strategy&

February 2016

Perspective for HFMA

Gorillas in the Mist:

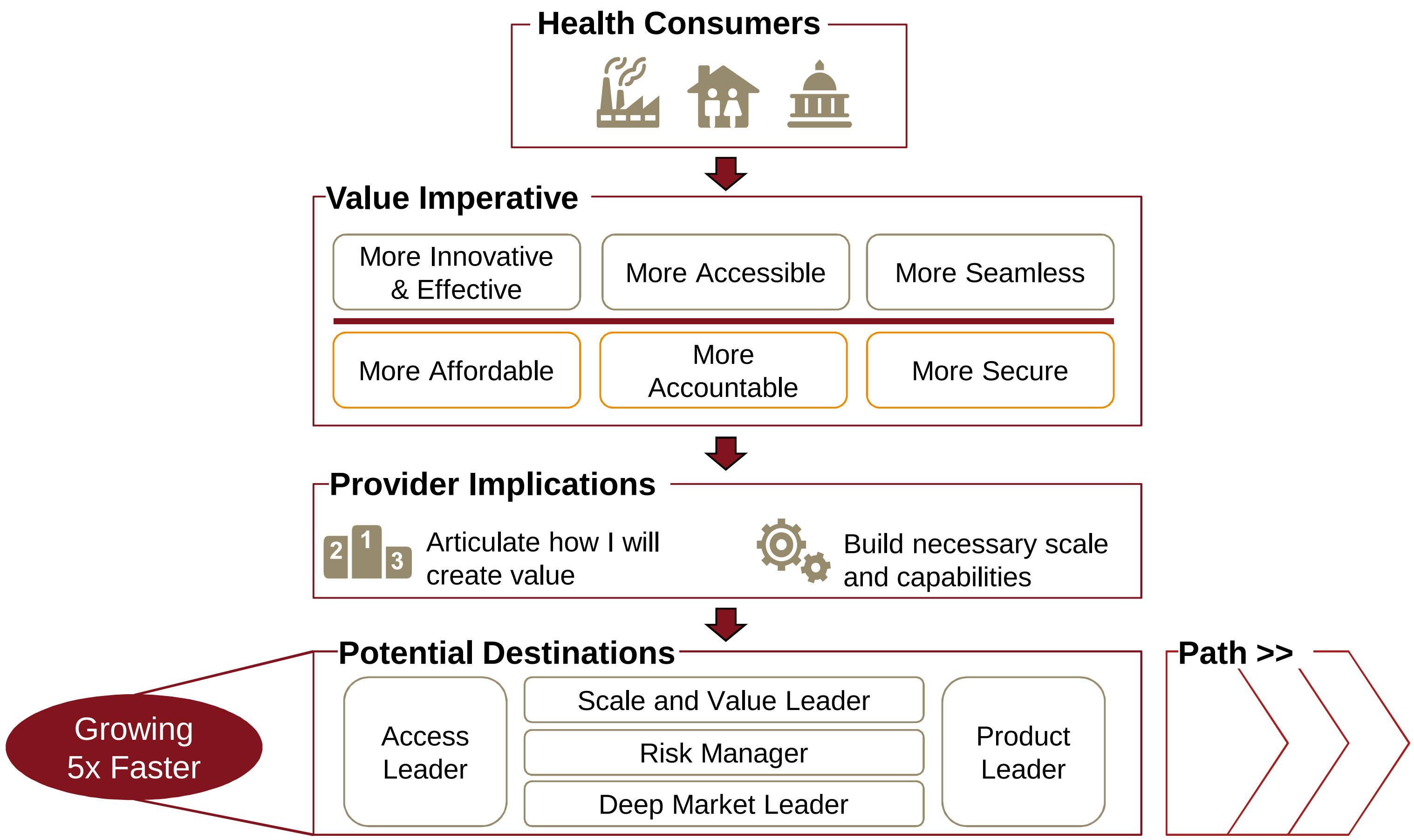
The Uncertain Path Towards Productized Healthcare

pwc

Strategic Context

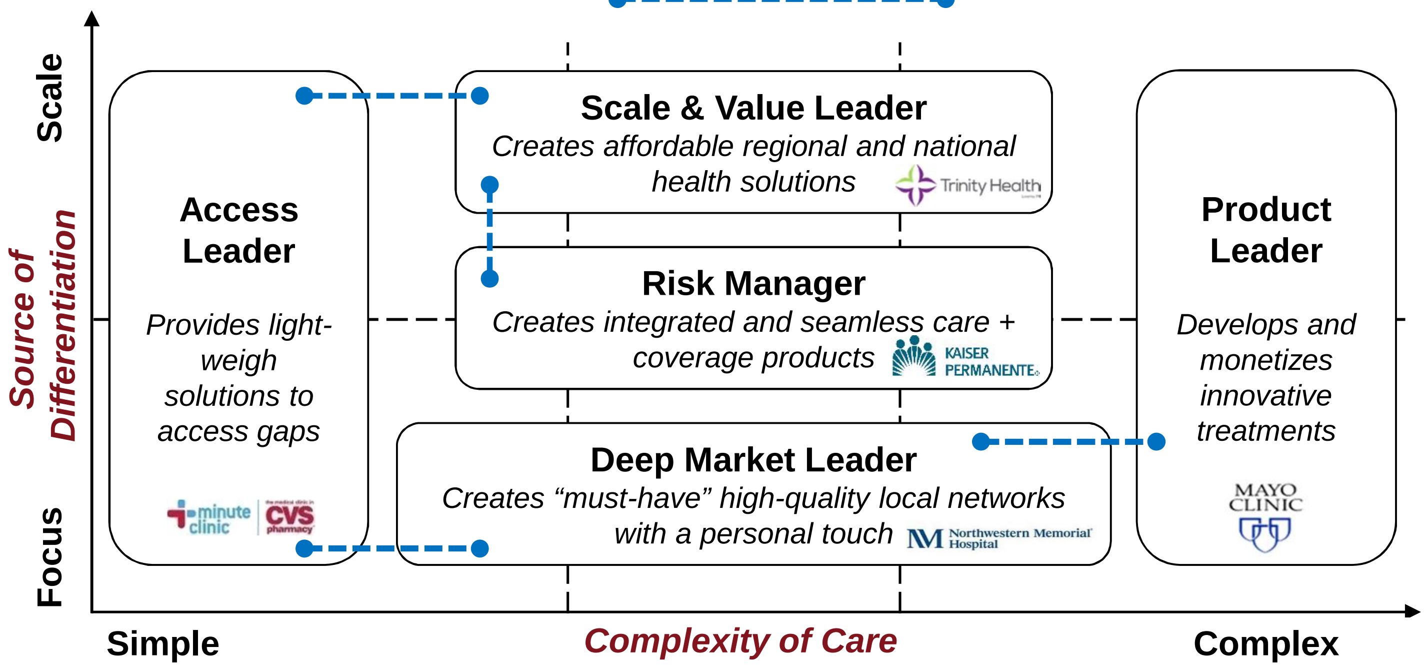
Findings from the 2015 Strategy& annual survey

Healthcare marketplace demands greater value – prompting providers to chose a coherent destination

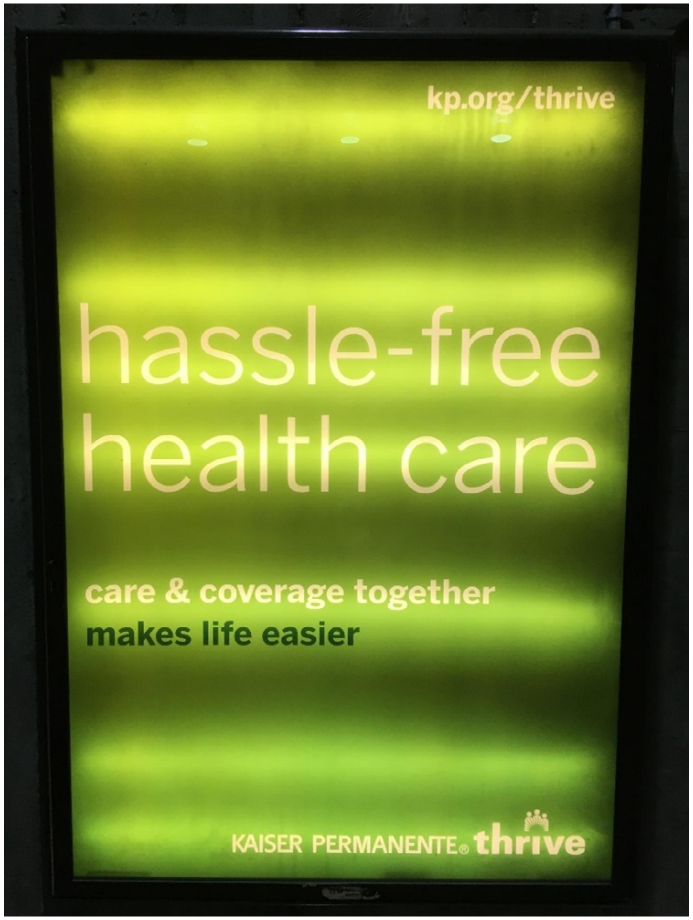


The destinations – and coherent "hybrids" – depend on each provider's aspirations, strengths and market realities…

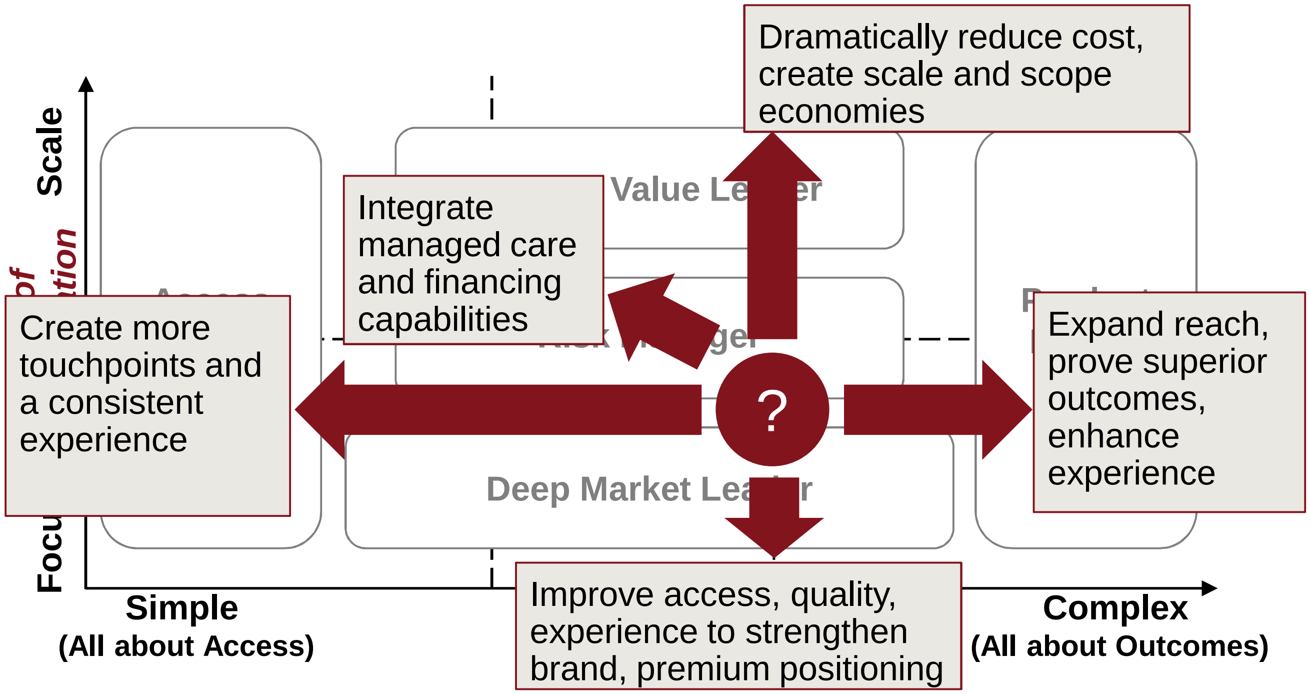
Potential Strategic Destinations and Coherent Hybrids



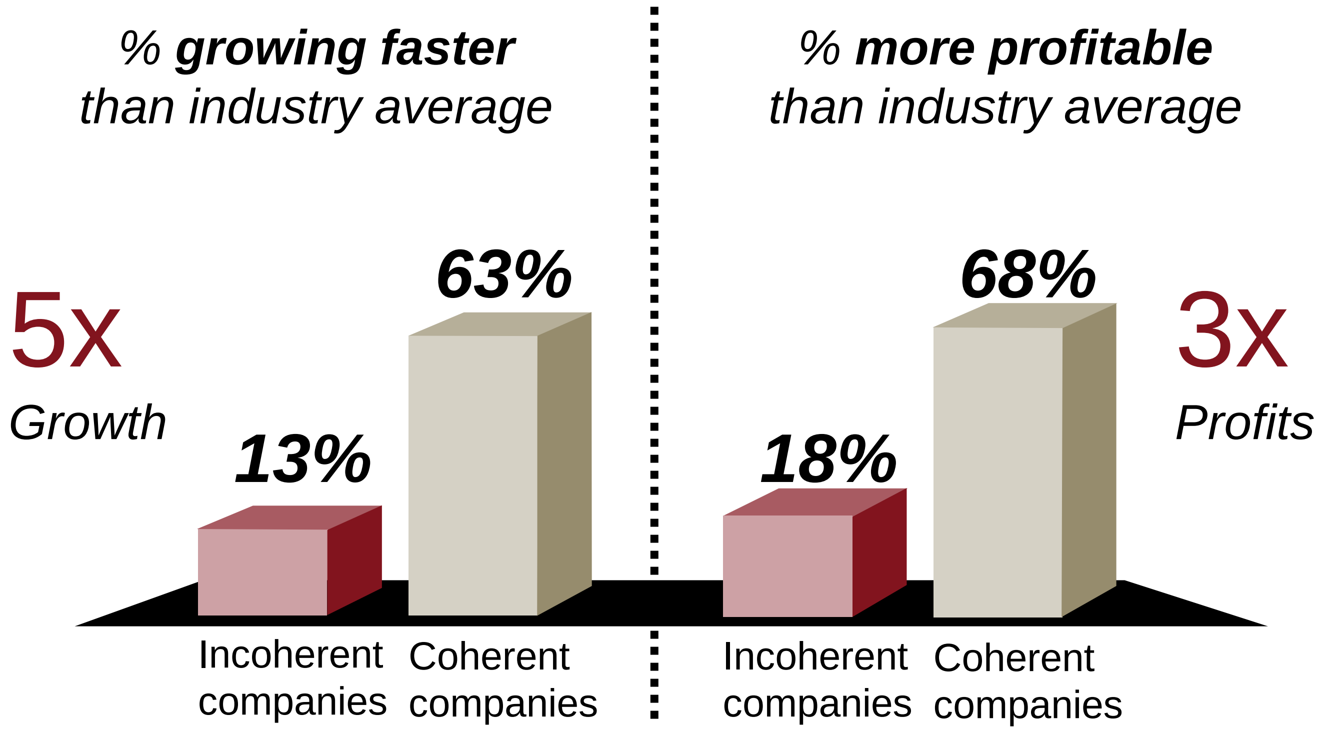
Some have already placed their bets…



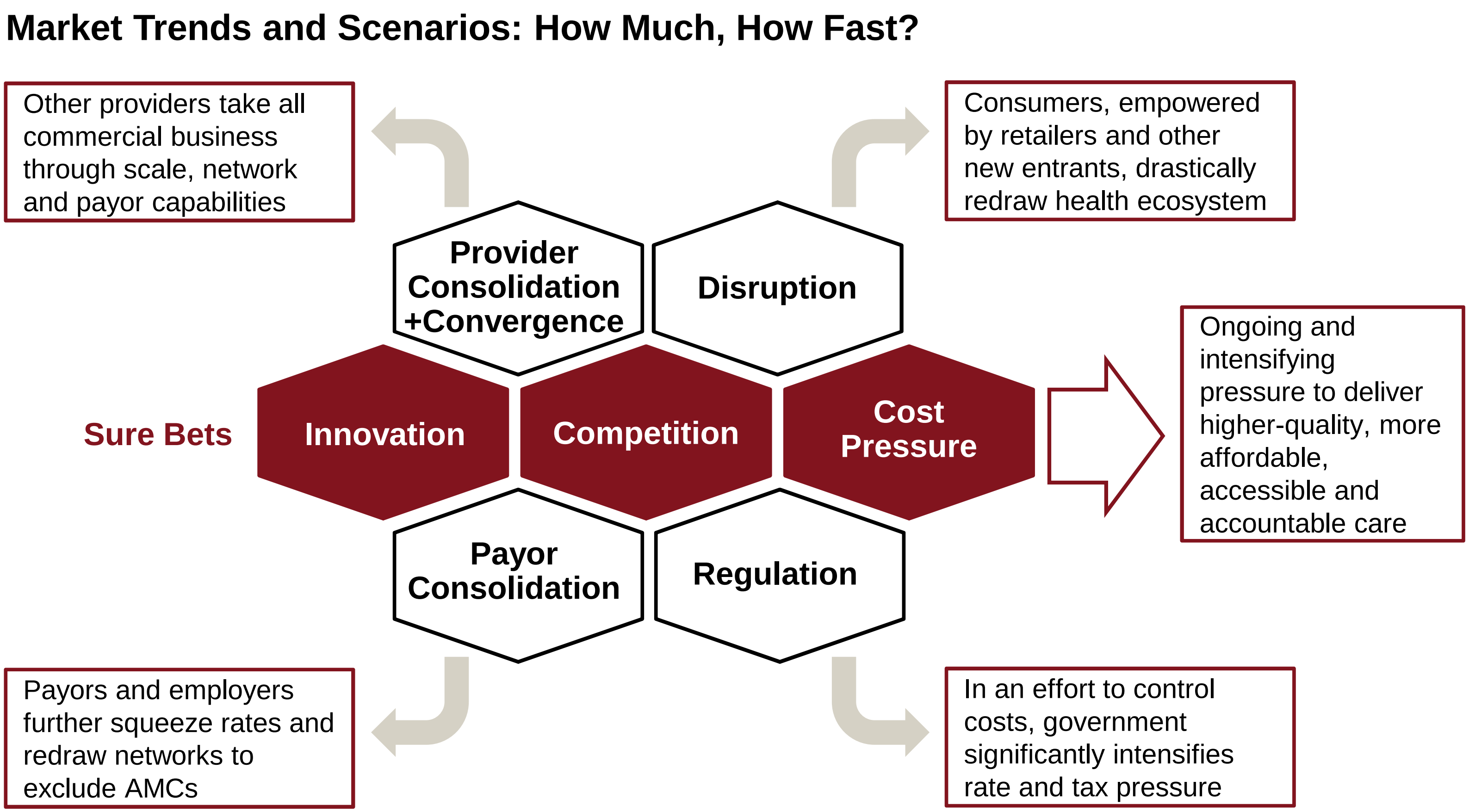
...while many are still deciding



...with more coherent choices rewarded with faster, more sustainable growth



The choices are further complicated by lingering uncertainty about the pace and direction of change…



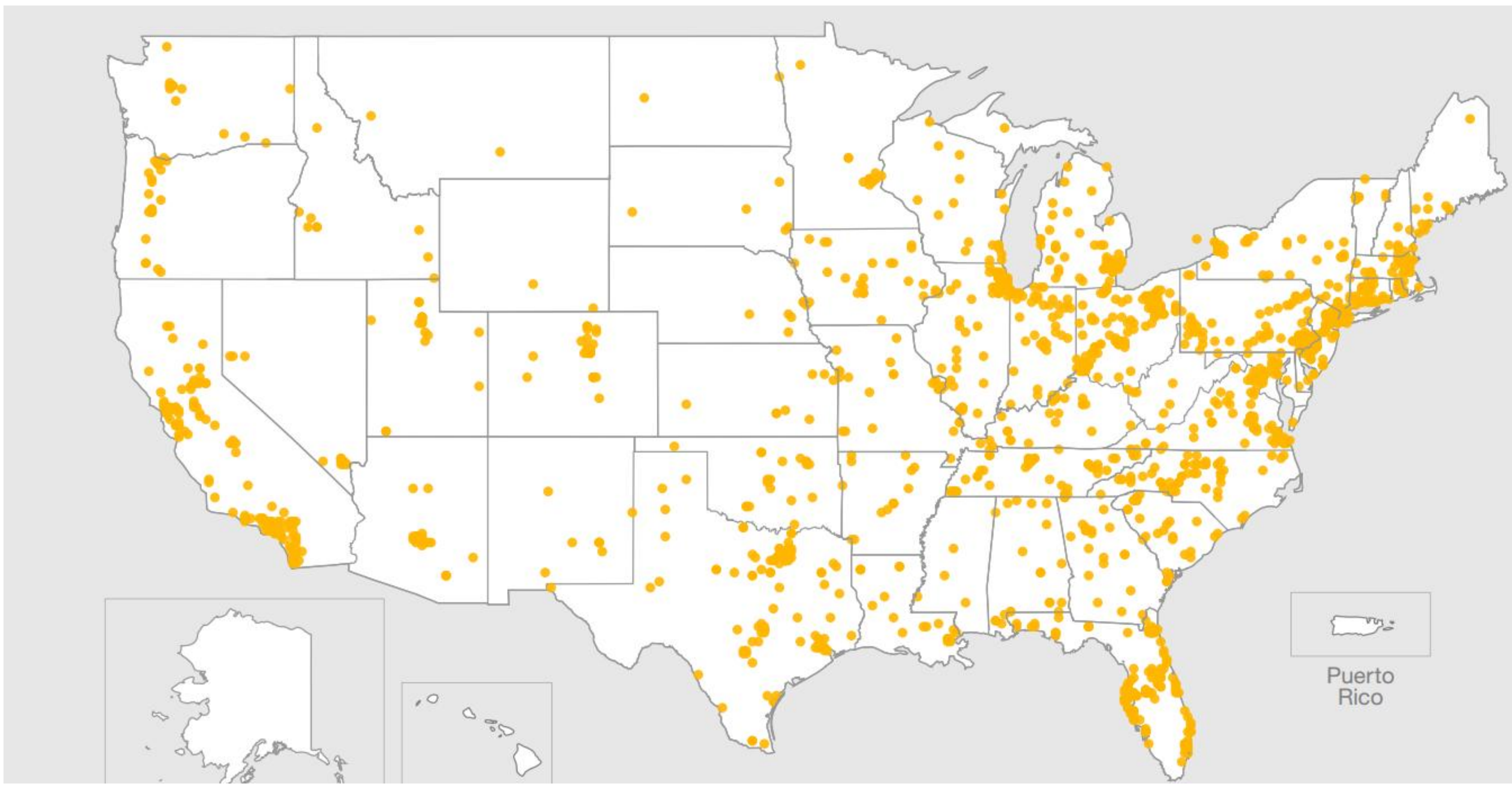
…and the need to transition to a new model for care, financing and patient engagement – today's focus is on the bundles

Advanced Care Models	Volume +	Population Health	Bundles 2.0
	• Create a highly-connected, highly-available and highly-affordable network of access points for relatively simple care • Deploy capacity to meet and anticipate demand • Deliver a consistent quality and experience • Plug into the broader healthcare ecosystem	• Define, analyze and stratify the population • Place members in appropriate programs, activate and engage them • Manage member health over time, delivering effective interventions and achieving better health behaviors and outcomes • Working across the continuum to treat the "whole person"	• Design comprehensive health "products" targeting a procedure or condition • Deliver a consistently high outcome at a predictable cost • Continue innovation in care pathways and consumer experience • Plug into more comprehensive population health programs

Strategic Context

Findings from the 2015 Strategy& annual survey

As bundles become more prevalent nationally, we continue to keep our finger on the pulse



After years of on and off experimentation, bundle adoption is at a critical turning point

Healthcare Bundles Historical Timeline

	1980s	1986	1991	2006	2010	2011	2012	2013	2014	2015	2016
CMS Activity	Introduction of Diagnostic Related Groups, **DRGs**, bundling of hospital services within hospital stay		**Heart Bypass Center Demo**: CMS pilot bundle for CABG (5 hospitals)	**ACE Initiative** demonstrates viability through bundles for orthopedic and cardiac conditions (5 hospitals)	**PPACA Reform Passes**		Launch Bundled Payment for Care Improvement (**BPCI) Initiative** bundle pilots at 450+ hospitals	**BPCI Expansion** (6000 participants across 48 conditions with both retro and pro payment methods)		Introduces **Oncology and End Stage Renal Disease Care Models** (Bundle ACO hybrid)	Will mandate bundles for providers in ~ 70 metro areas through **Comp. Care for Joint Replace-ment**
General Industry Activity		UCLA Medical Center creates **Organ Transplant Bundle** in partnership with Kaiser Permanente		**Geisinger introduces ProvenCare,** bundle for CABG	**2** Health plan / Provider bundle	**7** Health plan / Provider Bundles	**15** Health plan/ Provider Bundles	**19 %** of hospitals adopt bundles	**26%** hospitals adopt bundles		**31%** of hospitals adopt bundles
					1 Employer Bundle	**2** Employer Bundles	**4** Employer Bundles	**X %** of employers adopt bundles	**7%** of employers adopt bundles		**20%** of employers adopt bundles

While current bundles focus on proof of concept, the next generation will yield true market-ready care products

Evolution of Bundled Care Offerings

Range of Current Offerings

Bundles 1.0

The first wave of bundled care pilots

- Covers procedure-based and acute episodes (e.g., knee replacement, stroke)
- Includes core services such as diagnosis, inpatient, and outpatient
- Lacks design sophistication:
  - Working exclusively with CMS
  - Retrospective payment
  - No warranties
  - No risk adjustment

Bundles 2.0

An expanding set of customized models

- Capability to include chronic conditions (e.g., diabetes, CHF)
- Extends across care continuum, including wrap-around services and coordination through multiple care settings
- Shows greater design maturity:
  - Prospective payment
  - Warranty
  - Risk adjustment

Next Generation

A robust line of market-ready care products

- Represents a scalable portfolio of modularized care products tailored to the organization
- Expands beyond traditional care settings into emerging prevention and patient engagement models
- Exhibits the maturity of a true product portfolio (e.g., channel strategy, market segmentation, etc.)

Strategy& conducts an annual survey to understand the perspectives of key stakeholders in bundle development

Overview of 2015 Bundles Survey

Background

- Since 2012 Strategy& has conducted an annual multi-stakeholder bundles survey to gauge industry progress and attitude towards the adoption of bundles
- Historically, the survey has focused on perspectives from both:
  - Supply side (i.e., providers, payors)
  - Demand side (i.e., payors, employers, consumers)

2015 Participants

Survey Respondents

Hospitals
261 Hospital Administrators

Employers
277 Executives and HR Managers

Key Topics Covered

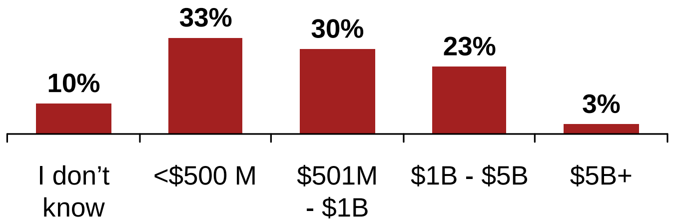
- Interest and adoption of bundled care
- Scope of current bundle initiatives
- Benefits and challenges of bundle initiatives
- Future outlook for bundled care
- Perspective of uninterested stakeholders
- Match between supply and demand

The 2015 survey sampled hospitals and employers from a broad range of organizational sizes and types

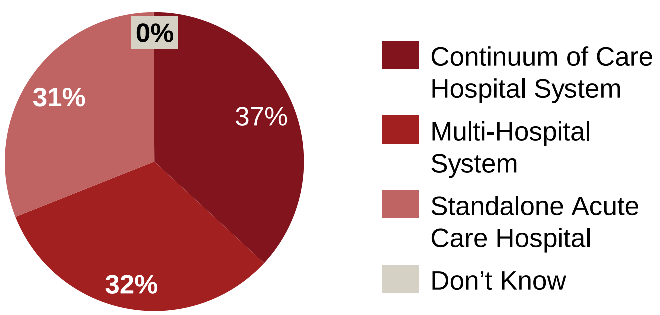
Overview of Hospital Participants

N = 261 Hospitals and Health Systems

Net Patient Revenues



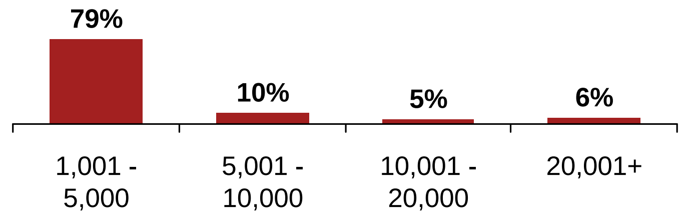
Type of Hospital / Health System



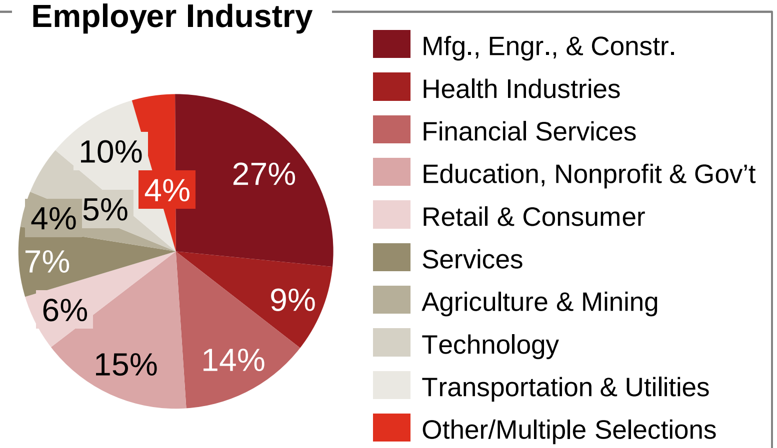
Overview of Employer Participants

N = 277 Employers

Number of Employees



Employer Industry



Note: all results are weighted to reflect national hospital and employer markets
Source: 2015 Annual Bundles Survey; Strategy& analysis

2015 shows increased participation, but realities surrounding commercialization are coming to the fore

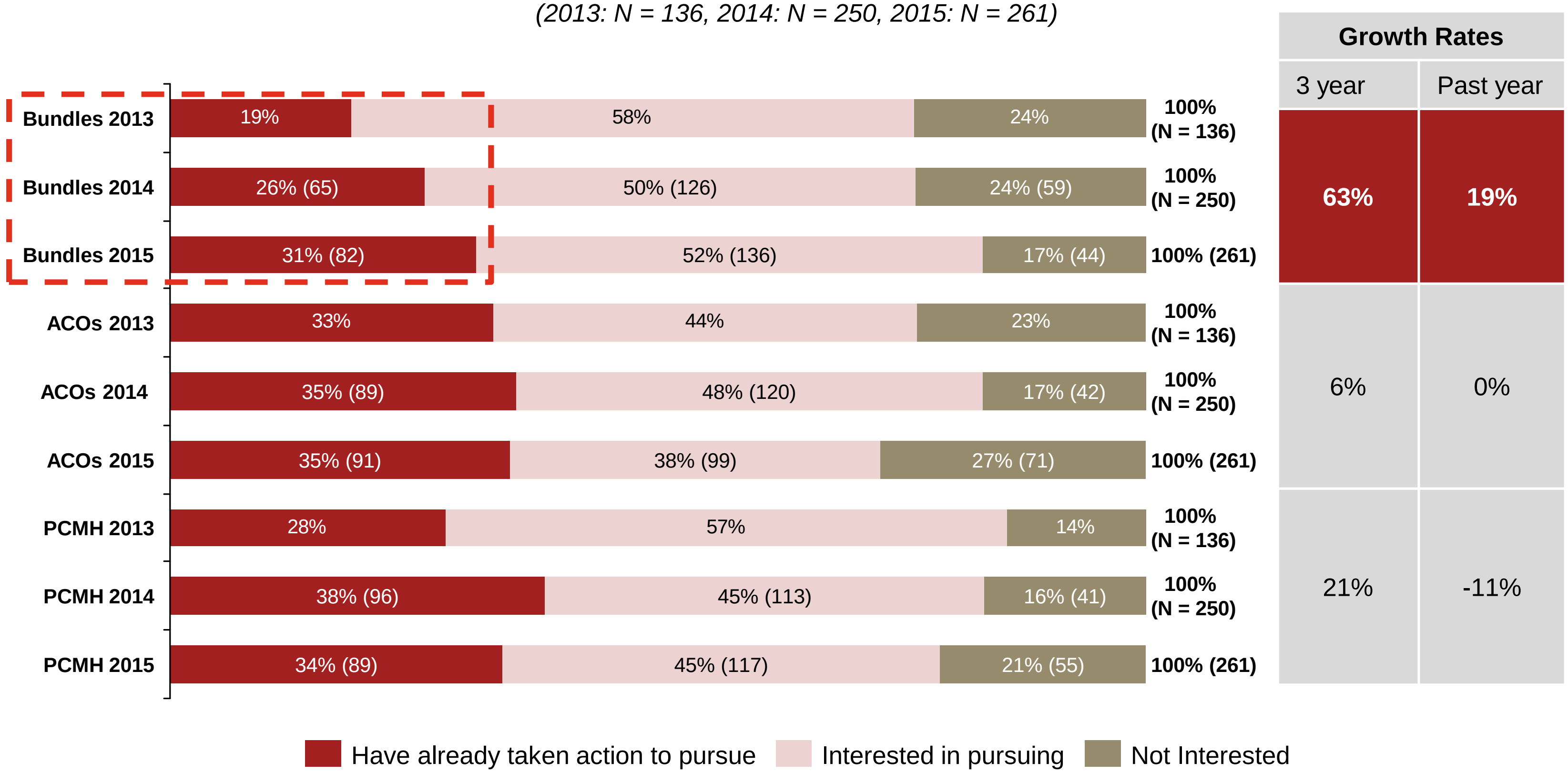
Summary Findings

- **Adoption has increased** significantly for both providers (26% to 31%) and employers (7% to 20%), but employers are more polarized with a slight increase in those who have decided against the bundle model
- **83% of hospitals are either interested or already participating**
- **Enthusiasm for ACOs seems to be leveling** suggesting openness to pursue both bundles and ACO models in tandem
- With greater experimentation, we see **more mixed results** including some skepticism about continuing, from employers and accompanying challenges with customer acquisition for providers
- The data suggests these difficulties stem from a **mismatch between provider activity and employer needs**
- Employers' **number one concern with benefits is cost**; with regards to bundles, they **want more bundles with greater financial rewards**, need greater visibility into the impact of bundles, and lack confidence in potential for employee adoption
- Meanwhile, **hospitals for the most part continue to keep efforts small scale** with little movement to take on more risk, and more conservative plans for bundle expansion than the industry demands
- The current misalignment between supply and demand leaves a **clear path to success for hospitals who can step up to better serve and target employers** either directly or through health plans

Hospital adoption and interest in bundles continue to grow, outstripping other value-based models

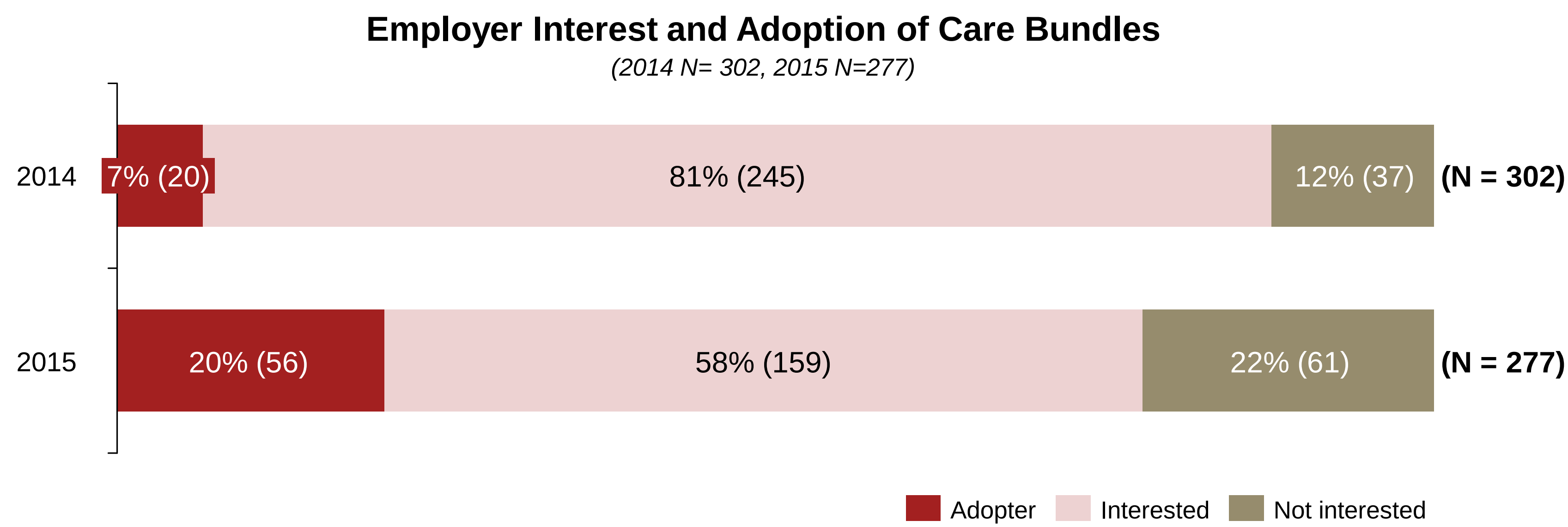
Interest in Bundles, ACOs, and PCMH Models – Hospitals and Health Systems

What is your organization's attitude toward each of these known care, payment and engagement models?
(2013: N = 136, 2014: N = 250, 2015: N = 261)



Note: Both 2013 and 2014 data are weighted along 3 dimensions (For/Non-profit, Teaching/Not Teaching, and # of Beds) to reflect the national provider market
Source: Strategy& Annual Bundles Survey (December 2015) – Hospital Question 1; Strategy& analysis

Employers are solidifying viewpoints with many moving to adoption but a few deciding against the bundle option

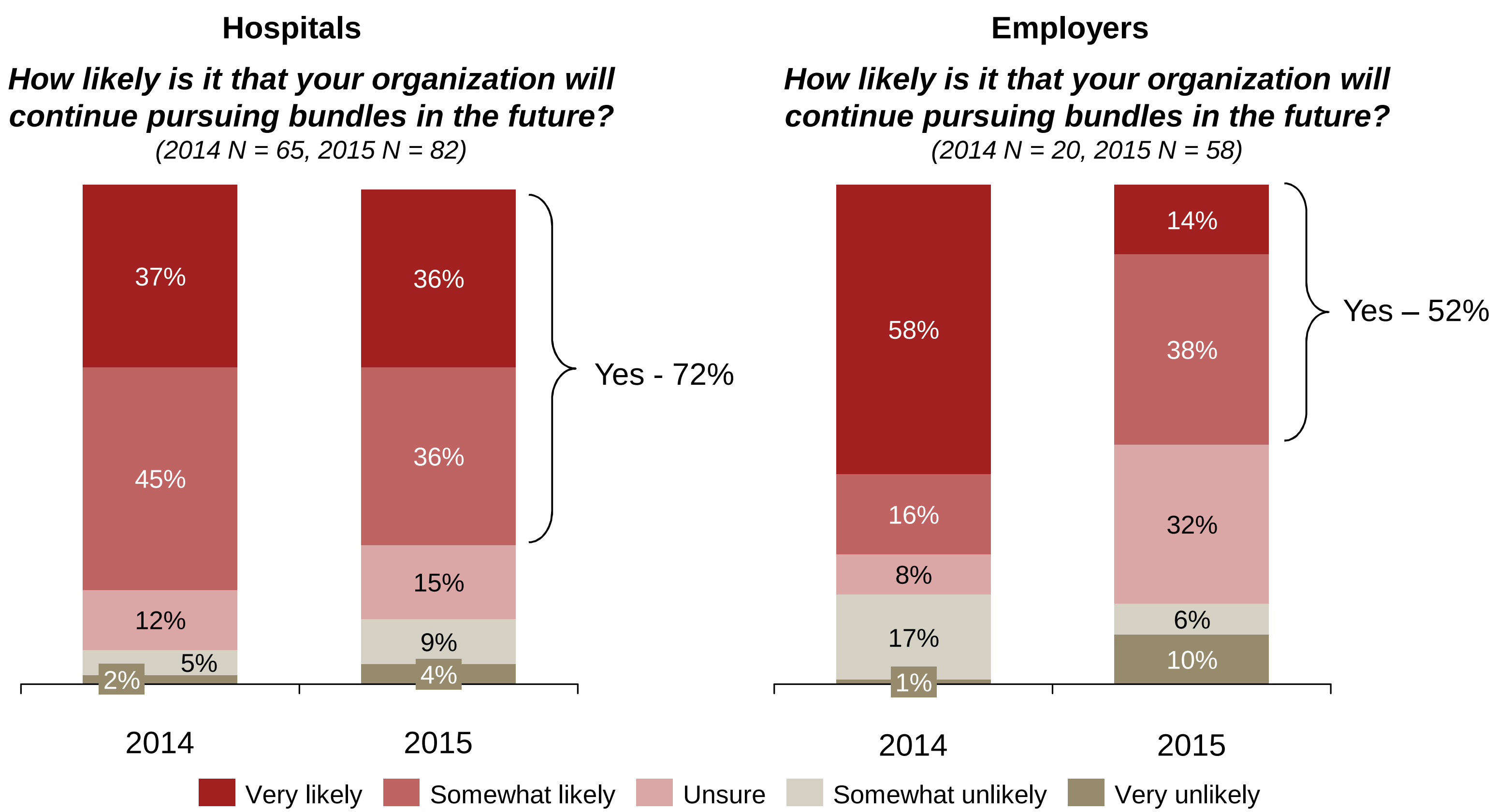


Note: Survey bundle example was for cancer care this year as opposed to knee replacement in years past

Source: Strategy& Annual Bundles Survey (October 2014 & December 2015) – Employer Questions 1C, 1D; Strategy& analysis

With wider participation, results are more mixed, but a majority still want to continue

Future Outlook of Bundles – Adopters



1) % of respondents who are currently pursuing bundles and are somewhat or very likely to continue pursuing bundles in the future

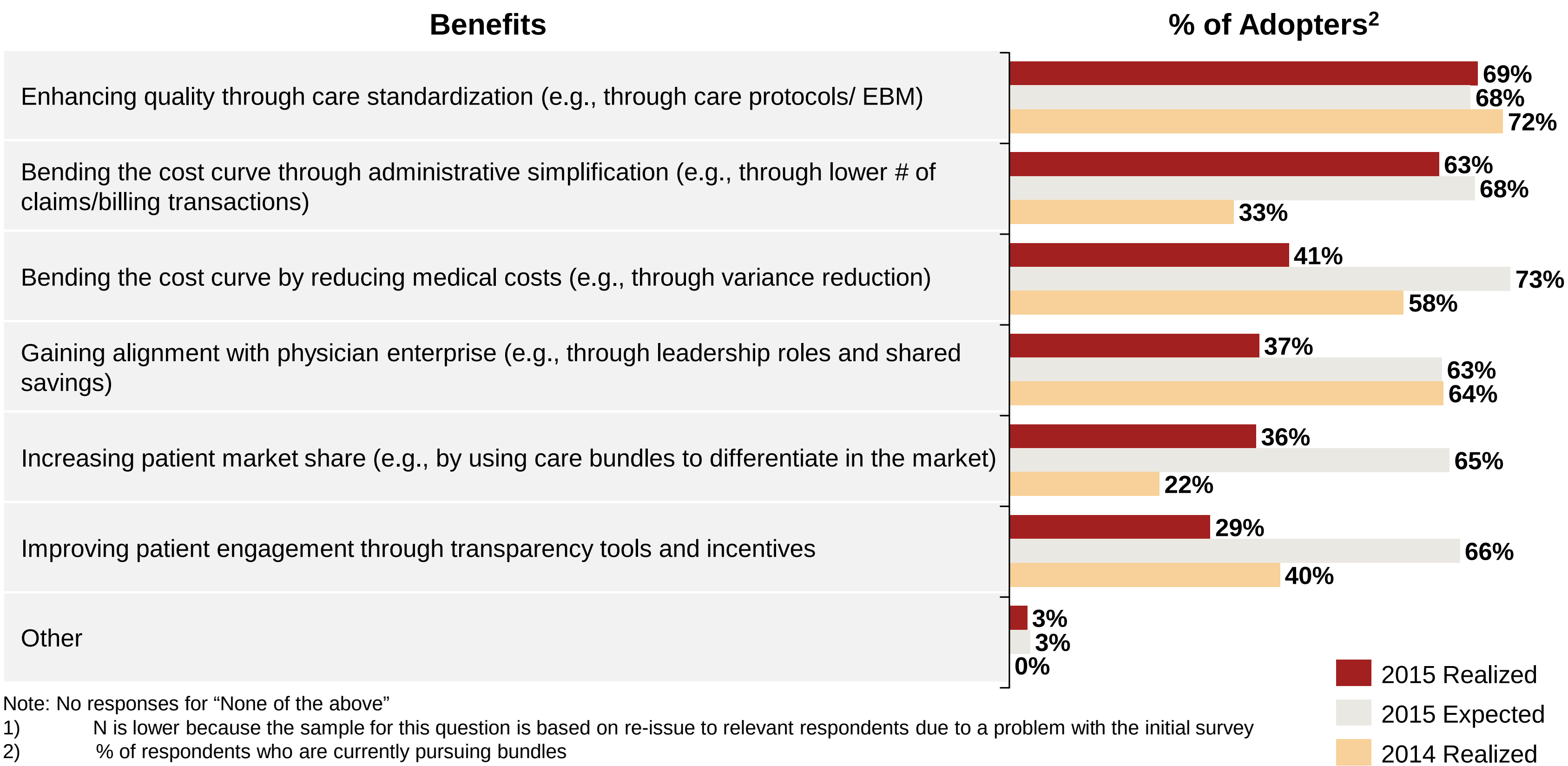
Source: Strategy& Annual Bundles Survey (October 2014 & December 2015) – Hospital Question 16; Employer Question 10; Strategy& analysis

In 2015 hospitals adopters see benefits, especially in quality, but have yet to realize some improvements they expected

Benefits Achieved through Care Bundles – Adopters

Which of the following benefits has your organization achieved through delivery of care bundles?

(Expected N = 78, Realized N = 52[1])



Note: No responses for “None of the above”

1) N is lower because the sample for this question is based on re-issue to relevant respondents due to a problem with the initial survey

2) % of respondents who are currently pursuing bundles

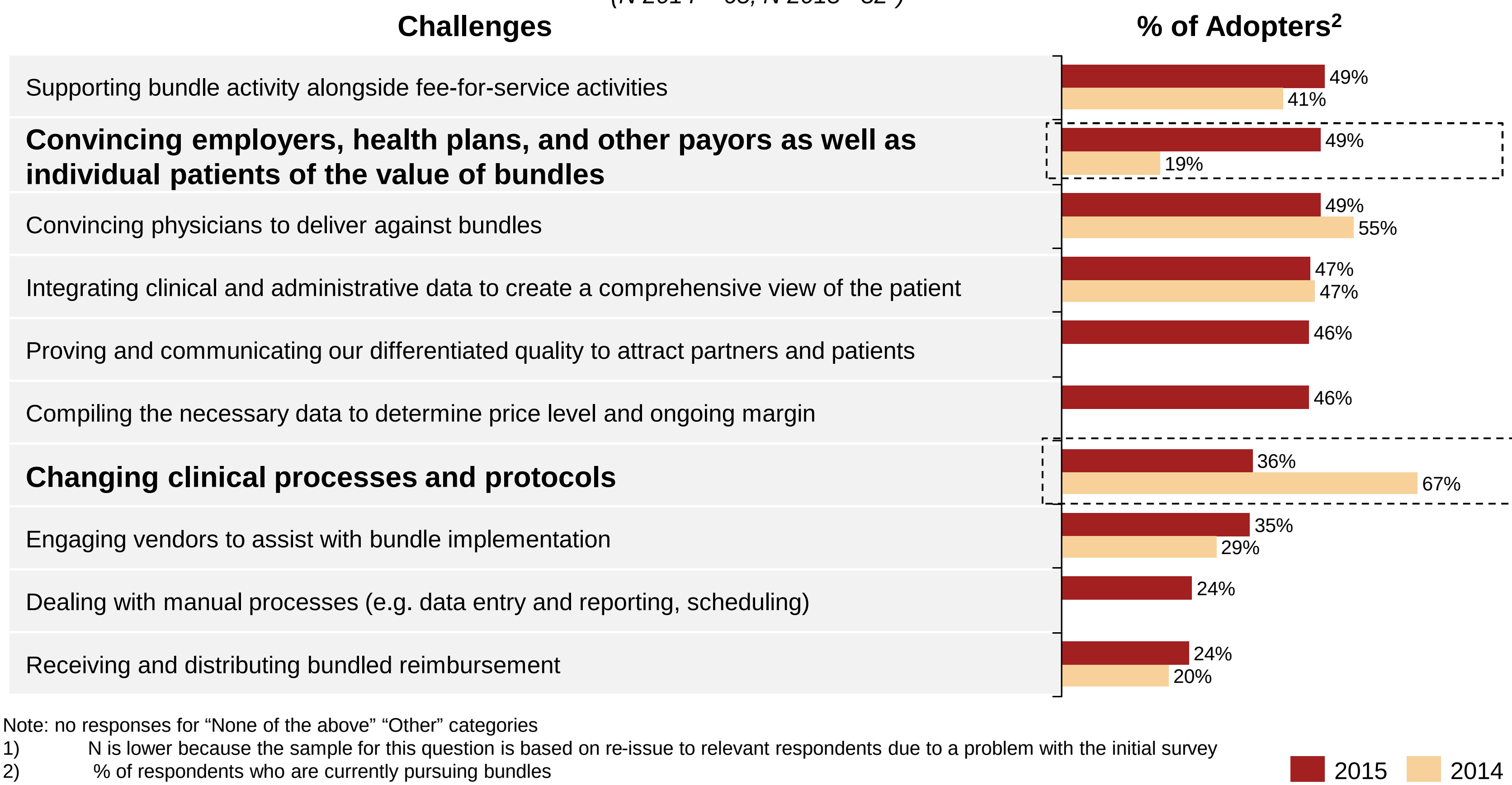
Source: Strategy& Annual Bundles Survey (October 2014 & December 2015) – Hospital Question 14; Strategy& analysis

Hospitals are becoming more aware of the customer acquisition challenge versus internal change management

Challenges Faced from Care Bundles – Adopters

Which of the following challenges has your organization faced in pursuing care bundles?

(N 2014 = 65, N 2015 =52[1])



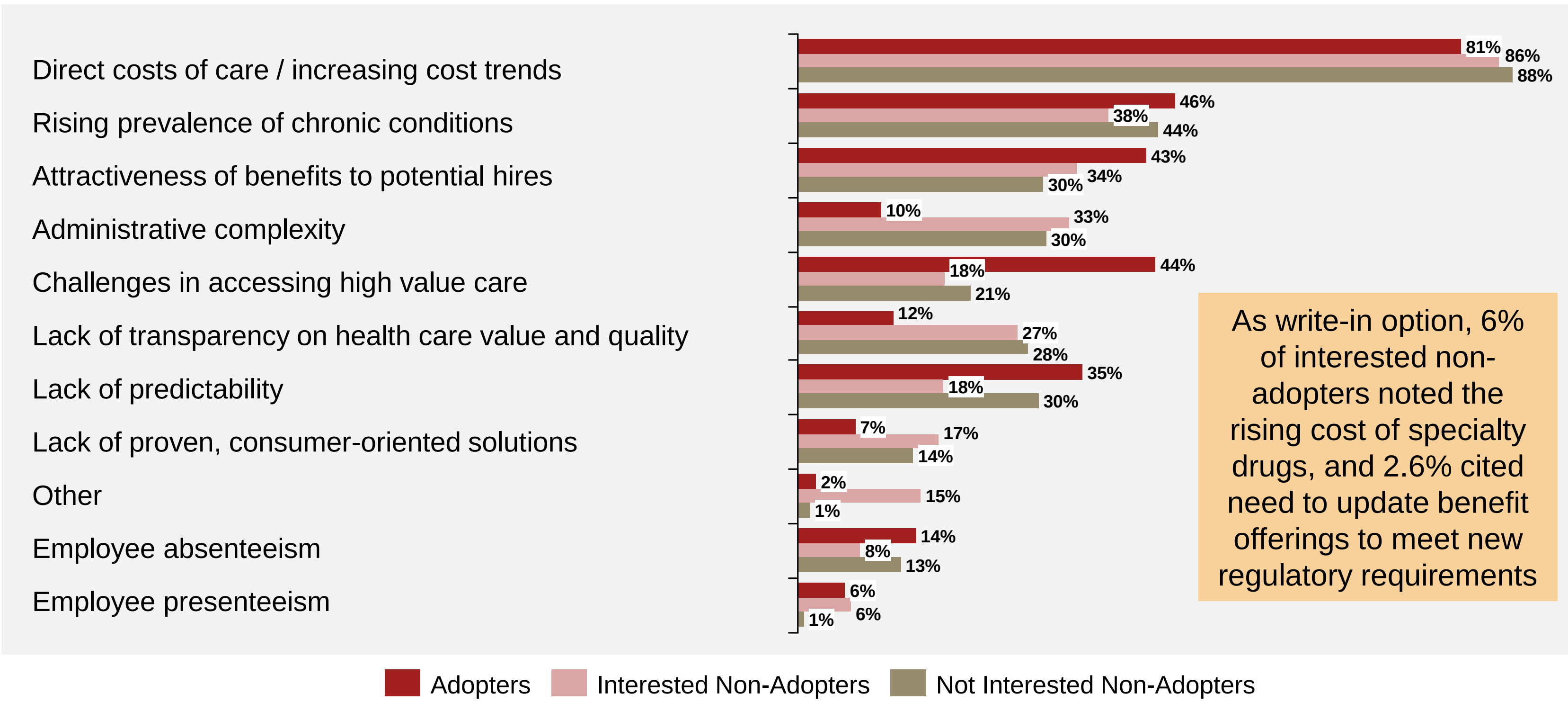
Note: no responses for “None of the above” “Other” categories
1) N is lower because the sample for this question is based on re-issue to relevant respondents due to a problem with the initial survey
2) % of respondents who are currently pursuing bundles
Source: Strategy& Annual Bundles Survey (October 2014 & December 2015) – Hospital Question 15; Strategy& analysis

On the demand side, employers reveal an overwhelming focus on cost when considering any benefit decisions

Employer Health Care Benefit Challenges and Concerns

What are your most significant concerns or challenges with your employer's health care benefit offerings today?

(Adopter N = 57, Interested Non-Adopter N = 158, Not Interested Non-Adopter N = 61)



Source: Strategy& Annual Bundles Survey (December 2015) – Employer Questions QDP2; Strategy& analysis

Employers interested in bundles but not yet participating see financial impact as the dominant reason to adopt bundles

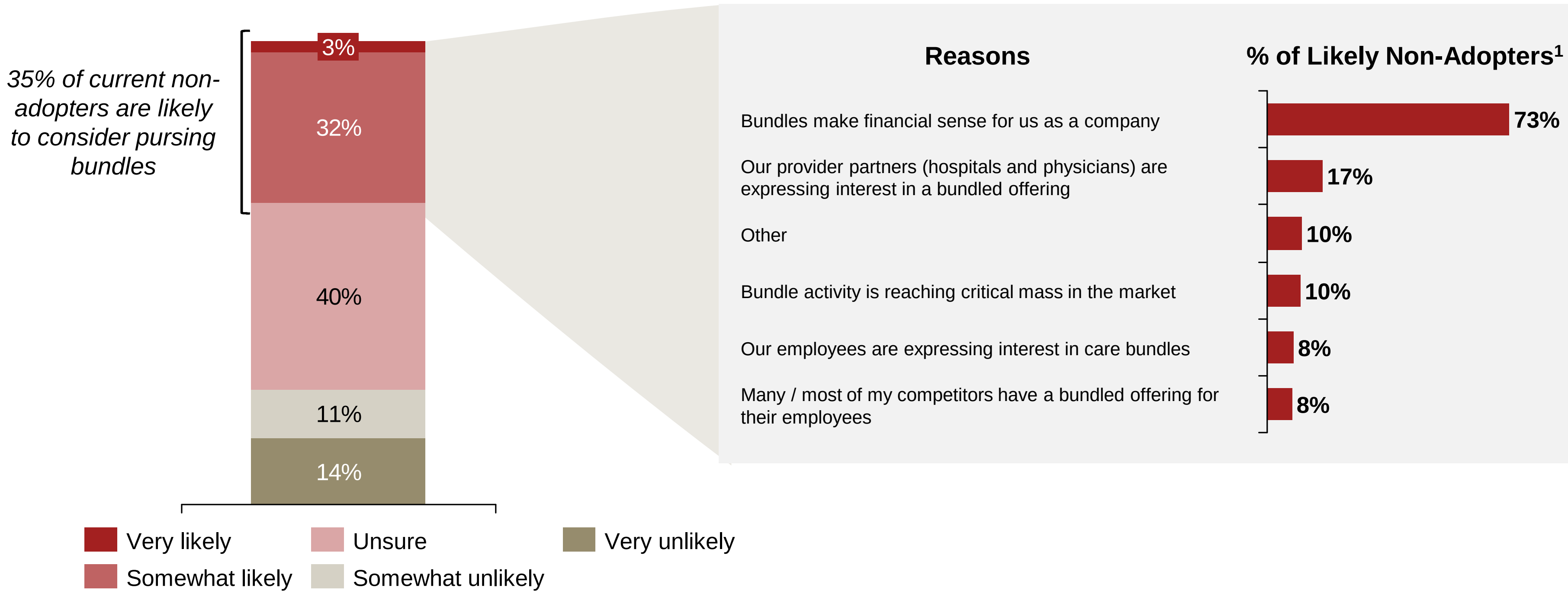
Future Outlook of Bundles – Non-Adopters

Likelihood to Consider

How likely is it that your company will consider pursuing bundles in the future?
(N = 219)

Reasons to Consider

Which of the following explains the reason(s) your company may consider pursuing bundles in the future?
(N = 77)



1) % of respondents who do not currently offer bundles and are "very likely" or "somewhat likely" to consider pursuing bundles in the future

Source: Strategy& Annual Bundles Survey (December 2015) - Employer Questions 16,18; Strategy& analysis

On the flip side, those not interested see financial benefit as the key barrier of proof before participating

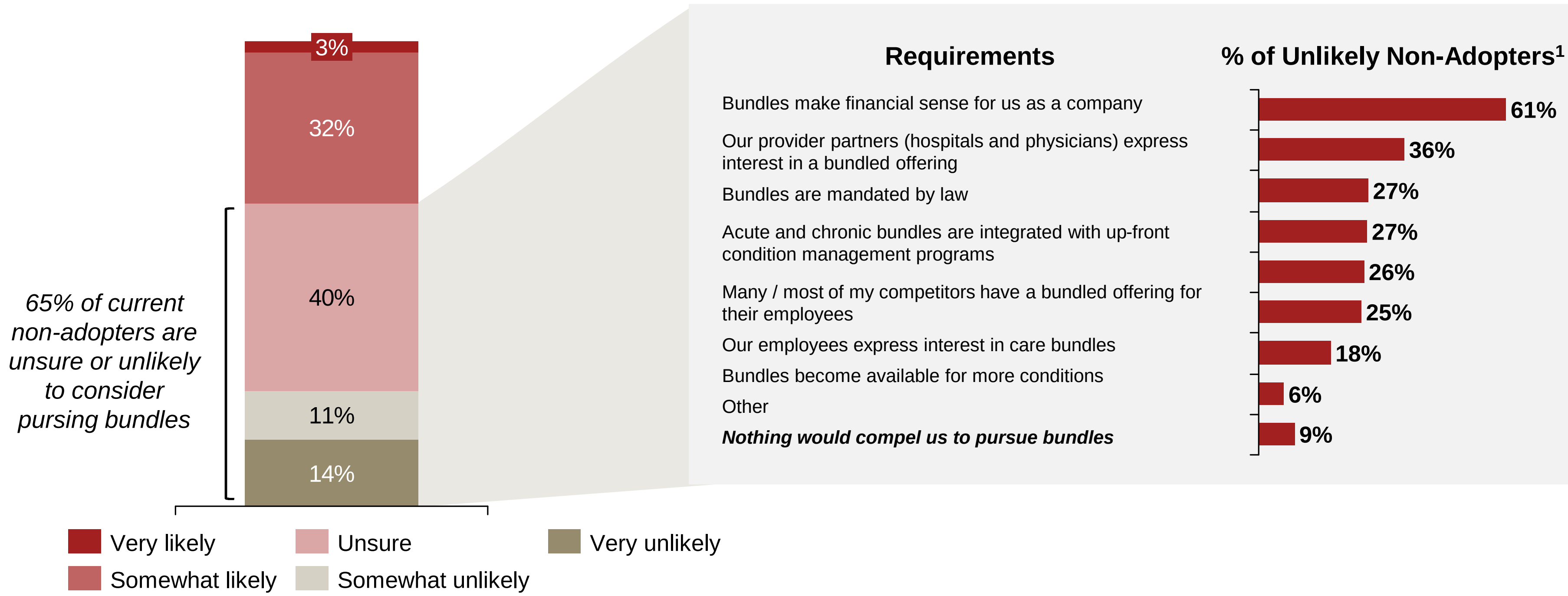
Future Outlook of Bundles – Non-Adopters

Likelihood to Consider

How likely is it that your company will consider pursuing bundles in the future?
(N = 219)

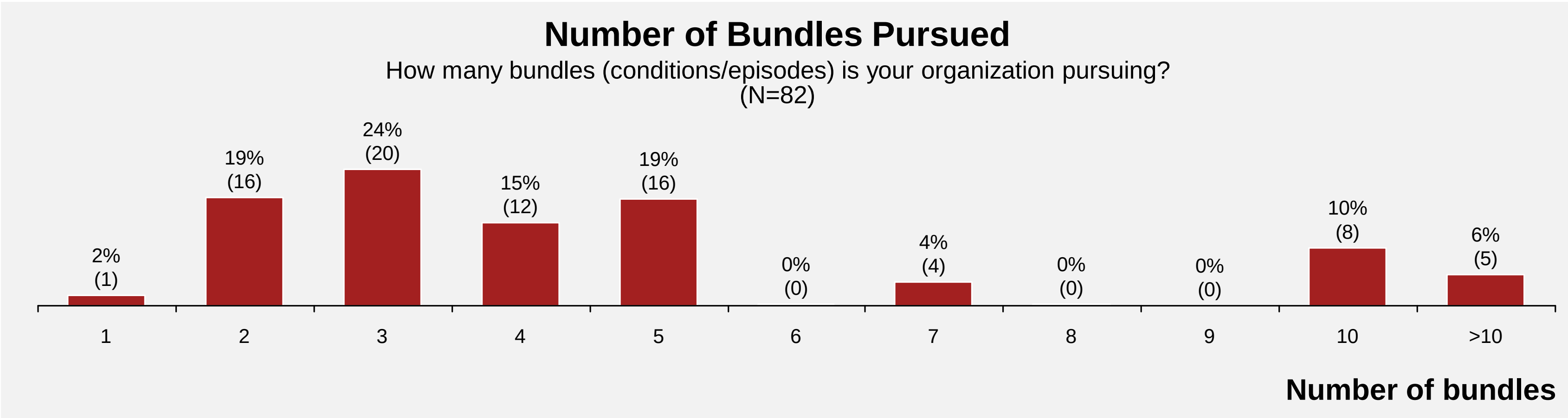
Requirements to Consider

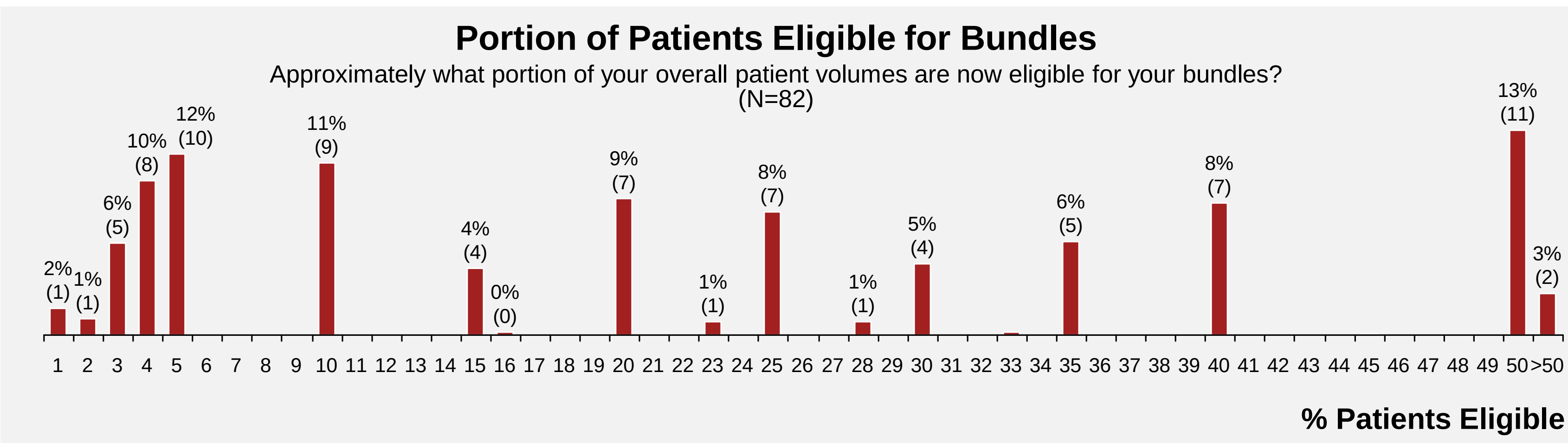
Which of the following would have to occur for your company to consider pursuing care bundles?
(N = 142)



1) % of respondents who do not currently offer bundles and are “very unlikely,” “somewhat unlikely,” or “unsure” to consider pursuing bundles in the future
Source: Strategy& Annual Bundles Survey (December 2015) - Employer Questions 16-17; Strategy& analysis

To hit these cost goals, providers must widen bundle efforts; only a few hospitals have broadened significantly



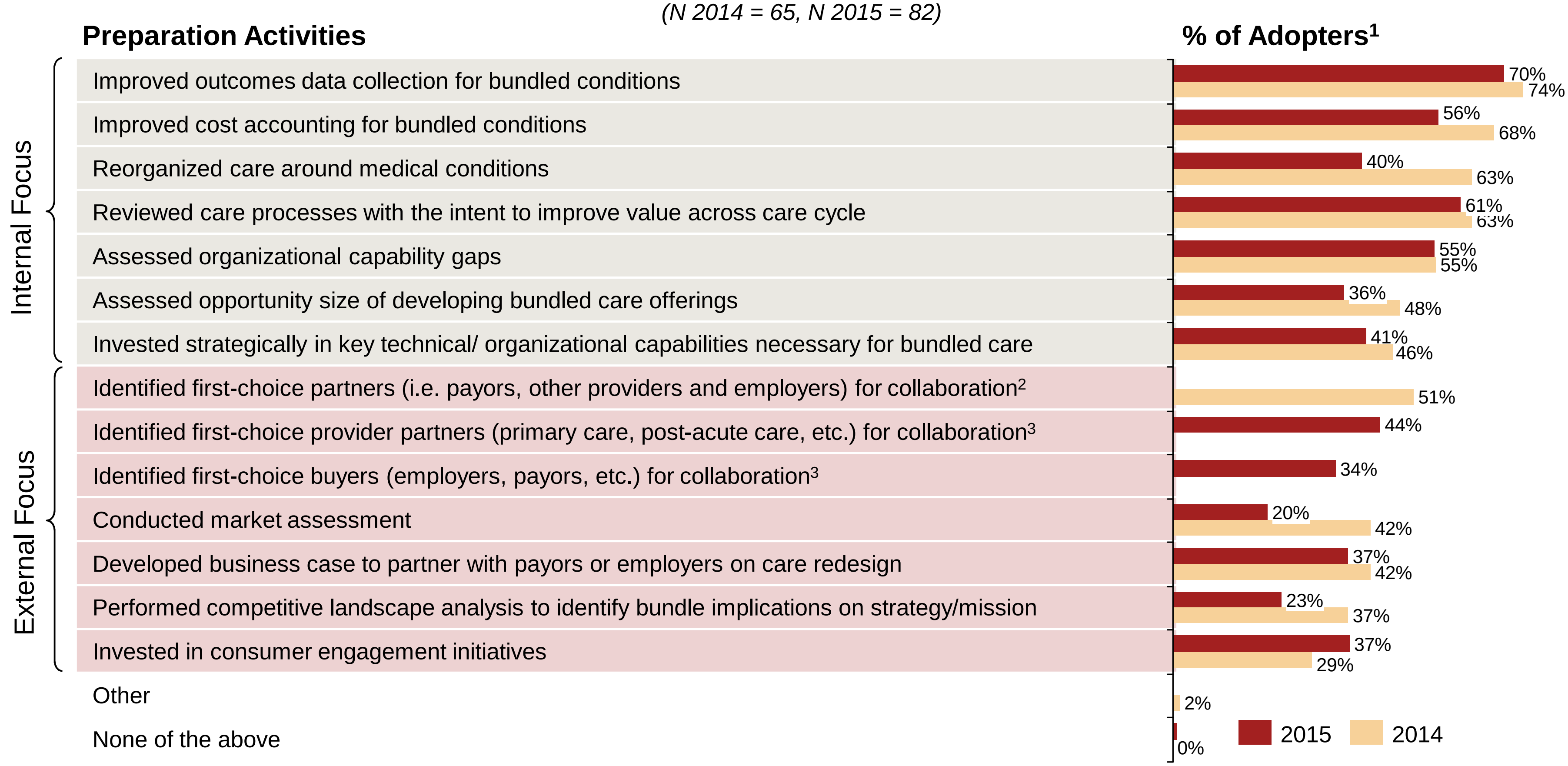


Source: Strategy& Annual Bundles Survey (December 2015) – Hospital Question 10C-G; Strategy& analysis

Hospitals continue to focus on internal facing preparation activities more than identifying buyer needs

Organizational Preparation for Bundles – Adopters

Which of the following has your organization undertaken (or currently undertaking)? Select all that apply
(N 2014 = 65, N 2015 = 82)



1) % of respondents who are currently pursuing bundles 2) Asked only in 2014 3) Asked only in 2015
Source: Strategy& Annual Bundles Survey (October 2014 & December 2015) – Hospital Question 7; Strategy& analysis

Hospital bundles are becoming more advanced, however progress is slow

Development Phase of Current Bundled Care Offerings

(N 2014 = 65, N 2015 = 82)

Range of Current Offerings – Hospitals

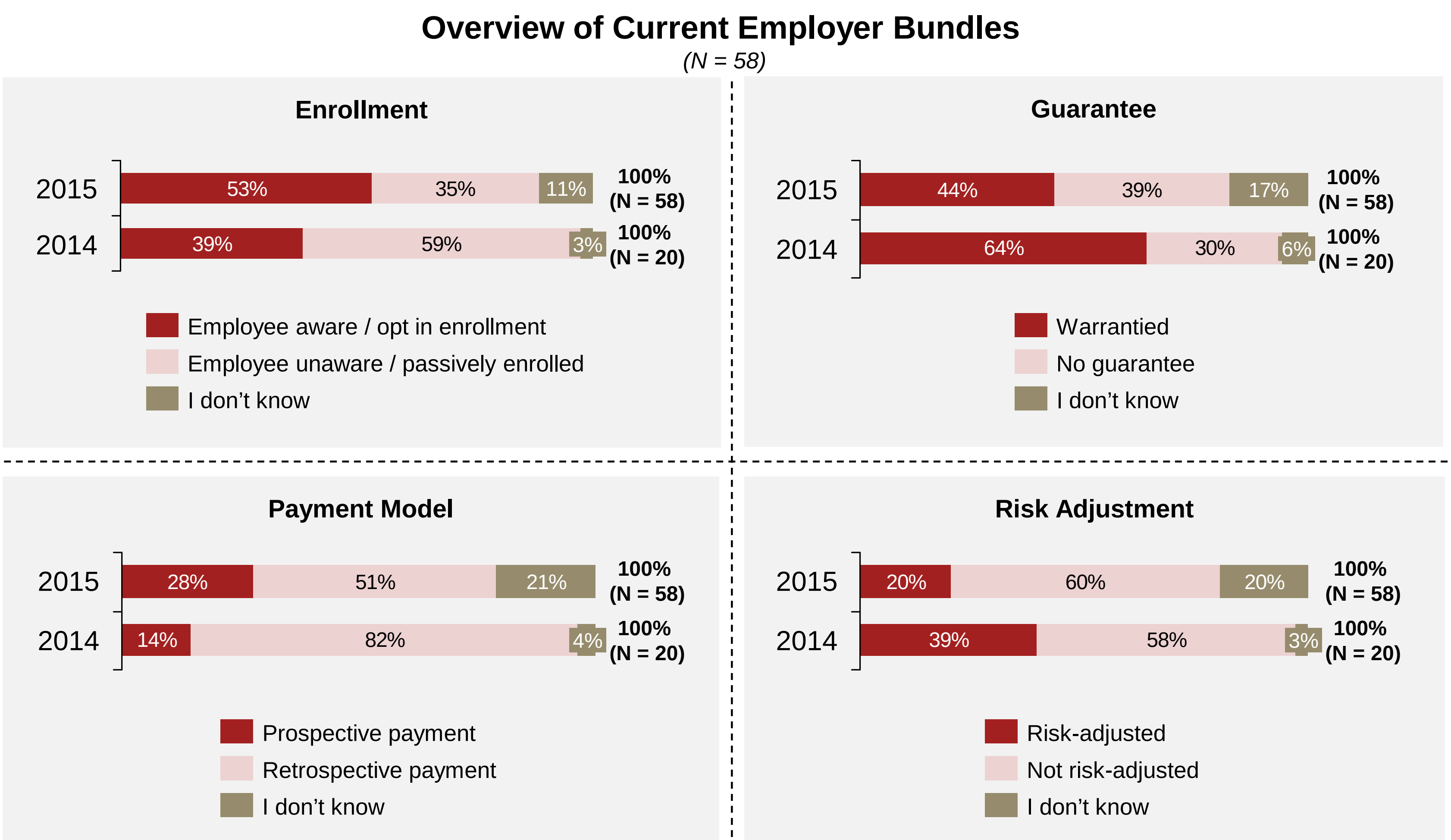
	Bundles 1.0	***Bundles 2.0***	***Next Generation***
2014	97% of hospital adopters[1]	3% of hospital adopters[1]	No examples currently exist in the market
2015	96% of hospital adopters[1]	4% of hospital adopters[1]	

- The percent of hospital adopters currently operating more sophisticated bundle programs which include more conditions, more services, more advanced payment models, and greater risk-sharing remains small, and the market has yet to see any fully advanced bundle examples
- However, despite the small percentage, year over year progress is directionally positive, and many 2015 adopters plan to expand their efforts (55% will broaden to more conditions, 33% will include more services and risk)

1) % of hospital / health system respondents who are currently pursuing bundles; sample size for employers is too low to provide information

Source: 2014 & 2015 Annual Bundles Survey; Strategy& analysis

Payment and enrollment models are advancing, but the level of risk bearing offered to employers is still low



Source: Strategy& Annual Bundles Survey (December 2015) – Employer Question 8C-8F; Strategy& analysis

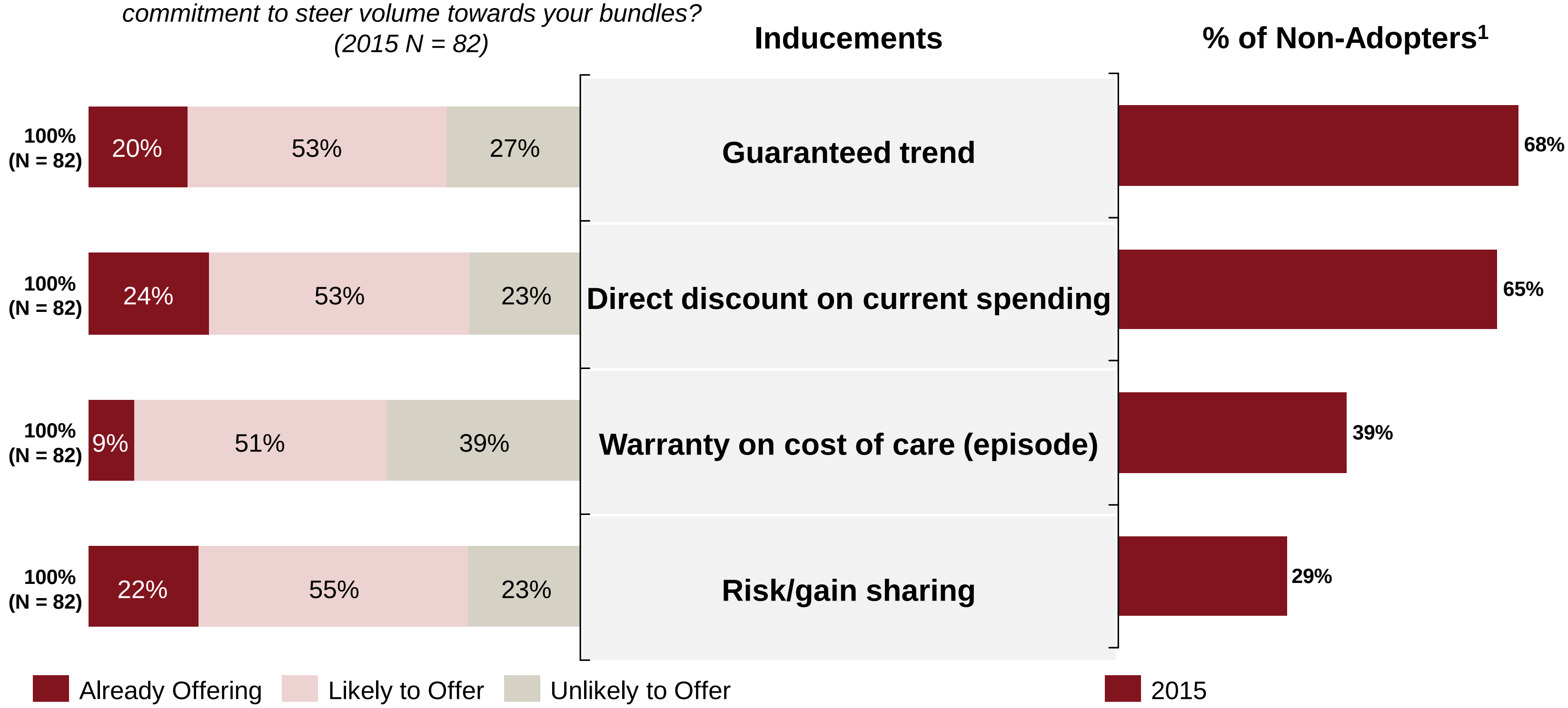
Although they are willing to introduce, few hospitals are currently offering the inducements sought by employers

Willingness to Offer Bundle Inducements – Hospital Adopters

Some bundling providers offer inducements to partners to participate. Please indicate your willingness to offer various inducements given a health plan, employer, or other buyer's commitment to steer volume towards your bundles? (2015 N = 82)

Attractive Bundle Inducements – Employer Non-Adopters

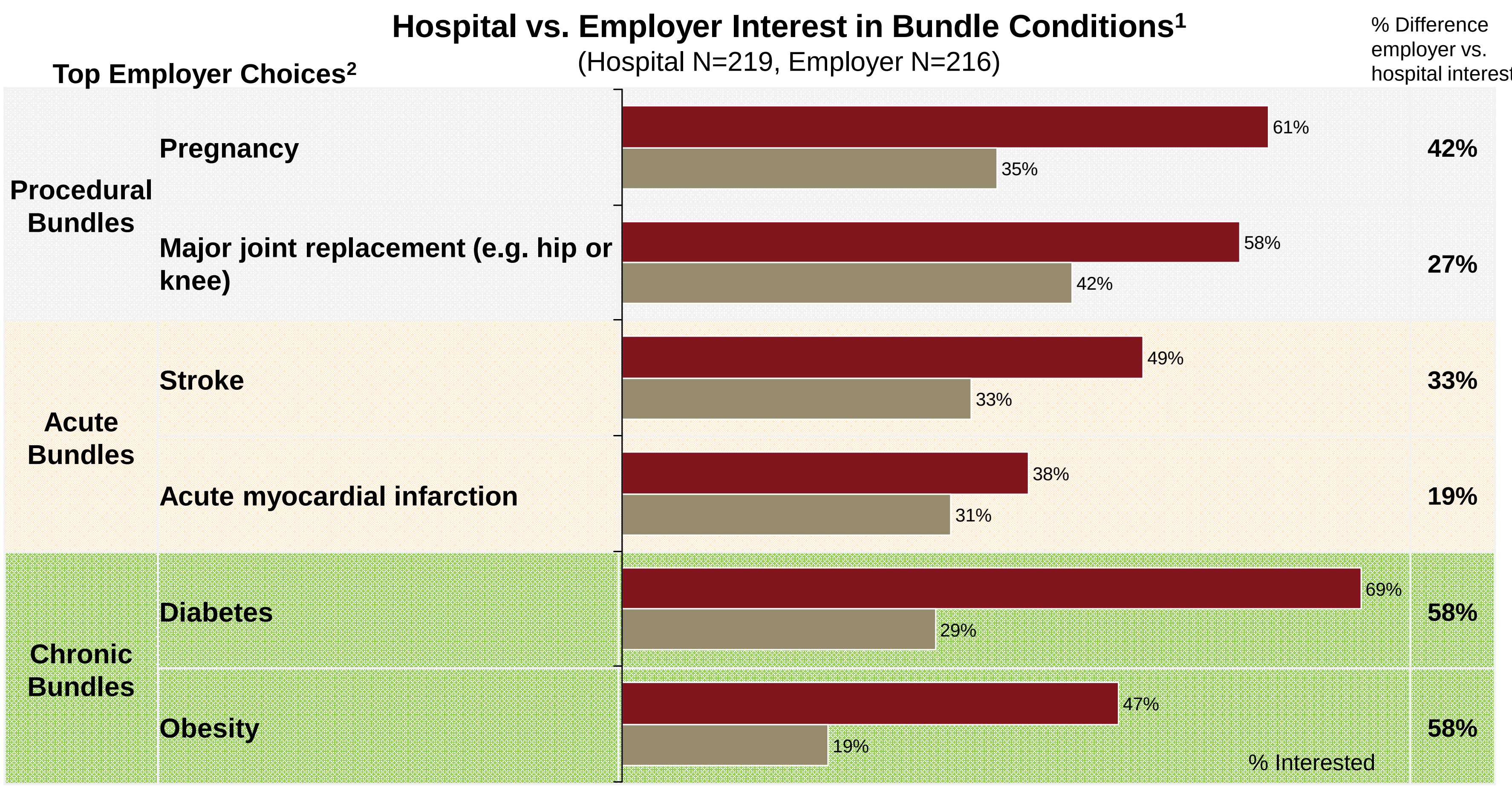
If you were to pursue bundles, which of the following inducements would most appeal to your organization? (2015 N = 215)



1) % of respondents who are currently not pursuing bundles

Source: Strategy& Annual Bundles Survey (October 2014 & December 2015) – Employer Question 14b; Strategy& analysis

In general, employers want to see more bundles than hospitals are preparing to offer



1) Based on employer adopter and interested non-adopter expressed interest in bundle conditions vs. hospital adopter participation and plans for expansion plus interested non-adopter plans; based on some of expressed interest for any given bundle over total adopter and interested non-adopter population

2) Total 25 conditions were surveyed which follow similar trends shown for top 6 employer choices

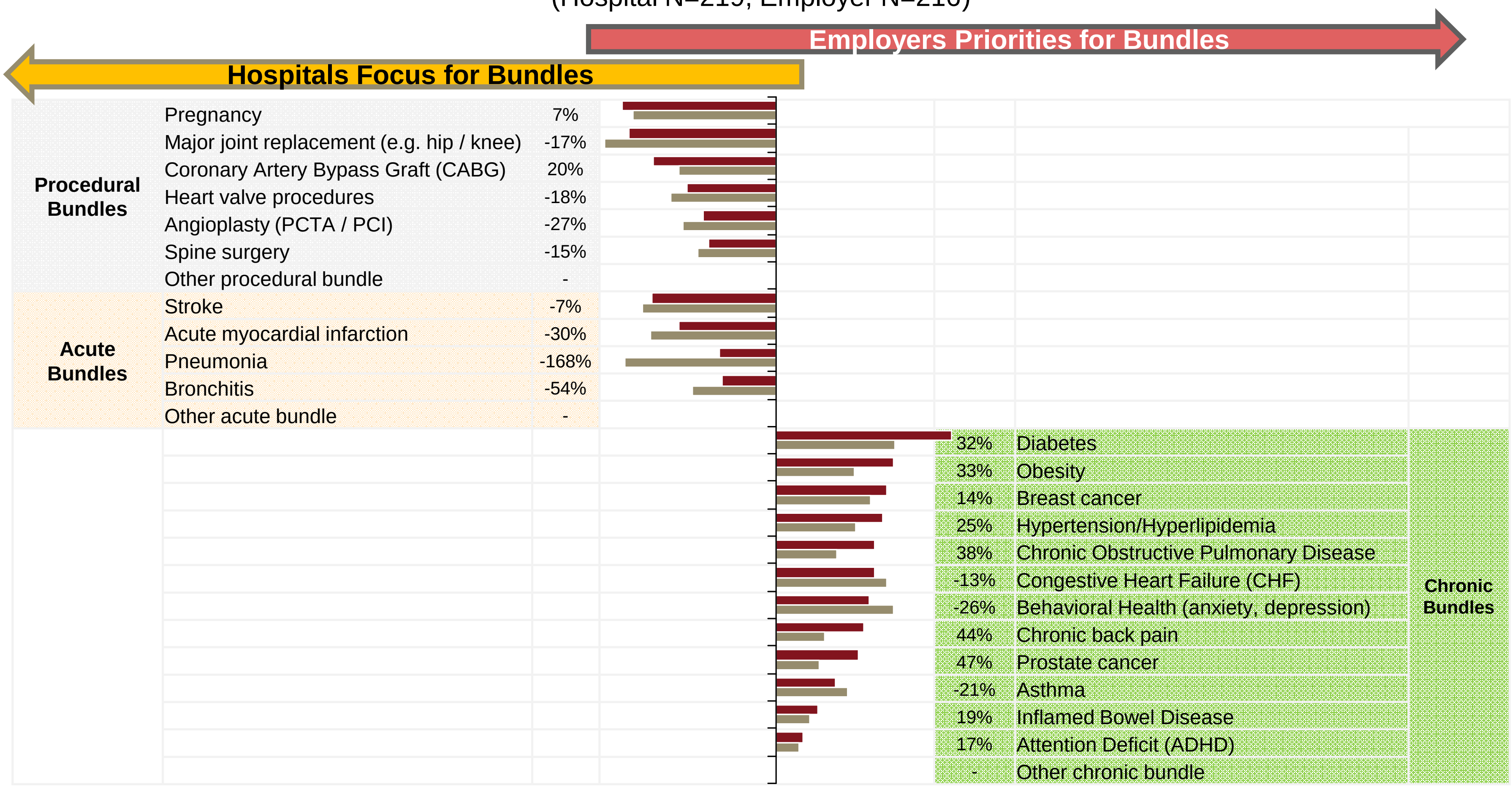
Source: Strategy& Annual Bundles Survey (December 2015) – Employer Question 14A, Hospital Questions 8, 17A, 18A ; Strategy& analysis

Employer Hospital

On a relative basis employers prioritize chronic bundles, while hospitals plan to focus on acute and procedural

Relative Hospital vs. Employer Interest in Bundle Conditions[1]

(Hospital N=219, Employer N=216)



1) Interest based on count of interest for condition over total count of expressed interest within each group (employer/hospital)

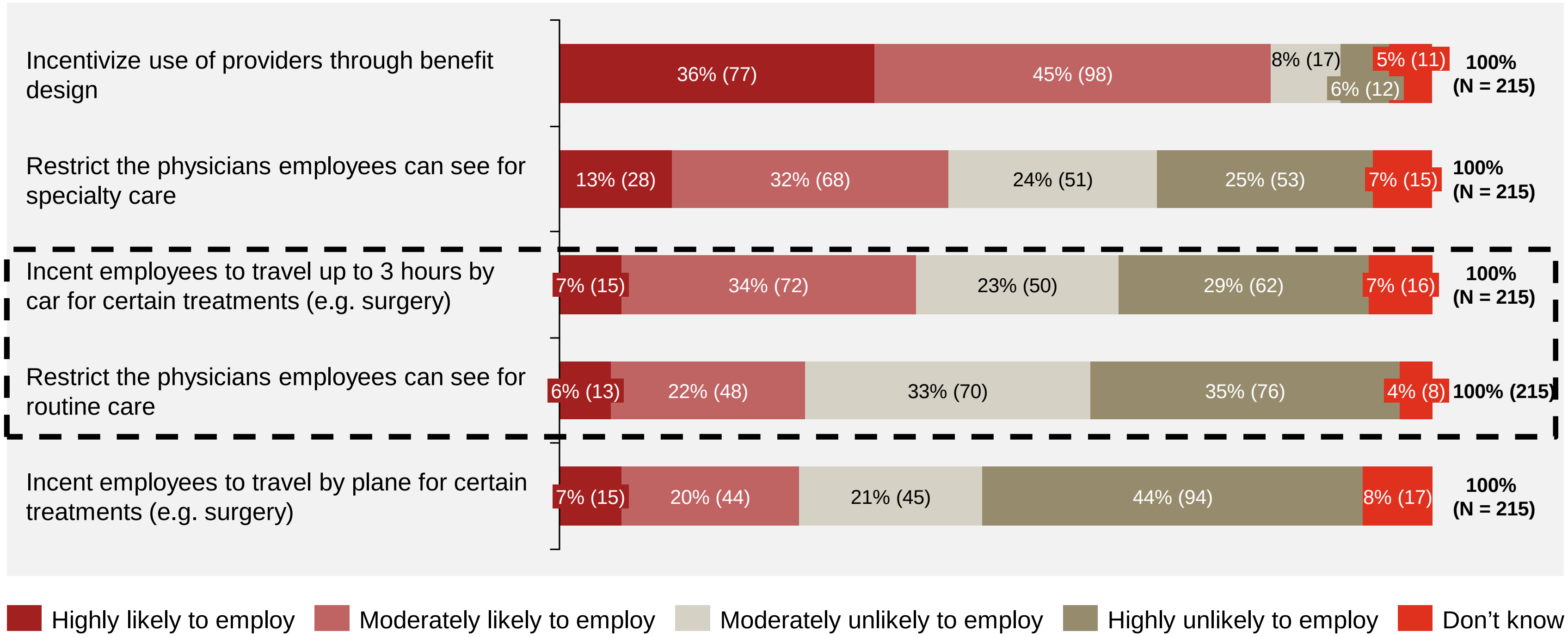
Source: Strategy& Annual Bundles Survey (December 2015) – Employer Question 14A, Hospital Questions 8, 17A, 18A ; Strategy& analysis

■ Employer ■ Hospital

But given a bundle that meets their needs, employers are relatively willing to steer employees towards it

Likelihood to Use Various Steering Mechanisms
Hospital / Health System Adopters and Interested Non-Adopters Respondents

If your employer were to adopt a bundle with promising cost and outcome benefits, which of the following steerage mechanisms would you consider using to drive your employees towards the bundle?
(N = 215)



1) % of respondents who are currently pursuing bundles or have expressed interest
Source: Strategy& Annual Bundles Survey (December 2015) – Employer Question 1F; Strategy& analysis

Takeaways and opportunities for providers

- **Demand for bundles remains strong**, but 2015's employers are considering the concept with more scrutiny and want to see results
- To capture volume, either through employers directly or via health plans, **hospitals need to be more aware of employer and consumer needs** even in the early stages of development
- **Hospitals are not yet offering the economic rewards and breadth** of bundles employers are seeking
- Employers are also worried about employee engagement, so **bundles should be designed with both acquiring and caring for the consumer** in mind
- **Employers stand ready** to funnel significant volume to hospitals if a compelling bundle option materializes

In-room Polling

As we present each question, please raise your hand if your answer is “Yes”

Did our survey results resonate with you?

Are bundles a priority for your organization?

Have you polled payors and employers on their bundles priorities?

Your Presenters Today

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