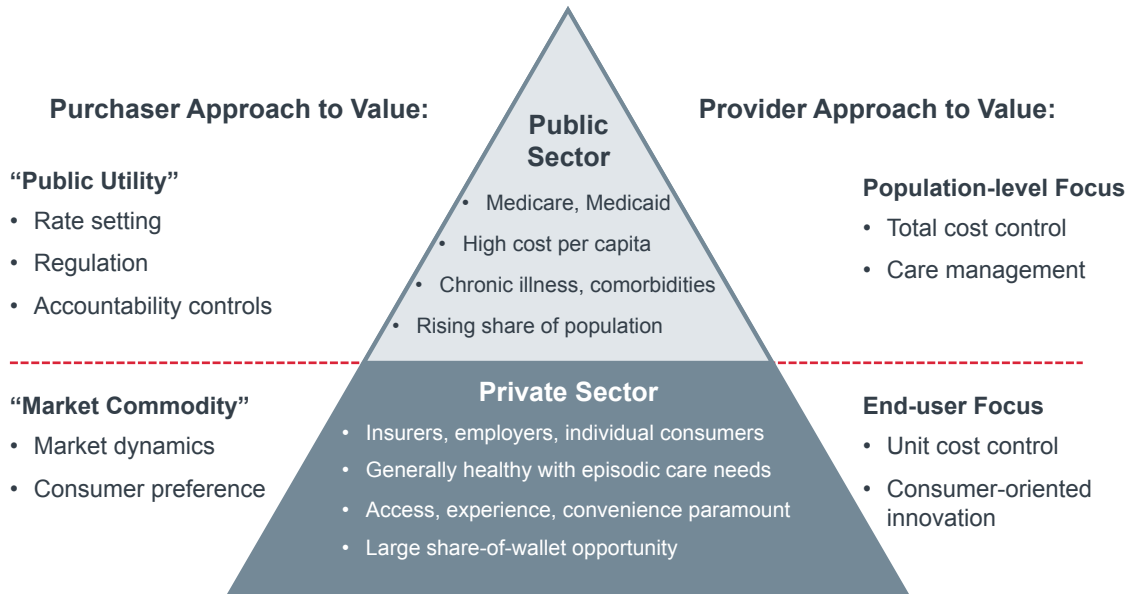


Strategic Risk

Market conditions pose existential danger to small practices, independent hospitals, smaller systems; tenability of academic medical centers, other higher-priced organizations also in question

Serving Two Masters

Public, Private Markets Demanding Different Value in Different Ways

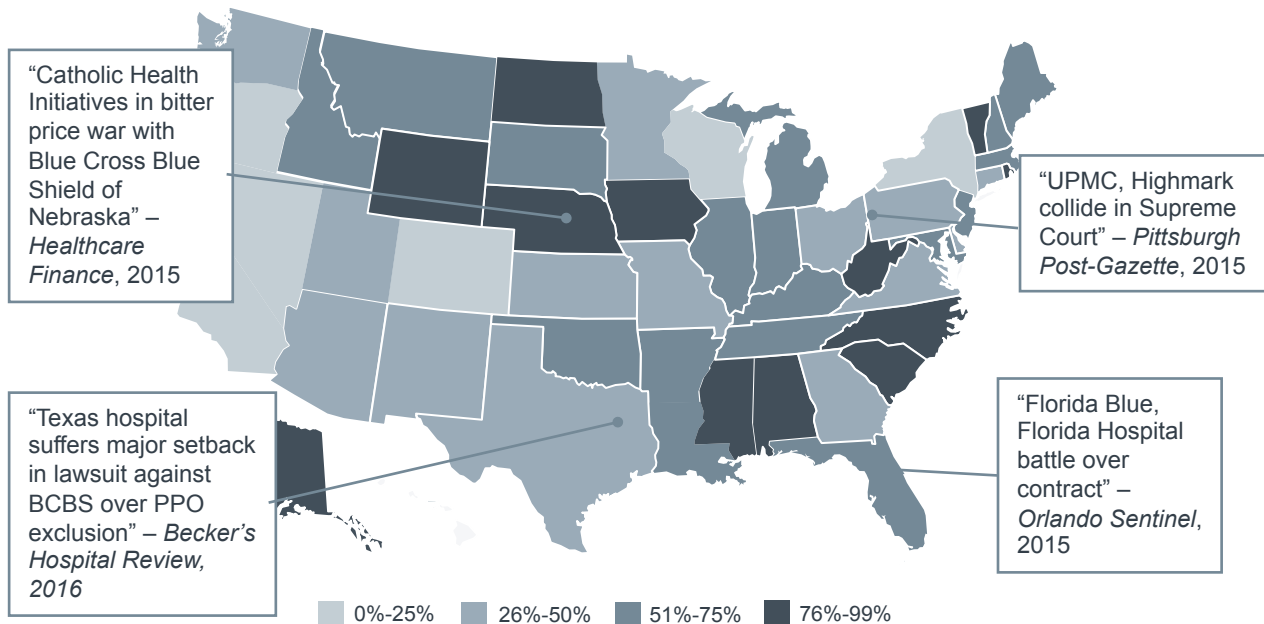


Commercial Risk Market a Zero-Sum Game

Tensions Between Blues, Risk-Seeking Providers on the Rise

Blue Cross/Blue Shield Market Share

2013, Large Employer Market



National Carriers Pursuing a Different Strategy

Designing Narrow or Co-Branded Networks at a Lower Price to Consumers



Notable Provider Partners





77 ACO agreements
as of Q1 2016

Aetna's Spectrum of "Accountable Care Solutions"

*Greater risk
shifting to
providers*

- ☒ Pay-for-performance incentives
- ☒ Delegated risk through commercial ACOs
- ☒ Co-branded 'Whole Health' insurance products
- ☒ Consulting support for providers launching health plans

“We’re comfortable being known as the health plan that wants to **put health systems in the business of selling insurance.**”

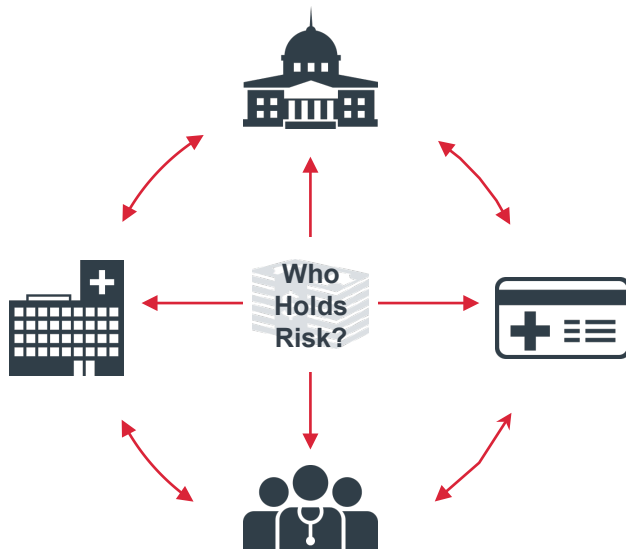
*Daniel Finke, CEO
Aetna Accountable Care Solutions*

Source: Brino A, "Inside Aetna's accountable care strategy," April 28, 2015, Healthcare Payer News, available at: www.healthcarepayernews.com; Jayanthi A, Rosin T, "50 things to know about ACOs," Becker's Hospital Review, July 7, 2015, available at: www.beckershospitalreview.com; Health Care Advisory Board interviews and analysis.

The ACA Did Not Disrupt the Zero-Sum Status Quo

Risk-Shifting Logic Has Further Entrenched Traditional Players

Risk Shifting in Health Care, 2016



“Zero sum competition involves the pursuit of greater bargaining power rather than efforts to provide better care. Health plans, hospital groups, and physician groups have consolidated primarily to gain more clout and to cut better deals with suppliers and customers. But the quality and efficiency gains from consolidation are quite modest.”

Michael Porter, 2004

Source: Michael Porter and Elizabeth Teisberg, "Redefining Competition in Health Care," *Harvard Business Review*, 2004 82(6):64-76, accessible at <https://hbr.org/2004/06/redefining-competition-in-health-care>; Health Care Advisory Board interviews and analysis.

Moving from Zero-Sum to Positive-Sum Competition

Value-Seeking Agents Catalyzing New Market



Employers



Consumers

“Competition at the wrong level has been exacerbated by the pursuit of the wrong objective: reducing cost... **The right goal is to improve value** (quality of health outcomes per dollar expended).”

Michael Porter, 2004

Employers Reaching the Limits of Their Tolerance

Scale, Data Assets, Provider-Side Expertise All Command Attention



Founding Members

- American Express
- American Water
- BNSF
- Brunswick Corporation
- Caterpillar, Inc.
- Coca-Cola
- DuPont
- HCA
- Hartford Financial Services Group
- IBM
- Ingersoll Rand
- International Paper
- Lincoln Financial
- Macy's
- Marriott
- NextEra Energy
- Pitney Bowes
- Shell
- Verizon
- Weyerhaeuser

4M Covered lives **\$14B** Annual health spending

HTA's Announced Goals



Greater marketplace efficiencies



Learning from data



Educating employees



Breaking bad habits

April 15, 2016:

**"Health Transformation Alliance
Announces Appointment of Dr. Glenn
Steele as Vice Chairman"**

*"Former Geisinger CEO Brings Decades of
Experience in Health Care Innovation and
Influence to HTA"*

Source: Health Transformation Alliance, available at <http://www.htahealth.com/>; "Health Transformation Alliance Announces Appointment of Dr. Glenn Steele as Vice Chairman," Health Transformation Alliance Press Release, April 15, 2016, "Leading US Companies Announce Plan to Transform the Corporate Health Care System," Health Transformation Alliance Press Release, February 5, 2016; Health Care Advisory Board interviews and analysis.

Sentinel Efforts to Circumvent Traditional Approach

Boeing Signs Value-Based Direct Contracts in Two New Markets

2015: Direct Contract with Major Systems Near Seattle Headquarters



2016: Expansion to Other Major Boeing Locations

St. Louis



Charleston



Enhanced Benefits Attract Employees



Free primary care



Free generic drugs



Reduced premiums



Case in Brief: The Boeing Company

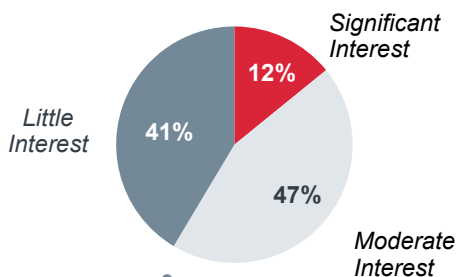
- Over 148,750 US employees
- Issued highly-prescriptive RFP for risk-bearing health system partners in Seattle region
- Early success prompts expansion to other markets

Significant Barriers Slowing Wider Adoption

Basic Practical, ROI Questions Are Still Unanswered

Employer Interest in Direct Contracting with Providers

n=106

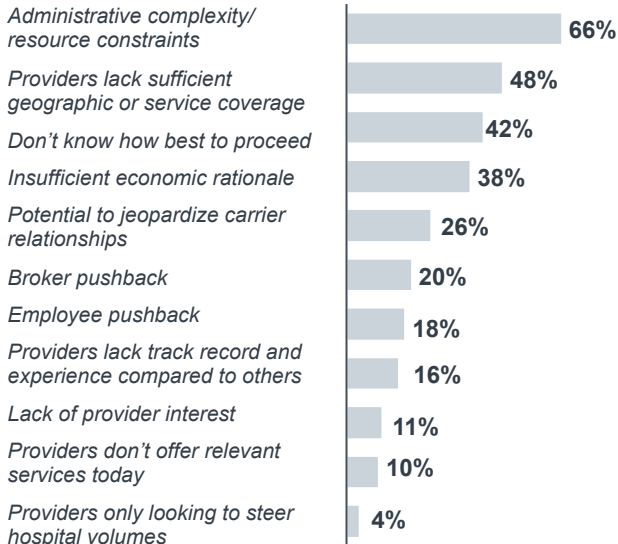


88% of employers have little or moderate interest in provider partnerships

Largest Barriers to Partnering with or Purchasing Services Directly from Providers

Percentage of Surveyed Employers Ranking Barrier in Top 3

n=106

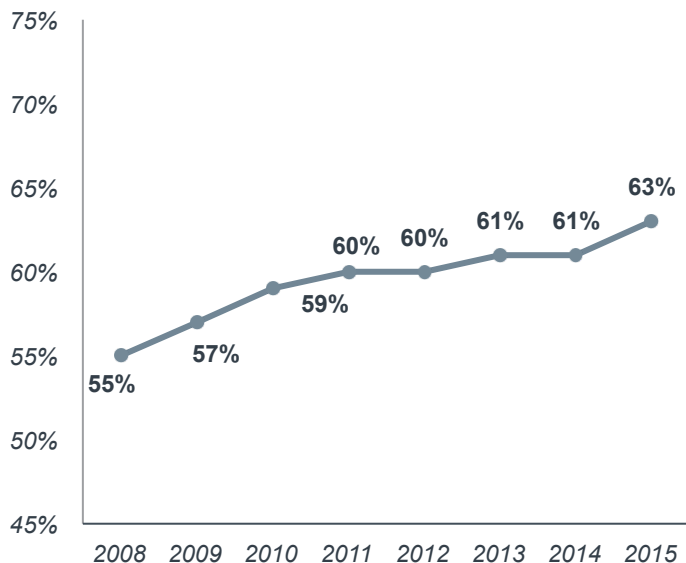


Treading a More Well-Worn Path

Employers Continuing to Shift to Self Funding

Percentage of Covered Workers in Self-Funded Plans¹

All firm sizes, 2008-2015



Workers in Self-Funded Plans, by Firm Size 2015

94%
5,000 or
more workers

82%
1,000-4,999 workers

56%
200-999 workers

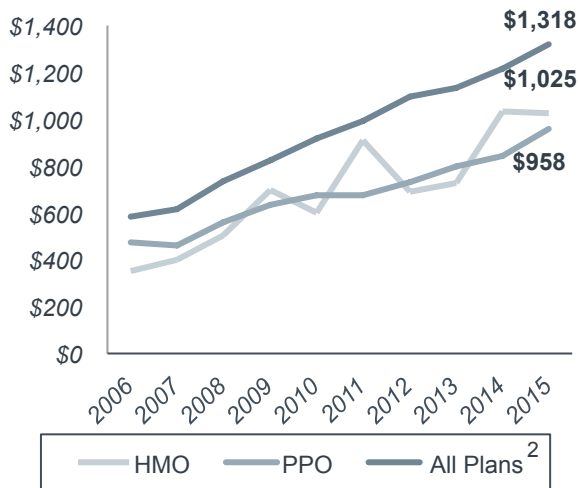
1) Includes both partially and completely self-funded plans.

Onboarding Risk, then Offloading to Employees

Employers Increasingly Turning to High-Deductible Plans

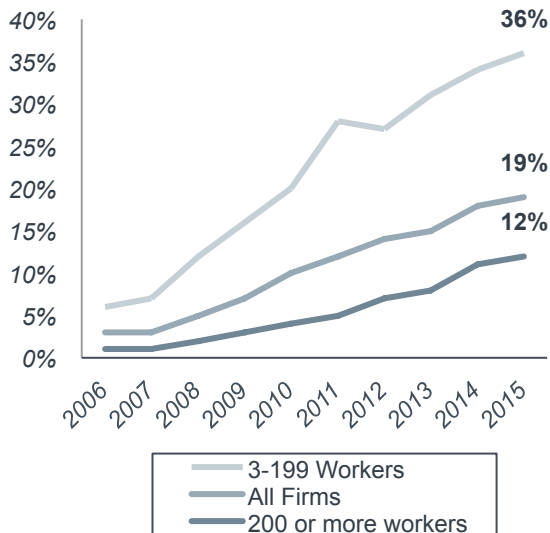
ESI Average Deductible for Single Coverage¹

By Plan Type, 2006-2015



Percentage of Covered Workers with Annual Deductible of \$2,000 or More³

By Firm Size, 2006-2015



1) Among covered workers with a general annual health plan deductible.

2) Includes HDHP/SO.

3) For single coverage.

Higher Deductibles Driving Increased Price Sensitivity

Consumer Responses Generally Dangerous for Provider Economics

1

Forgo Care?

*Spending Reductions
Following Implementation of
High-Deductible Health Plans*

25%

Reduction in
physician office
spending

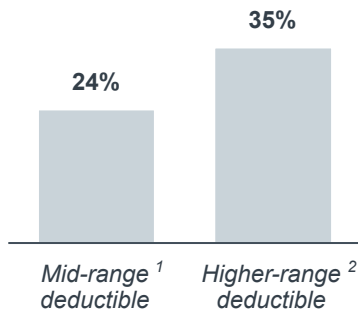
18%

Reduction in
ED spending

2

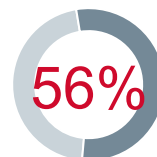
Fail to Pay?

*Households Without Enough
Liquid Assets to Pay Deductibles*

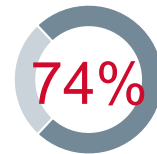


3

Shop Carefully?



Consumers searching for price
information before getting care



Consumers with **deductibles
higher than \$3,000** who have
solicited pricing information

1) \$1,200 Single; \$2,400 Family.

2) \$2,500 Single; \$5,000 Family.

Looking to Enable More Sustainable Utilization

Referral Management Strategies a Key Focus for Employers



Limited Universe of Providers:

Providers meeting selective quality, cost of care requirements designated “cost-effective,” eligible for recommendation



Sophisticated Cost Estimation:

Comparisons take into account historical practice patterns to predict total pathway cost, not just initial price



Highly Specific Recommendations:

Employee presented with three recommended providers, based on cost, quality, proximity, and personal preference



Case in Brief: Compass Professional Health Services

- Health navigation and transparency company based in Dallas, Texas
- Digital engagement platform encourages enrollees to follow high-value care pathways

2,300 Employer clients

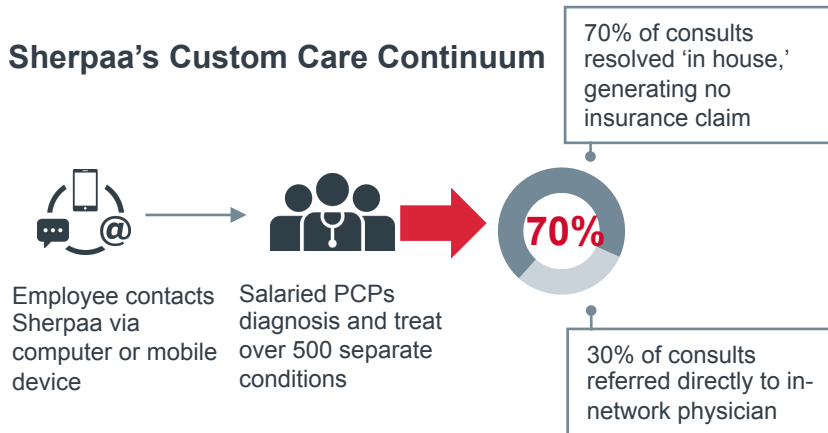
750K Enrollees

3:1 Typical ROI on PMPM investment

Helping Employees Avoid Spending

Providing a New Alternative for Low-Cost Care

Sherpaa's Custom Care Continuum



Case in Brief: Sherpaa

- New York-based primary care telemedicine practice
- Uses asynchronous text communication instead of video
- Serves over 150 employer clients, charges a per member per month fee (~\$25), regardless of utilization

Key Features

\$0

Cost to end-user

\$900

Average cost savings to employer per Sherpaa consult

90%

Employees who use Sherpaa at least once in first year of service

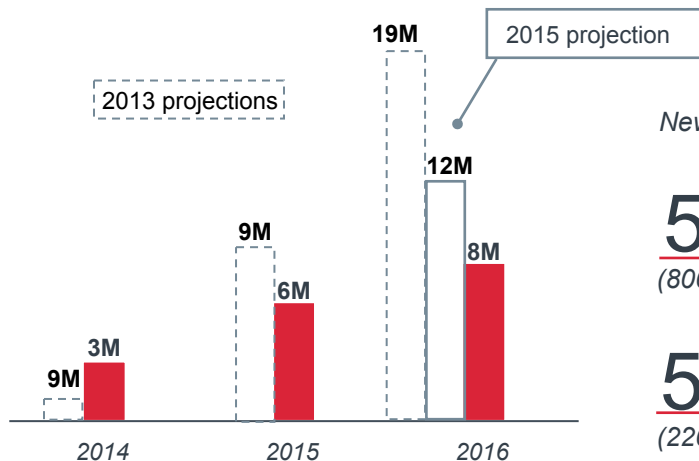
Defined Contribution the Next Major Shift?

Private Exchange Enrollment Continues to Grow

Private Exchange Enrollment Still Grows in 2016, But Lags Behind Initial Projections

Projected Private Exchange Enrollment Among Pre-65 Employees and Dependents

40-60% Employees on private exchanges who select a high-deductible health plan option



Newer Market Entrants Hitting Their Stride

50% Enrollment growth for Towers Watson's exchange solutions, 2014-2015
(800k → 1.2M)

500% Enrollment growth for Mercer's exchange solutions, 2014-2015
(220k → 1M)

Source: Accenture, "Eight Million U.S. Employees Enrolled in Private Health Insurance Exchanges for 2016 Benefits, According to Accenture" January 20, 2016; Accenture, "Private Health Insurance Exchange Enrollment Doubled from 2014 to 2015," April 7, 2015, available at: www.accenture.com; Towers Watson, "Enrollment in Health Benefits Through Towers Watson's Exchange Solutions Expected to Reach About 1.2 Million in 2015," March 19, 2015, available at: www.towerswatson.com; Mercer, "Mercer Marketplace the flexible private exchange-posts individual participant and client gains," October 13, 2014, available at: www.mercer.com; "Private Insurance Exchanges: What You Need to Know" Health Care Advisory Board 2015; Health Care Advisory Board interviews and

Bringing 401(k) Expertise to Health Care

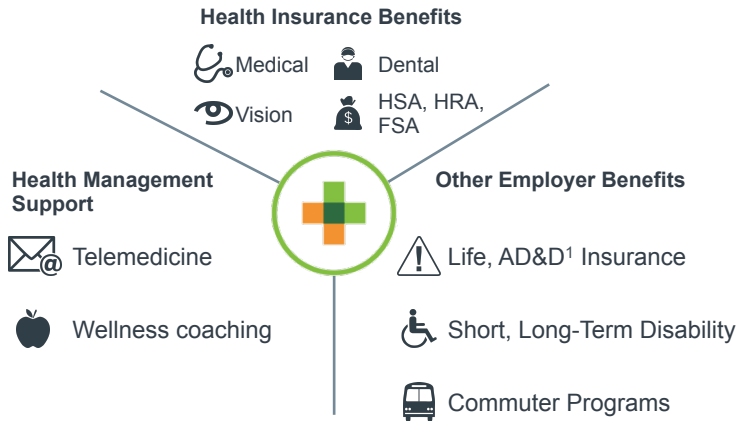
Fidelity Moving into the Private Exchange Business



Case in Brief: Fidelity

- Launched centralized benefits management platform January 2016 after 2015 pilot
- Offers bundled benefits options to small- and mid-size businesses traditionally served by independent brokers
- Acts as benefits broker; also provides technology platform, record-keeping, and account management

Fidelity Health Marketplace's Centralized Benefits Management Model



Fidelity Enjoying a Head Start with Customers

25M

Individual investors

22.8M

Brokerage accounts

\$5.1T

Total customer assets

¹) Accidental death and dismemberment

Coming Soon: A “Public Option” for Defined Contribution?

Migration of ESI¹ to Exchange Will Require Multiple Agendas to Align



Beginning January 2017, ACA Provision Will Allow States to Open Exchange Platform to Large Employers



States allow an ‘individual option,’ permitting employees to choose between all available SHOP plans



States must permit large employers to use SHOP exchange



Health insurers must choose to offer large group plans on SHOP platform



Large employers must choose to use expanded SHOP options



Small Business Health Option Program (SHOP) Marketplaces

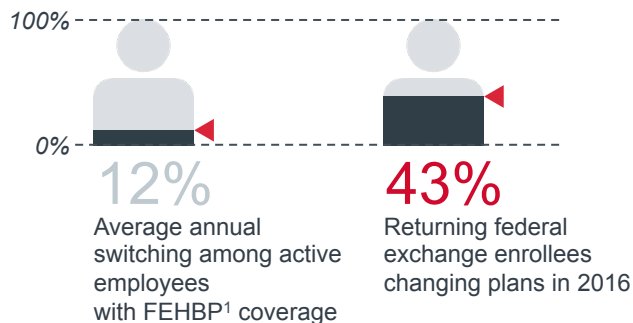
- Exchange platform mandated by ACA at the state level, specifically for employers with fewer than 50 employees
- Platform allows employers to shop between plans, but does not ensure multiple options for employees
- Employers whose employees have low average incomes receive special tax benefits
- 85,000 enrollees in May 2015 (estimated)

1) Employer-sponsored insurance.

An Early Look at “Marketplace” Health Care

Purchase Decisions Driven Largely by Price

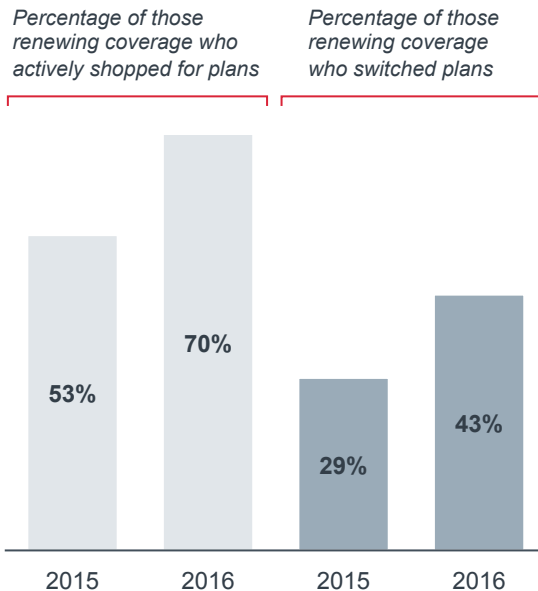
Switching Rates Higher Than Expected



Premium Increases the Primary Motivator



Active Health Plan Shopping on the Rise



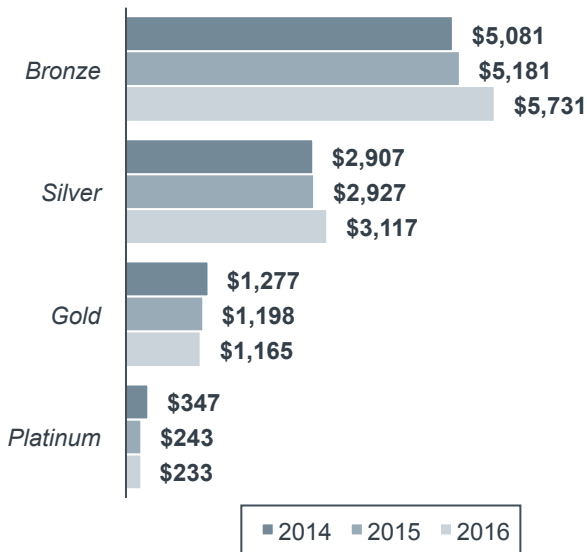
Source: HHS, “Health Insurance Marketplace Open Enrollment Snapshot – Week 13,” February 4, 2016; The Advisory Board Company Daily Briefing, “More than 1 Million ACA Enrollees Changed Their Health Plans This Year,” March 2, 2015, available at: www.advisory.com; McKinsey & Co., 2015 OEP: Insight into Consumer Behavior, March 2015, available at: www.healthcare.mckinsey.com; HHS, Health Insurance Marketplaces 2015 Open Enrollment Period: March Enrollment Report, March 10, 2015, available at: www.aspe.hhs.gov; Health Care Advisory Board interviews and analysis.

Expressing a Preference for Low-Cost Coverage

Consumers Electing to Bear Very High Cost Exposure

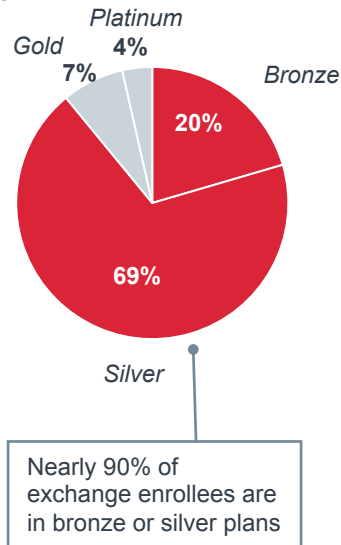
Average Deductible for Exchange-Sold Health Plans

2014-2016



Exchange Enrollment, by Metal Tier

2015



Evolving Business Model of New Insurer

Oscar Appeals to Tech-Friendly Younger New Yorkers


Get a bright, articulate doctor to call you without having to join a dating site.

With Doctor-on-Call, our doctors call you back within an hour.

We're Oscar, a new kind of health insurance company.

oscar

Sign up now at 1-844-NY-OSCAR
Learn more at NYOscar.com




User-friendly web enrollment and plan design



Effective mobile app facilitates physician search



On-call telemedicine for common conditions



Free visits to PCPs, generic drugs, routine care



Rebates tied to free fitness-tracker use



Growth in New York individual market, 2014-2016



Estimated Oscar market share in New York individual market, 2016

Source: Tracer Z. "How Health Insurance Startup Oscar Is Going to Get to 1 Million Members" Bloomberg.com February 19, 2016; Rosin T. "10 things to know about Oscar Health Insurance: Will it be the Uber of health plans?" Becker's Hospital Review, August 4, 2015, <http://www.beckershospitalreview.com/payer-issues/10-things-to-know-about-oscar-health-insurance-will-it-be-the-uber-of-health-plans.html>; Health Care Advisory Board interviews and analysis.

Expansion Requires Strategic Shift

Competitive Pricing Drives Network Narrowing

Broad, Multi-System Network in New York:

Bronx Lebanon Hospital Center – All Divisions	Long Island Jewish Hospital
Jacobi Medical Center	Mercy Medical Center Nassau
Lincoln Medical & Mental Health Center	University Medical Center
Montefiore Medical Center (five locations)	North Shore University Hospital – Manhasset
Einstein College	North Shore University Hospital – Syosset
North Central Bronx Hospital	Plainview Hospital
St. Barnabas Hospital	St. Francis Hospital
Beth Israel Medical Center – Kings Highway Division	St. Joseph Hospital
Brookdale Hospital Medical Center	Steven Alexandra Cohen Children's Medical Center
Brooklyn Hospital Center	South Nassau Communities Hospital
Coney Island Hospital	Winthrop University Hospital
Interfaith Medical Center	Good Samaritan Hospital
Kings County Hospital Center	Nyack Hospital
Lutheran Medical Center	Bellevue Hospital Center
New York Community Hospital of Brooklyn	Beth Israel Medical Center – Petrie Division
SUNY Downstate Medical Center	Harlem Hospital Center
Wyckoff Heights Medical Center	Lenox Hill Hospital
Franklin Hospital	Metropolitan Hospital Center
Glen Cove Hospital	Mount Sinai Hospital

And more than 40 more...

Oscar Networks in New Markets Dominated by Single Health Systems

San Antonio:



hospitals; **all** part of **Baptist Health System**

Dallas:



hospitals; **15** part of **Baylor Health Care System**

Los Angeles:



hospitals; **13** part of **Providence/St. Joseph's Health**

Bright Health Bets on Exclusive Provider Partnerships

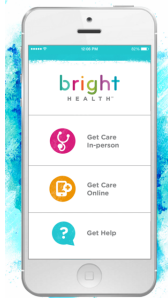
Industry Veterans Start Ahead on Learning Curve



Case in Brief: Bright Health

- Health insurance startup based in Minneapolis, Minnesota
- Launching exchange plan with exclusive provider network in 2017
- Developing mobile platform to facilitate scheduling, interaction between enrollees, provider, and insurer

Active Ingredient: Ultra-Narrow Network Design



“Having a health plan structure with a single delivery system is a great way to evaluate and improve and coordinate care. If you don’t have a group of people you’re accountable for, it’s hard to know if you’re making a difference.”

*Bob Sheehy,
Founder and CEO, Bright Health*

Bright’s Stated Growth Ambition

April 2016

Founded by former United and Definity executives with \$80M in venture backing

2017

Launch health plans in individual market in one state (TBA)

2018

Enter Medicare Advantage market

2019-2021

Expansion to 3 to 5 states



Source: <http://www.startribune.com/former-unitedhealth-exec-to-launch-new-health-plan/374830041/> Bright Health Plan, available at: www.brighthealthplan.com; “Bright Health Plan raises \$80 MILLION IN SERIES A FUNDING LED BY BESSEMER VENTURE PARTNERS AND NEA,” April 6, 2016, available at: www.brighthealthplan.com; Health Care Advisory Board interviews and analysis.

Harken Health Offers Unlimited Primary Care

United Subsidiary Betting on Primary Care

Harken Staffed by Iora Physicians



10

Harken clinics (4 in Chicago, 6 in Atlanta)

Consumer-Friendly Plan Offerings



Unlimited primary care and 24/7 access to physicians at Harken clinics



No copays, coinsurance, or need to meet the deductible for primary care visits



Access to broader United specialist network



Case in Brief: Harken Health

- Health insurer based in Chicago, Illinois
- Independently operated subsidiary of UnitedHealth Group
- Offers small group insurance, and individual insurance through public exchange in Atlanta and Chicago-area

Source: Star Tribune, "UnitedHealthcare launches a smaller, 'very, very different' insurer," March 14, 2016, available at: <http://www.startribune.com/unitedhealthcare-launches-a-smaller-very-very-different-insurer/371824841/>; Kaiser Health News, "UnitedHealth Tries Boutique-Style Health Plan," April 4, 2016, available at: www.khn.org; http://khn.org/news/unitedhealth-tries-boutique-style-health-plan/?elq_cid=1522994&x_id=003C000001gEsx2IAC; Health Care Advisory Board interviews and analysis.

Physicians Control Access to Broad Network

Access to United's Broad Network Directed by Iora Physicians



Harken Health

- Simple, low-cost plans
- Five insurance plan options all have preferred network tier, creating financial incentives to avoid higher cost providers

Iora

- Salaried physicians have no incentive to offer more visits or choose certain providers
- Physicians control the referral chain

Broad United specialist network

- Avoids issue of consumer dissatisfaction with narrower networks
- Avoids provider dissatisfaction of being cut out of networks

Living Under a Microscope

Consumers Have Access to More Information than Ever Before

Transparency Comes to California

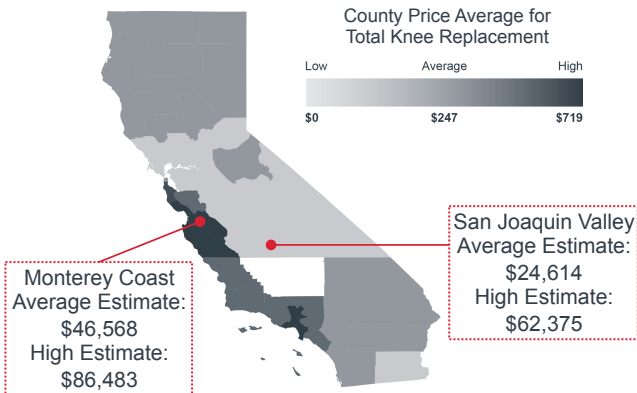


September 21, 2015

*Attention Shoppers: New Calif. Website
Details Costs, Quality of Medical
Procedures*

Where You Live Matters

What you pay may differ based on where you live



Sample Transparency Sites



Healthcare Bluebook



HEALTH GRADES
THE HEALTHCARE QUALITY EXPERTS



ZocDoc

Angies list



pokitdok

yelp

Turning to Unlikely (and Uncomfortable) Sources

Crowdsourced Reviews Getting More Reliable

The screenshot shows the Yelp profile for Virginia Mason Hospital and Seattle Medical Center. It includes a map, photos of the hospital, and a list of reviews. A callout box highlights 'About This Provider' metrics: ER Wait Time (20 minutes), Doctor Communication (Average), Quiet Rooms (Worse than Average), and a link to 'Is this data helpful? Tell ProPublica'.

“Now the millions of consumers who use Yelp... will have even more information at their fingertips when they are in the midst of the most critical life decisions, like which hospital to choose for a sick child or which nursing home will provide the best care for aging parents.”

*Jeremy Stoppelman, CEO
Yelp*



Acclaimed news source partners with review website with more than 85 million monthly users



Incorporates Medicare data on more than 25 thousand facilities, including 4,600 hospitals

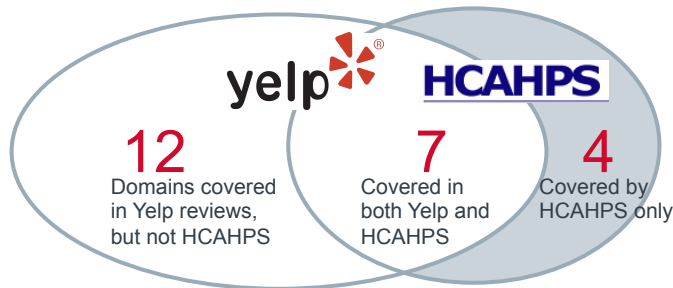
ProPublica compiles and provides Yelp with Hospital Compare metrics on ER wait time, doctor communication and room noise levels

“Yelp’s Consumer Protection Initiative: ProPublica Partnership Brings Medical Info to Yelp” Yelp, Official Blog, August 5, 2015; <https://www.yelpblog.com/2015/08/yelps-consumer-protection-initiative-propublica-partnership-brings-medical-info-to-yelp/>; Health Care Advisory Board interviews and analysis.

Just What Consumers Are Looking For

Yelp Reviews Capture Surprisingly Detailed Picture of Consumer Experience

Topic Domains Addressed by Yelp, HCAHPS



Study in Brief: Yelp Reviews Of Hospital Care Can Supplement And Inform Traditional Surveys Of The Patient Experience Of Care

- Published in Health Affairs, April 2016
- Analysis of 16,862 hospital Yelp reviews, HCAHPS scores for 1,352 hospitals
- Moderate correlation found between Yelp, HCAHPS scores

Topics Covered in Yelp Reviews Without Clear HCAHPS Analogue

- | | | |
|--------------------------|-----------------------|--|
| • Cost of hospital visit | • Amenities | • Quality of nursing |
| • Insurance and billing | • Scheduling | • Quality of staff |
| • Ancillary testing | • Compassion of staff | • Quality of technical aspects of care |
| • Facilities | • Family member care | • Specific type of medical care |

Source: Ranard B et al.; "Yelp Reviews Of Hospital Care Can Supplement And Inform Traditional Surveys Of The Patient Experience Of Care," *Health Affairs*, April 2016; Health Care Advisory Board interviews and analysis.

Innovations Crowding Onto the Field

Disruptive Services and Tech for Consumer Use (Existing and In Development)

*Inexpensive,
rapid care at a
'provider' site*



Retail Clinics



*Physician
hailing*



*Remote diagnosis
and link to clinicians*



*Patient apps for
condition self-
management*



- **SmartChoice MRI**
- **Right Care**
- **PediaQ**
- **Mend**
- **OrthoNow**

- **Walgreens**
- **CVS Health**
- **Wal-Mart**

- **Pager.com**
- **Heal**
- **Dispatch Health**
- **MedZed**
(pediatric housecalls)

- **Opternative:** iPhone eye exam, e-mail RX
- **Google contact lens:** glucose monitoring
- **EpiWatch:** predicts seizures
- **MoleMapper:** cancerous mole screening
- **iPhone-directed walk tests, cognition, fine motor skill, tremor evaluations**

- **Iodine's Start app:** Tracks depression symptoms and drug efficacy
- **OneDrop:** diabetes tracker
- **ACC's** Statin intolerance self-checker



25%

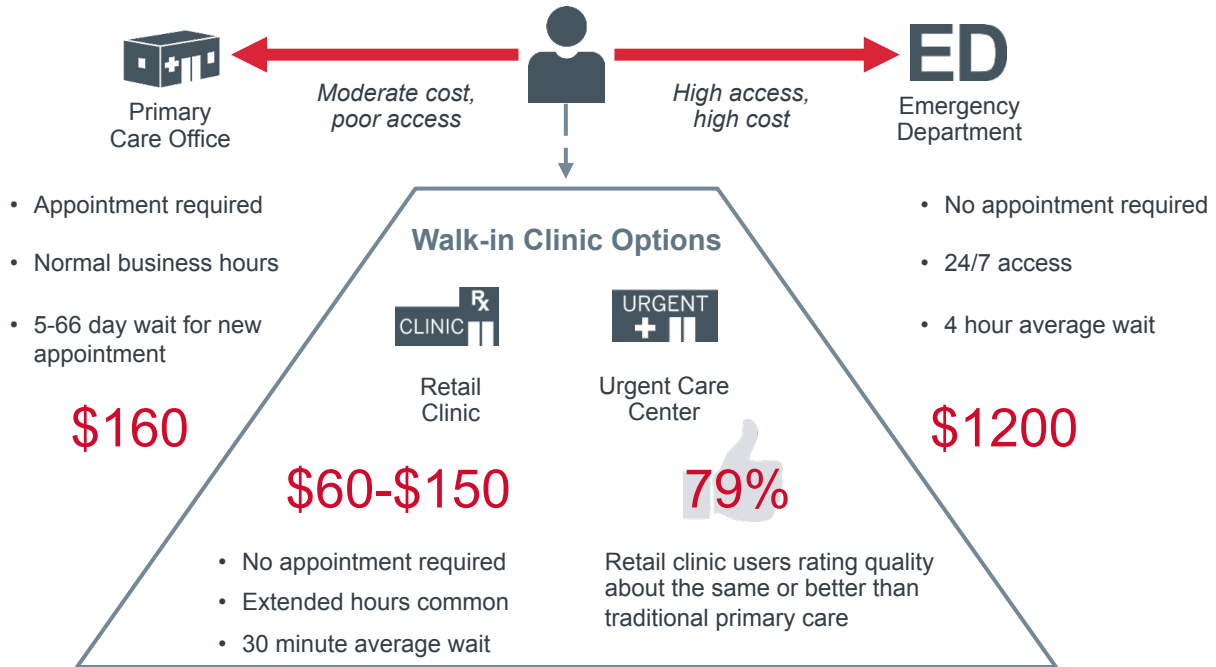
Consumers used a retail clinic in 2015— up from 15% in 2013

Source: Oliver Wyman, "The New Front Door to Health Care Is Here," 2016, available at <http://www.oliverwyman.com/content/dam/oliverwyman/global/en/files/insights/health-life-sciences/2016/The%20new%20front%20door%20to%20healthcare%20is%20here.pdf>; Health Care Advisory Board interviews and analysis

Walk-in Clinics an Attractive Substitution for Access

Not a Difficult Choice for Consumers

Consumer-Oriented Service Delivery Sites Filling the Gap



Source: <http://www.merrithawkins.com/2014-survey/patientwaittime.aspx> <http://www.jhsph.edu/news/news-releases/2015/primary-care-visits-available-to-most-uninsured-but-at-a-high-price.htm>; <http://blog.bcbstnc.com/2014/04/5-emergency-room-myths-busted/>; Oliver Wyman, "The New Front Door to Health Care is Here," 2016, available at: <http://www.oliverwyman.com/insights/publications/2016/mar/new-front-door-to-healthcare.html#VysS64QrKM8>; Health Care Advisory Board interviews and analysis.

An Arms Race for Urgent Care Assets

Insurers, Providers and Private Equity All See Opportunity

Recent Urgent Care Investments

Insurer Investors



MedExpress®

Optum
(United Health Group)
acquires >150 clinics



Anthem acquires
stake in 33 clinics

Provider Partnerships



Partnered with

- **Legacy Health**
(21 clinics)
- **Dignity Health**
(12 clinics)
- **Northwell Health**
(41 clinics)

Private Equity



**Welsh, Carson, Anderson,
and Stowe** joint venture with
Select Medical acquires 290
clinics for \$1B



ABRY acquires 87 clinics
for undisclosed sum

“MedExpress can offer as much as **90% of the care** typically delivered in a hospital emergency room at about **90% lower cost.**”

*Larry Renfro, CEO
Optum*

Not Your Father's Urgent Care

Consumer Demands are the Center of the Zoom+ Universe



Illness visits start at \$145, specialty at \$200 for self-pay patients



Most clinics open until midnight on weekdays, more limited hours on weekends



Scheduling, e-visits, bill pay can all be accomplished via mobile app



Case in Brief: Zoom+

- Private network of consumer-oriented clinics based in Hillsboro, Oregon; founded in 2006 as Zoomcare
- Low prices, evening and weekend hours, and co-located services appeal directly to consumers
- Currently offering primary, specialty, and urgent care services at more than 25 locations; multiple tiers of coverage through Zoom+ Performance Health Insurance

Establishing a Loyal Base



Annual Zoom users, 2014 (before rebrand, expansion)

Source: Portland Business Journal, "ZoomCare inks investment deal with Endeavour Capital," July 8, 2014; Chase D, "I've Seen the Future of Health Care. I Like What I See," *Forbes*, November 23, 2015, available at: <http://www.forbes.com/sites/davechase/2015/11/23/ive-seen-the-future-of-american-healthcare-i-like-what-i-see/#6567e0135178>; Health Care Advisory Board interviews and analysis.

Growing A Health System From A Very Different Seed

Zoom+ Services



Zoom+Super for “near-emergency” needs, open 20 hours a day



On-Site pharmacy, labs, and imaging



Zoom+Performance
“Olympic-level” coaching, neuro-agility, body composition analysis



Pediatric primary, specialty, and wellness care



Specialty care, including cardiology, dermatology, orthopedics, and ENT



Wellness coaching
including food and movement-as-medicine

Expansion Plan

1

Adds

Specialist Services

- Employs common specialists
- Partners with local health systems for others

2

Incorporates

Insurance Plan

First sold on Oregon exchange in 2015

3

Expands to new

Markets

- Expanding into California
- New clinics opening in Portland, Boise, Seattle

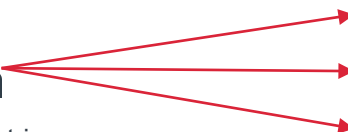
Frictionless Convenience for the On-Demand Crowd

Pager.com Now Working with Walgreens—and a Physician Conglomerate

Pager.com Services in New York City



Free tele-triage
via mobile app



Walgreens Clinic

Housecall

Specialist appointment

*"Here are my symptoms.
What should I do?"*



Pager.com

- Teletriage and housecalls in NY and SF, planned expansions to LA, Miami, Chicago, Las Vegas and Boston
- Execs from Uber, Teledoc and BuzzFeed



Walgreens

- 370 clinics nationwide
- Web site now links NYC customers to pager.com to "see a physician within two hours at home"



Evolution Health

- Provides at-home and alternative care setting services
- Owned by Envision Holdings, a hospital-based physician staffing company
- Over 31,000 providers in 41 states and DC

Source: Baum, S. "Pager's latest deals with Walgreens, staffing agency give it national presence," MedCity News, Oct 27, 2015; Diamont, N. "Delivering Healthcare on Demand: 5 Questions With Pager's Andrew Chomer," BrandChannel, Jan. 14, 2016, available at: <http://www.brandchannel.com/2016/01/14/pager-011416/>; Health Care Advisory Board interviews and analysis.

Making a Play for Customer Loyalty

Wal-Mart/Sam's Club Creating Destinations for Small Business, Caregivers



Sam's Club Insurance Exchange

27

States with marketplace access

7-15

Percentage savings reported on premiums

1

Health plan partner to date (Aetna)—with plans to add more

Sam's Club Offerings for Caregivers



One-stop shop website—lift chairs, stress management advice.



Reported discounts of 40%-63% on OTC, 23%-27% on prescription drugs¹



Free monthly screenings (glucose, cholesterol, vision, hearing)



Piloting free “new mom” memberships if pregnant or child under 12 months



Adding dietitians, healthy food discounts



The competitive landscape is shifting...Sam's Club could be an Amazon Prime-type model.”

*Rosalind Brewer
President and CEO, Sam's Club*

¹ Compared to Wal-Mart

Source: “Sam's Club testing ways to deliver health care, NWA aims to be health center of excellence,” KATV.com, April 7, 2016; Banjo, S. “Sam's Club Tests Online Subscription Service as Threat From Amazon Grows,” Wall Street Journal, February 26, 2014; Sam's Club Caregivers web site, available at <http://www.samsclub.com/sams/family-caregiving/15720473.cp>; James, K. “Walmart vs. Sam's Club: Who Actually Has the Better Deals?”, WiseBread “Living Large on a Small Budget,” October 1, 2015; Munrow, D. “Sam's Club or Walmart: Where will you get bigger savings?” ABC15.com, Sept. 29, 2014

To Disrupt or to Sustain?

Market Evolution Will Force Incumbents to Innovate

Can We Undermine Our Legacy Business?



Incumbent companies do need to respond to disruption if it's occurring, but they should not overreact

by dismantling a still-profitable business. Instead, **they should continue to strengthen relationships with core customers** by investing in sustaining innovations.

Clay Christensen
Harvard Business Review, December 2015

“Sustaining” Innovations



Physician practice acquisition



Freestanding emergency departments



Partnerships for pricing leverage

“Disruptive” Innovations



Retail, urgent care footprint



Telemedicine, remote diagnosis and treatment



Provider-sponsored health plan

Don't Overlook the Advantages of Incumbency

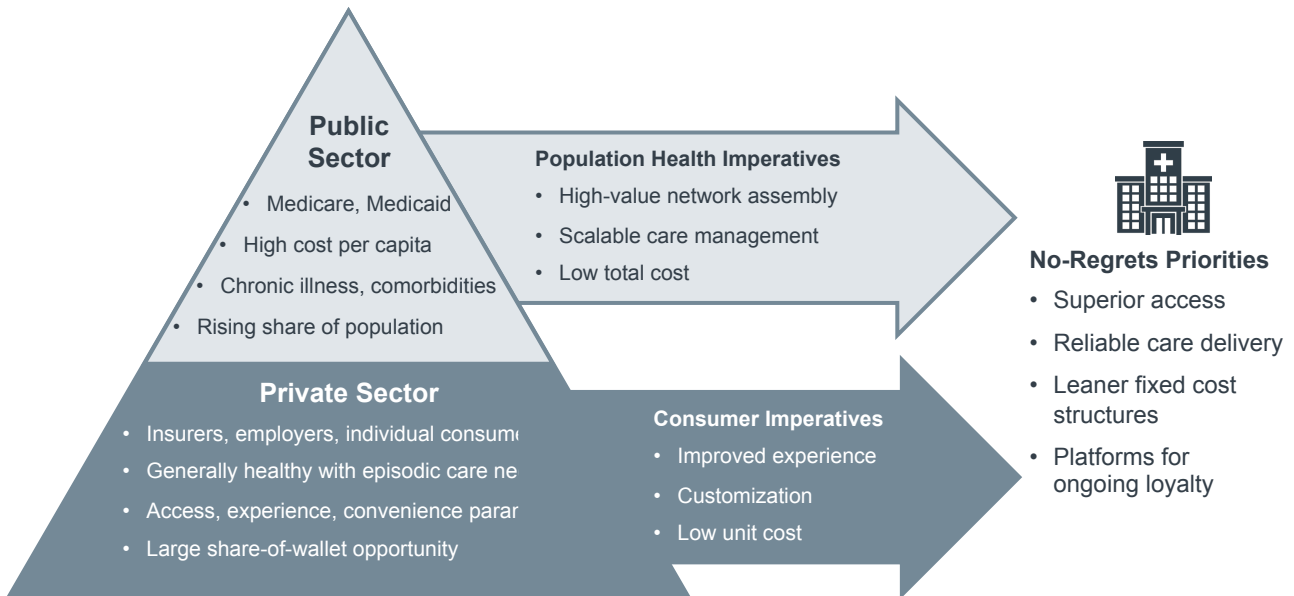
Health System Strengths Can Be Extended, Leveraged

Incumbent Advantages



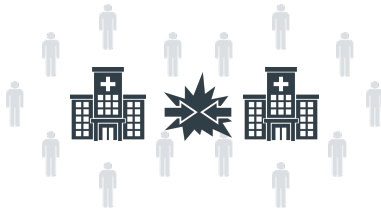
Confronting a False Choice

Population Health, Consumerism Equally Urgent



Viewing Our Strategy Through a New Lens

Competitor-centric Strategy

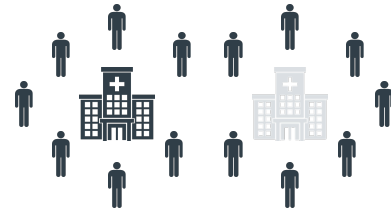


Strategic Benchmark: **Closest competitor's performance**

Financial Metric: **Share of existing market**

Executive Focus: **Stewardship of community asset**

Consumer-centric Strategy



Strategic Benchmark: **Maximum consumer value**

Financial Metric: **Share of wallet, lifetime loyalty**

Executive Focus: **Ongoing drive for improvement**



“[I have a] passion to figure out customer-focused strategies as opposed to, say, competitor-focused strategies. If you're competitor-focused, you tend to slack off when your benchmarks say that you're the best. **But if your focus is on customers, you keep improving.**

Jeff Bezos

Earth's Most Customer-Centric Company



Case in Brief: Amazon

- Seattle, Washington-based company
- Best known as online retailer, but also provides web services, fulfillment services, media & content, electronic devices, and e-commerce solutions
- Strategy has grown and evolved around a consistent mission of customer-centricity



“Our vision is to be Earth's most customer-centric company; to build a place where people can come to find and discover anything they might want to buy online.”



Net promoter
score, 2014



Amazon prime
renewal rate

Setting the Market Standard

Amazon Driving Loyalty Through Industry-Leading Quality and Delivery

Accessible

Get your stuff fast



- Multi-channel approach makes interface convenient
- Two-day shipping means product delivery is quick

Reliable



- Condition of products fulfilled by Amazon guaranteed
- Easy returns, refunds build purchaser confidence

Affordable



- Buy-box, "other sellers" link ensure best price
- Price matching, price change adjustments build trust

Relationship-Driven



- Information storage, one-click buying creates deeper relationship than other online retailers
- Personalized recommendations offer individualized experience, helpful advice
- Prime benefits accrue for repeat users
- Aggregates seemingly disparate features (video, shipping) to create stickiness

Delivering on the Promise

Ability to Meet and Exceed Standards Relies on Internal Delivery Model

Accessible



- Development of **multiple channels** (e.g. mobile app), interface acquisition (e.g. Zappos)
- **Pervasive network** of fulfillment centers ensures quick packing, shipping process
- **Partnerships** with USPS, UPS, FedEx, in addition to Amazon-operated delivery

Reliable



- **Robust infrastructure** designed to elevate efficiency of packing process
- Processes perfected, **standardized** to maximize packing success rate
- Commitment to own, build any **capabilities that cannot be outsourced** to appropriate standard

Affordable



- Willingness to **sub-contract** key capabilities, product fulfillment ensure best price
- **No pride of ownership**; price a major factor in “inclusion” in buy box, whether product is sold by Amazon or simply fulfilled by Amazon

Relationship-Driven



- **Storage of customer information** makes repeat purchases easy; enables 1-click buying process
- Collection, use of consumer analytics **personalizes and customizes** interactions, makes purchasing process easier for the customer

How Do We Stack Up?

1



Do we have the ability to meet patients where, when, and how they want to be met?

2



Do consumers trust that we will solve their clinical problems with a high level of service?

3



Do we drive the level of cost-efficiency necessary to offer affordable prices?

4



Do we know our customers well enough to deliver deepening value over time?

Delivering in a Consumer-Driven Health Care Market

Value to Consumer



Accessibility



Reliability



Affordability

System Imperative

1 Reconfigure Access Channels

Diversify options to meet patients when, where, and how they want

2 Standardize Production Model

Ensure service, clinical quality meet and exceed customer expectations

3 Streamline Fixed Cost Structure

Eliminate unnecessary overhead and pursue cost-effective partnerships

4

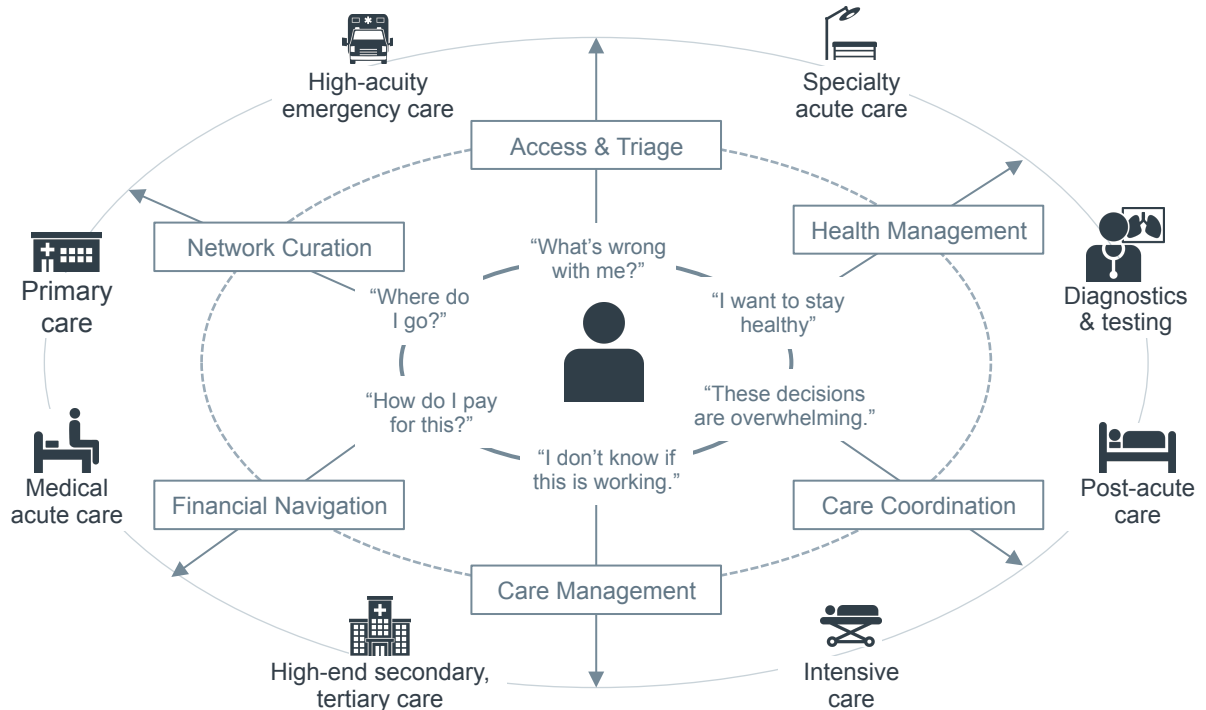


Build Loyalty Platform

Incentivize, reward consumers for repeat business

Keep the Consumer at the Center

Laying Out the Ideal System From the Consumer's Perspective





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