OUTLINE

• American Healthcare: Progress and Promise
• Elections Matter
• Looking Ahead:
  – Shallow Pocketed Consumers
  – Employers Stay or Go
  – Health Systems: Strategic Themes
  – Providers: Making Volume to Value Real
AMERICAN HEALTHCARE: PROGRESS AND PROMISE

• Coverage Expansion
• Payment Reform
• Volume to Value
• Consolidation and Integration
• Delivery Shift to Ambulatory Environment
• IT Infrastructure
• Enhancing the Consumer (and Provider) Experience
BIG DROP IN UNINSURED UNDER OBAMACARE
UNINSURED RATE AMONG THE NONELDERLY POPULATION, 1972-2016

Note: 2016 data is for Q1 – Q3 only.

PERCENT OF POPULATION UNDER AGE 65 UNINSURED

2013

- <10% (4 states plus D.C.)
- 10%–14% (18 states)
- 15%–19% (18 states)
- ≥20% (10 states)

2014

- <10% (11 states plus D.C.)
- 10%–14% (25 states)
- 15%–19% (12 states)
- ≥20% (2 states)

2015

- <10% (23 states plus D.C.)
- 10%–14% (21 states)
- 15%–19% (6 states)


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

NOTE: Uninsured rates for 2016 are as of June 2016.
ELECTIONS MATTER
SCOTLAND, NORTHERN IRELAND AND LONDON VOTED TO REMAIN

Regional totals

- Scotland: 62.0% / 38.0%
- Northern Ireland: 55.8% / 44.2%
- North West: 46.3% / 53.7%
- North East: 42.0% / 58.0%
- Yorkshire & the Humber: 42.3% / 57.7%
- Wales: 47.5% / 52.5%
- East Midlands: 41.2% / 58.8%
- West Midlands: 40.7% / 59.3%
- South West: 47.4% / 52.6%
- East of England: 43.5% / 56.5%
- South East: 48.2% / 51.8%
- London: 59.9% / 40.1%
SCOTLAND, NORTHERN IRELAND AND LONDON VOTED TO REMAIN: NEWS TO DONALD TRUMP
OLDER, LESS WELL EDUCATED AND NATIONALISTIC VOTERS MORE LIKELY TO BREXIT

How different age groups voted

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Leave</th>
<th>50%</th>
<th>Remain</th>
</tr>
</thead>
<tbody>
<tr>
<td>18–24</td>
<td>27%</td>
<td></td>
<td>73%</td>
</tr>
<tr>
<td>25–34</td>
<td>38%</td>
<td></td>
<td>62%</td>
</tr>
<tr>
<td>35–44</td>
<td>48%</td>
<td></td>
<td>52%</td>
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<tr>
<td>45–54</td>
<td>56%</td>
<td></td>
<td>44%</td>
</tr>
<tr>
<td>55–64</td>
<td>57%</td>
<td></td>
<td>43%</td>
</tr>
<tr>
<td>65+</td>
<td>60%</td>
<td></td>
<td>40%</td>
</tr>
</tbody>
</table>

Of the 30 areas with the...

- most elderly people, 27 voted Leave
- fewest graduates, 26 voted Leave
- most people identifying as English, all 30 voted Leave

Source: Lord Ashcroft Polls

Source: Census 2011
NEW LEADERS OF THE FREE WORLD?

Donald Trump

Nigel Farage

Boris Johnson
OR GIRL POWER.........?

Hillary Clinton and Elizabeth Warren

Nicola Sturgeon

Theresa May

Angela Merkel
Vitality and the vote

United States, health metrics against swing to Donald Trump, by county

Sources: Atlas of US Presidential Elections; Census Bureau; IPUMS; Institute for Health Metrics and Evaluation; The Economist

*Weighted index of obesity, diabetes, heavy drinking, physical exercise and life expectancy, 2010-12
THE PARTISAN DIVIDE ON HEALTHCARE

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

Source: Harvard/Politico October 2016
Majority of Trump Voters Have Favorable Opinion of Many ACA Provisions

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

- Allows young adults to stay on their parents’ insurance plans until age 26: 83%
- Eliminates out-of-pocket costs for many preventive services: 75%
- Creates health insurance exchanges where small businesses and people can shop for insurance and compare prices and benefits: 72%
- Closes the Medicare prescription drug coverage gap: 71%
- Provides financial help to low- and moderate-income Americans to help them purchase coverage: 68%
- Gives states the option of expanding their existing Medicaid program to cover more low-income, uninsured adults: 66%
- Increases Medicare payroll tax on earnings for upper-income Americans: 62%
- Prohibits insurance companies from denying coverage because of a person’s medical history: 60%
- Requires employers with 50 or more employees to pay a fine if they don’t offer health insurance: 49%
- Requires nearly all Americans to have health insurance or else pay a fine: 16%

NOTE: Some items asked of half samples. Question wording abbreviated. See topline for full question wording.
SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted November 15-21, 2016)
RECENT SURPRISE UPTICK IN SUPPORT FOR FEDERAL GOVERNMENT ROLE ESPECIALLY AMONG LOWER INCOME REPUBLICANS

Share saying govt is responsible for ensuring health coverage has increased

Is it the responsibility of the federal government to make sure that all Americans have health care coverage? (%)

Government responsibility

Not government responsibility


PEW RESEARCH CENTER

Lower-income Republicans increasingly favor govt role in health care coverage

% who say it is the responsibility of the federal govt to make sure all Americans have health care coverage

<table>
<thead>
<tr>
<th>Category</th>
<th>Jan 2017</th>
<th>March 2016</th>
</tr>
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<tbody>
<tr>
<td>Total</td>
<td>51</td>
<td>50</td>
</tr>
<tr>
<td>Rep/Lean Rep</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Dem/Lean Dem</td>
<td>85</td>
<td>85</td>
</tr>
<tr>
<td>Among Rep/Lean Rep</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>$75,000+</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>$30,000-74,999</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>&lt; $30,000</td>
<td>31</td>
<td>32</td>
</tr>
<tr>
<td>Among Dem/Lean Dem</td>
<td>86</td>
<td>86</td>
</tr>
<tr>
<td>$75,000+</td>
<td>78</td>
<td>78</td>
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<tr>
<td>$30,000-74,999</td>
<td>73</td>
<td>84</td>
</tr>
<tr>
<td>&lt; $30,000</td>
<td>88</td>
<td>79</td>
</tr>
</tbody>
</table>

Source: Survey conducted Jan. 4-6, 2017.

PEW RESEARCH CENTER
But ultimately it all comes from households whether as taxes, foregone income at work, or directly as out of pocket costs and premiums paid by consumers.
• ACA has impacted a small portion of the insurance market relative to how it is covered in the public debates on health care

• Medicaid is now the largest public insurance program and covers many of the neediest beneficiaries as well as expansion populations

• Medicare is highly valued and Medicare Advantage grows

• Employer-Sponsored health insurance for most Americans and it is the financial lifeblood of the delivery system

SOURCE: Axios interpretation of KFF data, July 2017
Health Care Is A “Budget Buster” At The Federal Level

Where the Costs Are

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

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

THE WALL STREET JOURNAL
Before Repeal and Replace: Medicaid Projected to Reach 110 Million

Projected Medicaid Enrollment

Past and Projected Numbers of Medicaid Enrollees by Category, 2000-2026

- Expansion Adults
- Expansion Children
- Adults
- Children
- Blind/Disabled
- Aged

~110M Covered Lives in Medicaid by 2026

SOURCE: LP Analysis based on Medicaid Spending and Enrollment Detail for CBO’s March 2016 Baseline.
Note: Enrollment numbers are “total ever enrolled.”
TRUMP REFORM PRINCIPLES

• “Repeal and Replace....Simultaneously”
• “Everyone will be covered...we are not going to leave people in the streets”
• “We will keep the pre-existing conditions”
• “Pharma is getting away with murder”
• “I am not going to cut Medicare and Medicaid”
• “We’re going to have insurance for everybody,”
• People covered under his new plan “can expect to have great health care. It will be in a much simplified form. Much less expensive and much better.”
• “It will be a thing of beauty” After first CBO estimates
• "I hope we are going to surprise with a really good plan,"
• "You know I've been talking about a plan with heart. I said add some money to it. A plan with heart, but Obamacare is dead.”
REPUBLICAN REFORM PRINCIPLES

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

• Cheaper for whom?
• More competition, maybe....
• Get Rid of the Lines
• But the key is what is covered and how much providers are paid
• State High Risk Pools Cut off the tail of high spenders a tiny little bit but at a high cost
• Change the Essential Benefits to “Remove the Frills”
• Lower the Actuarial Value of the Plans
• Change the Age Bands
• Remove Guaranteed Issuance (This is the Big One)
• Remove Lifetime Caps
REPEAL AND REPLACE IS LIKE BREAKING UP THE BEATLES: JUST KEEP GEORGE AND RINGO AND EXPECT IT TO SOUND GOOD

Taxes and Fees Raised Mandates  Subsidies to Medicaid and Exchanges

Guaranteed Issuance  Stay on Parents Plan

“All you are left with is Ringo”  Chris Jennings
“Republican policies are ideologically coherent, they just aren’t actuarially coherent.”  Ian Morrison
FOUR SCENARIOS FOR HEALTHCARE POLITICS AND POLICY

• Scenario 1: Repair and Revise
• Scenario 2: Constructive Conservatism: “Go Your Own Way”
• Scenario 3: Repeal and Replace Redux
• Scenario 4: Let Obamacare Fail

• Immediate Issues
  – Cost Sharing Reductions
  – Enforcing the Mandates
  – Promoting Exchanges
  – DSH Cuts particularly in non-expansion states
  – CHIP renewal
SYNTHETIC REPEAL AND SABOTAGE

• Use Executive Orders
  – Association Health Plans
  – “Across State Lines”
  – Essential Benefits Erosion
• Cut Medicare and Medicaid Budgets
• Give back Obamacare Taxes to rich people in Tax Reform
• Don’t enforce the Law
• “The Secretary shall”.....Maybe Not
• Waiver Authority
• New CMS Head, same as the old head
• Bring ACA down, force Dems to settle

“YOU CAN GRAB’EM BY THE SUBSIDIES
YOU CAN DO ANYTHING”

TOP STATES IN EXCHANGE ENROLLMENT

<table>
<thead>
<tr>
<th>STATE</th>
<th>PAID ENROLLMENT (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FLORIDA</td>
<td>1,584</td>
</tr>
<tr>
<td>CALIFORNIA</td>
<td>1,401</td>
</tr>
<tr>
<td>TEXAS</td>
<td>1.104</td>
</tr>
<tr>
<td>NORTH CAROLINA</td>
<td>494</td>
</tr>
<tr>
<td>GEORGIA</td>
<td>444</td>
</tr>
<tr>
<td>PENNSYLVANIA</td>
<td>383</td>
</tr>
<tr>
<td>VIRGINIA</td>
<td>369</td>
</tr>
<tr>
<td>ILLINOIS</td>
<td>320</td>
</tr>
<tr>
<td>NEW JERSEY</td>
<td>265</td>
</tr>
<tr>
<td>MICHIGAN</td>
<td>239</td>
</tr>
<tr>
<td>MASSACHUSETTS</td>
<td>238</td>
</tr>
<tr>
<td>MO, WI, NY, OH</td>
<td>215-219</td>
</tr>
</tbody>
</table>

Sources: Charles Gaba ACA Signups, @Aslavitt, Leavitt Partners
**Figure 1**

**Most Say Reauthorizing CHIP and Stabilizing the ACA Are Important Priorities for Congress to Work on Now**

Would you say each of the following priorities are extremely important, very important, somewhat important, or not important for Congress to work on now?

<table>
<thead>
<tr>
<th>Priority</th>
<th>Extremely important</th>
<th>Very important</th>
<th>Somewhat important</th>
<th>Not important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reauthorizing funding for the State Children’s Health Insurance Program, which provides health care coverage for uninsured children</td>
<td>36%</td>
<td>40%</td>
<td>16%</td>
<td>6%</td>
</tr>
<tr>
<td>Passing legislation to stabilize the Affordable Care Act marketplaces in order to minimize premium increases and encourage more insurers to offer health plans</td>
<td>29%</td>
<td>41%</td>
<td>18%</td>
<td>10%</td>
</tr>
<tr>
<td>Reforming the tax code, which may cut taxes for some individuals</td>
<td>21%</td>
<td>28%</td>
<td>31%</td>
<td>16%</td>
</tr>
<tr>
<td>Continuing efforts to repeal and replace the 2010 health care law</td>
<td>21%</td>
<td>26%</td>
<td>17%</td>
<td>32%</td>
</tr>
</tbody>
</table>

**NOTE:** Don’t know/Refused responses not shown. Question wording abbreviated. See topline for full question wording.  
**SOURCE:** Kaiser Family Foundation Health Tracking Poll (conducted September 13-18, 2017)
Perceptions of Whether Trump Administration is Helping or Hurting ACA Marketplaces Varies by Party Identification

Do you think actions taken by President Trump and his administration are generally helping or hurting the way the marketplaces are working, or are they not having much impact?

Democrats:
- Helping: 69%
- Not much impact: 22%
- Hurting: 4%

Independents:
- Helping: 38%
- Not much impact: 39%
- Hurting: 19%

Republicans:
- Helping: 46%
- Not much impact: 40%
- Hurting: 10%

NOTE: Don’t Know/Refused responses not shown.
SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted September 13-18, 2017)
WHAT MAY NOT CHANGE AS MUCH: PAYMENT AND DELIVERY REFORM

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

• Method of payment
  – FFS to Global Budget Continuum

• Level of Payment
  – ACOs versus Sequestration

• Prevalence of Payment
  – How much does it matter?

• Providers Involved
  – Who is affected? And how?
Progression of Payment arrangements

Population-Based
- FFS
- Care Management
- P4P
- Shared Savings
- Shared Savings/Losses
- Partial Capitation
- Full Capitation

Increasing Risk

Pre-ACO

ACO

Episode-Based
- Usual & Customary
- Fee Schedule
- Prospective Payments
- Bundled Payments
Physician Activity in Various Reimbursement models

- **Pay-for-performance**
  - Already participating: 41%
  - Plan to participate: 32%
  - No plans to participate: 27%

- **Episode-Based Payments**
  - Already participating: 30%
  - Plan to participate: 19%
  - No plans to participate: 54%

- **Global Payments**
  - Already participating: 24%
  - Plan to participate: 27%
  - No plans to participate: 44%

- **Bundled Payments**
  - Already participating: 18%
  - Plan to participate: 29%
  - No plans to participate: 53%

- **Capitated Payments**
  - Already participating: 14%
  - Plan to participate: 35%
  - No plans to participate: 52%

Total sample; Unweighted; base n = 621
PAYMENT REFORM PROGRESS REPORT

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

LOOKING AHEAD

• Shallow Pocketed Consumers
• Employers Stay or Go
• Providers:
  – Health Systems Strategic Plans: 10 Common Themes
  – Making Volume to Value Real
SERVING SHALLOW-POCKETED CONSUMERS
Cumulative Increases in Family Premiums, Worker Contributions to Premiums, Inflation, and Workers' Earnings, 1999-2017

AVERAGE ANNUAL PREMIUM FOR EMPLOYER SPONSORED COVERAGE 1999-2017

Average Annual Premiums for Single and Family Coverage, 1999-2017

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

DEDUCTIBLES CONTINUE TO RISE FOR EMPLOYER SPONSORED COVERAGE 2006-2017

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

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

NOTE: Small Firms have 3-199 workers and Large Firms have 200 or more workers. Average general annual health plan deductibles for PPOs, POS plans, and HDHP/HSOs are for in-network services.

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

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

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

Figure 8.5
Percentage of Covered Workers Enrolled in an HDHP/HRA or HSA-Qualified HDHP, 2006-2017

* Estimate is statistically different from estimate for the previous year shown (p < .05).
NOTE: Covered workers enrolled in an HDHP/HRA are enrolled in either an HDHP/HRA or a HSA-Qualified HDHP.
INSURED ADULTS WITH LOWER INCOMES WERE MORE LIKELY TO REPORT THEY HAD DELAYED OR AVOIDED GETTING CARE BECAUSE OF THEIR COPAYMENTS OR COINSURANCE

Percent responding “yes”

- Had a medical problem, but did not go to a doctor or clinic: <200% FPL = 30%, 200% FPL or more = 10%
- Did not fill a prescription: <200% FPL = 28%, 200% FPL or more = 10%
- Skipped a medical test, treatment, or follow-up recommended by a doctor: <200% FPL = 28%, 200% FPL or more = 12%
- Did not see a specialist when you or your doctor thought you needed to see one: <200% FPL = 24%, 200% FPL or more = 10%
- At least one cost-related access problem: <200% FPL = 46%, 200% FPL or more = 21%

Insured adults ages 19 – 64 who pay a copayment or coinsurance

Note: FPL refers to federal poverty level.

Note: States are arranged in rank order based on their current data year (2015) value.

a at least -0.5 standard deviation change (at least 2 percentage points) between 2014 and 2015.

b at least -0.5 standard deviation change (at least 2 percentage points) between 2013 and 2015.


DOES SATISFACTION MATTER? COMPARED TO WHAT?

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

Satisfaction with your insurance benefits
- 2010: 77%
- 2012: 79%
- 2013: 84%
- 2014: 81%
- 2015: 79%
- 2016: 77%

Satisfaction with out of pocket costs for prescription medications
- 2010: 62%
- 2012: 66%
- 2013: 72%
- 2014: 66%
- 2015: 67%
- 2016: 66%

Satisfaction with out of pocket costs for health care services
- 2010: 58%
- 2012: 59%
- 2013: 66%
- 2014: 62%
- 2015: 61%
- 2016: 61%

However...

Insurance plan meets my/my family’s needs very/extremely well
- 2010: 69%
- 2012: 66%
- 2013: 66%
- 2014: 55%
- 2015: 56%
- 2016: 56%

Only 47% of Exchange based plan holders feel their plan meets needs very or extremely well

Prepared for: Strategic Health Perspectives
Source: Q600: How satisfied or dissatisfied are you with each of the following?; Q185: Thinking now about all the different components of your health insurance plan, how well does your plan meet your/your family’s health needs?
CONSUMERS EMOTIONS TOWARDS HEALTHCARE THEY RECEIVE

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

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

Consumer Emotions Towards Healthcare They Receive

<table>
<thead>
<tr>
<th>Empowered</th>
<th>Hopeful</th>
<th>Relieved</th>
<th>Accepting</th>
<th>Neutral</th>
<th>Resigned/Given up</th>
<th>Powerless</th>
<th>Depressed</th>
<th>Angry</th>
</tr>
</thead>
<tbody>
<tr>
<td>9%</td>
<td>6%</td>
<td>9%</td>
<td>13%</td>
<td>17%</td>
<td>24%21%</td>
<td>19%</td>
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<td>18%</td>
<td>13%</td>
<td>24%</td>
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<td>32%</td>
<td>34%27%</td>
<td>14%</td>
<td>10%</td>
<td>13%</td>
</tr>
</tbody>
</table>

California 2016 in Red

Base: All US Adults (2014 n=2501, 2015 n=5037, 2016 n=30052)
Source: Q90 How would you describe your feelings about the health care you receive today, including how much you pay for it and the benefits you receive? Please select all that apply.
COST MATTERS BECAUSE CONSUMERS PAY MORE OF THE INCREASE ... THIS MAKES THEM FEEL MORE POWERLESS

Prepared for: Strategic Health Perspectives
Base: All US Adults (n=10011 split sample)
Q660. Please indicate if any of the following happened to you in the past year

- 28% Received a balance bill for care they thought was covered
- 8% Received a bill for hospital services "not in network" even though the hospital was in network
  - 21% California
  - 14% Have not
  - 25% Resigned / Given up
  - 35% Powerless
  - 5% Depressed
  - 21% Angry
  - 15% Have

- 13% Exchanged

- 12% Resigned / Given up
- 20% Powerless
- 10% Depressed
- 18% Angry
- 22% Have
WHO IS BORDERLINE?

They are NOT on public insurance!

- **40%** Have Employer based insurance
- **20%** Are uninsured
- **32%** Had 1+ ER visits last year

Gen Pop:
- 9% Empowered
- 7% Hopeful
- 15% Relieved
- 15% Accepting
- 15% Neutral
- 14% Resigned/ Given up
- 14% Powerless
- 30% Depressed
- 12% Angry
- 48% Have Employer based insurance
- 42% Had 3+ doctor visits last year
- 51% Received a balance bill for care they thought was covered

Overall medical care is major financial burden
Extremely concerned about ability to pay bills insurance doesn’t cover
LOW OUT-OF-POCKET COST REMAINS CRITICAL IN PICKING INSURANCE

Consumers concerned with premiums, deductibles and copays...reasonable cost sharing for hospital services and retail clinic coverage are surging.

Relative Importance of Benefit

**Above Average**
- Low monthly premiums
- Has a low deductible
- Low copay for doctor visits
- Access to all medical imaging at reasonable cost-sharing/co-pay
- Reasonable cost sharing, or copay levels for hospitalization

**Average**
- Direct access to all specialists (no referral needed)
- Includes an extensive network of doctors
- Access to leading hospitals in my area
- Coverage for dependents
- Coverage for medical care at retail clinics or urgent care centers
- Low copay for generic drugs
- Access to cutting edge medical devices and medications

**Below Average**
- Access to brand name drugs at reasonable cost-sharing, or co-pay, levels
- Provides me with cash incentives or rewards for healthy behavior
- Coverage for a wide selection of brand name drugs
- Includes an extensive network of hospitals
- Coverage for over-the-counter medications
- Access to specialty hospitals (i.e. children’s hospitals)
- The insurance brand is a name I know and trust

**Base: All Qualified Respondents (2015 n=5037)**

Q65 Respondents were given a maximum difference trade off exercise in which they were forced to choose the most preferred and least preferred plan feature. *Average is 100, and the scores represent importance relative to that average.*
PUBLIC AND ESI BENEFICIARIES HAVE FEWER OPTIONS, BUT PUBLIC PLAN RECIPIENTS MORE SATISFIED WITH OPTIONS

Percent with Insurance Plan Options by Type of Insurance

- Medicare: 65% reporting multiple options
- Medicaid: 52% reporting multiple options (↓)
- VA: 65% reporting multiple options (↑)
- Employer: 63% reporting multiple options
- Exchange: 79% reporting multiple options (↑)
- Individual: 43% reporting multiple options (↓)
- Other: 0%

Satisfaction with Plan Options by Insurance Type

- Very satisfied
- Somewhat satisfied
- Neither satisfied nor dissatisfied
- Somewhat dissatisfied
- Very dissatisfied
EMPLOYERS: STAY OR GO?
MAJORITY OF COVERED WORKERS ARE IN FIRMS OF 1,000 OR MORE

Distribution of Employers, Workers, and Workers Covered by Health Benefits, by Firm Size, 2016

Source: Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2016

Note: Data are based on a data request to the U.S. Census Bureau for their most recent (2013) Statistics of U.S. Businesses data on private sector firms. State and local government data are from the Census Bureau's 2012 Census of Governments.
JUMBO EMPLOYERS ARE SEEING A PROLONGED RESPITE FROM DOUBLE-DIGIT PREMIUM INCREASES, BUT THESE ARE STILL RUNNING AT TWO TIMES CPI

Projections for 2016:
Wide range of estimates

Health care trend after plan and contribution changes
CPI-U

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

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

- It is our responsibility to ensure our employees' health needs are met
- My company is actively exploring ways to get out of providing health insurance to our employees
- Employer-based health insurance will soon become a thing of the past
- My company feels it is worth it to pay the penalty associated with not providing employee health benefits rather than providing health benefits to our employees.*

* Asked only of Employers with 50 or more employees
Base: All Employer Health Benefit Decision Makers (n=340)
Q800: Please indicate your level of agreement with the following statements. Do you strongly agree, somewhat agree, somewhat disagree or strongly disagree?
PERCENTAGE OF ALL WORKERS COVERED BY THEIR EMPLOYERS’ HEALTH BENEFITS, IN FIRMS BOTH OFFERING AND NOT OFFERING HEALTH BENEFITS, BY FIRM SIZE, 1999-2016

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

MOST EMPLOYERS DO NOT THINK CURRENT INITIATIVES WORK WELL TO CONTAIN COSTS

CDHPs are at the bottom, but even wellness at the top of the list isn’t viewed as very effective

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Works Extremely/Very Well to Contain Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased emphasis on wellness and prevention</td>
<td>41%</td>
</tr>
<tr>
<td>Focus more on primary care</td>
<td>38%</td>
</tr>
<tr>
<td>Cost transparency tools for employees to make</td>
<td>34%</td>
</tr>
<tr>
<td>Aggressive management of specialty</td>
<td>32%</td>
</tr>
<tr>
<td>Negotiated reference pricing for specific</td>
<td>31%</td>
</tr>
<tr>
<td>Improved management of behavioral and</td>
<td>31%</td>
</tr>
<tr>
<td>Better manage heavy utilizers of care</td>
<td>31%</td>
</tr>
<tr>
<td>Centers of Excellence models</td>
<td>28%</td>
</tr>
<tr>
<td>Private exchanges</td>
<td>27%</td>
</tr>
<tr>
<td>Focus on accountable care / ACOs</td>
<td>27%</td>
</tr>
<tr>
<td>Direct contracting with hospitals</td>
<td>26%</td>
</tr>
<tr>
<td>Promoting greater use of bundled payments</td>
<td>26%</td>
</tr>
<tr>
<td>Narrow network health plans</td>
<td>25%</td>
</tr>
<tr>
<td>Expanded use of Patient-Centered Medical...</td>
<td>24%</td>
</tr>
<tr>
<td>Consumer Directed Health Plans (CDHP)</td>
<td>23%</td>
</tr>
</tbody>
</table>

Base: All Employer Health Benefit Decision Makers (n=340)
Q1709  How well do you think each of the following initiatives will work to contain costs?
EMPLOYERS MOST CONCERNED ABOUT HOSPITAL PRICES, SPECIALTY PHARMACEUTICALS AND CANCER CARE

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

<table>
<thead>
<tr>
<th>Level of Concern for Healthcare Cost Drivers, Total Employer Benefit Decision-Makers</th>
<th>2013</th>
<th>2014</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital inpatient prices</td>
<td>-</td>
<td>-</td>
<td>60%</td>
</tr>
<tr>
<td>Specialty pharmaceuticals</td>
<td>47%</td>
<td>54%</td>
<td>55%</td>
</tr>
<tr>
<td>Cancer care</td>
<td>54%</td>
<td>56%</td>
<td>54%</td>
</tr>
<tr>
<td>Hospital outpatient prices</td>
<td>47%</td>
<td>49%</td>
<td>50%</td>
</tr>
<tr>
<td>General pharmaceuticals</td>
<td>46%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Physician prices</td>
<td>54%</td>
<td>53%</td>
<td>48%</td>
</tr>
<tr>
<td>Obese patients generally</td>
<td>45%</td>
<td>53%</td>
<td>48%</td>
</tr>
<tr>
<td>Health plan fees for care management</td>
<td>45%</td>
<td>44%</td>
<td>44%</td>
</tr>
<tr>
<td>Diagnostic imaging</td>
<td>43%</td>
<td>47%</td>
<td>41%</td>
</tr>
<tr>
<td>Hospital outpatient utilization</td>
<td>40%</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>Innovative, breakthrough treatments/cures for disease</td>
<td>-</td>
<td>46%</td>
<td>40%</td>
</tr>
<tr>
<td>Orthopedic surgery (hips/knees/etc)</td>
<td>41%</td>
<td>44%</td>
<td>39%</td>
</tr>
<tr>
<td>Diabetes patients</td>
<td>-</td>
<td>-</td>
<td>39%</td>
</tr>
<tr>
<td>Physician utilization</td>
<td>45%</td>
<td>45%</td>
<td>37%</td>
</tr>
<tr>
<td>NICU/early childhood disease costs</td>
<td>0%</td>
<td>--</td>
<td>36%</td>
</tr>
<tr>
<td>Low-back pain treatment</td>
<td>43%</td>
<td>40%</td>
<td>34%</td>
</tr>
<tr>
<td>Maternity care</td>
<td>41%</td>
<td>40%</td>
<td>32%</td>
</tr>
<tr>
<td>Routine preventative testing</td>
<td>40%</td>
<td>43%</td>
<td>31%</td>
</tr>
</tbody>
</table>
STRATEGIC PLANS: 10 COMMON THEMES

• Strategic Growth
  – Acquisitions of geographically contiguous assets
  – Partnerships across continuum and with other players
  – Grow market share/catchment at expense of nearby competitors

• Consumer Engagement
  – Consumer as decision-maker
  – Role of Patient Satisfaction in Payment
  – Enhance consumer/patient experience
  – Consumer facing tools and technologies

• Physician Relationships
  – Clinical and Economic Integration
  – Three Buckets of Physicians and the “Docking Opportunities”
  – Acquiring and growing practices
  – Improving physician relationships
STRATEGIC PLANS: 10 COMMON THEMES

• Quality and Patient Safety
  – Pick an “operating system” for quality e.g. Lean, Six Sigma, High Reliability
  – Develop focused initiatives
  – Pick Measures and Accountability Path
  – Develop Governance framework e.g. Clinical Councils, Physician Compacts

• Innovation at Scale
  – Electronic Health Records as “table stakes”
  – Investment in new ventures
  – Big Data and Analytics Initiatives
  – Virtual Health
STRATEGIC PLANS: 10 COMMON THEMES

• Culture/People
  – Values Based Culture
  – Triple Aim
  – Best Place to Work
  – Engaged Workforce
  – Respect, Reliability, Resilience

• Value/Affordability
  – For consumers: Low Out of Pocket Costs, Convenience and Reputation
  – For Public Purchasers: MACRA and stars and bars
  – For Private Purchasers: ACOs, narrow networks centers of excellence

• Clinical Differentiation (Everyone Focusing on the same things where the money is currently)
  – Orthopedics
  – Cancer
  – Cardiovascular
  – Precision Medicine (AMCs)
STRATEGIC PLANS: 10 COMMON THEMES

• Financial Sustainability
  – Medicare/Medicaid/Bad debt hydraulics: permanent Impairment in Payer Mix
  – “Make Money on Medicare”
  – “No Margin, No Mission”
  – Recognize price cross subsidy from privates may not be sustainable
  – “Best Year ever in 2015...sours in 2016 and beyond...with Trump who knows?”

• Population Health and Risk (NB This is the differentiator in the strategies across health systems)
  – If Risk
    • Own Health Plan or Partnership
    • Direct Contracting with Employers
    • Medicare Advantage Direct
  – If Population Health
    • Invest in Pop Health Analytics and Infrastructure
    • Partner
    • Care Coordination
    • Social Work not Medical Care
RISK-BEARING STRATEGIES VARY CONSIDERABLY

Hospitals committing to clinical integration for contracting w/ payers, but full risk only for the few

Hospital Risk Management Strategy

- No plans to take risk beyond modest shared savings and pay-for-performance arrangements
- Experimenting w/risk arrangements, but small part of revenue
- Committed to clinical integration organization strategy for contracting w/payers
- Building an ACO model that is capable of taking risk such as Medicare Advantage or employer direct contracting
- Committed to moving the majority of revenues to fully at risk within 5 years

Base: All Hospital-Based Execs (2016: n=205; 2015: n=200; 2014: n=202)

Q980: Which of the following best describes your hospital’s/hospital system’s “risk bearing” strategy?
THE TENSION

Bundles
- More is still better
- Encourage improvement of teams
- Not everything is easily bundled
- "Screw me on the bundle, and I’ll screw you on the rest"

Population Health/Risk and Accountable Care
- Frequency
- Appropriateness
- Determinants of health care
- The mutual disrespect problem
- Social work not medical care
WHAT POPULATION LEVEL ANALYTICS REVEAL

• The 5/50 Problem
  – 5% account for 50% of spending
  – 1% account for 20%
  – Bottom 50% account for about 2%

• Segmentation of populations

• What you will find ...
  – HONDAS
  – Behavioral health
  – End-of-life care
  – Cancer
  – Frail elderly
  – Social work not medical care
  – Specialty pharmaceuticals
THE TRUCK, THE REFRIGERATOR AND THE BUS
LOOKING TO 2020

• Repeal and replace likely to cause strategic chaos, but....
• Pressure on public payment sources will continue
• Private Payers will not tolerate costs shift willingly
• Exchanges, Medicare Advantage, Managed Medicaid and DB to DC among employers makes market more retail
• Shallow-pocketed consumer becomes more important as decision maker as costs are shifted more to them
• Long run three payer segments: Managed Medicaid, HDHP (Exchange and Employer) and Medicare Advantage/ACO increase pressure to deliver value
• Care redesign for higher performance
  – Migrating Business model to Risk
  – Care coordination and management across the continuum of care
  – Alignment of all physicians, nurses and caregivers with this process
  – Consumer facing innovation in delivery and telehealth
  – Innovation at Scale
• Stay Tuned: Even More Change is Coming
THE END GAME

• Integrated Care
  – Integrated Health Systems of different flavors built around Medical Groups
  – “Fair share” of Medicaid and the Uninsured allocated through auto-enrollment
  – Targeted total cost of care targets tied to economic growth
  – Increased focus on population health
  – Large Self-Insured Employers given flexibility

• Medical Darwinism
  – 50+ million uninsured
  – Best care in the world based primarily on ability to pay
  – Doctors walk away from the poor
  – Widening performance disparities within and between states

• Single Payer
  – “You are not Canadian”
  – FFS Hamster Care
  – Massive transfer of income from rich to poor
  – Reduce the prices and incomes of all actors through government monopsony
  – “Balloon in a Box”
  – Change the mix: Get Rid of the Specialists
  – Good Luck With That
Figure 12

Democrats and Independents Favor National Health Plan While a Large Share of Republicans Strongly Oppose

Do you favor or oppose having a national health plan in which all Americans would get their insurance from a single government plan?

<table>
<thead>
<tr>
<th></th>
<th>Strongly favor</th>
<th>Somewhat favor</th>
<th>Somewhat oppose</th>
<th>Strongly oppose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>32%</td>
<td>22%</td>
<td>13%</td>
<td>29%</td>
</tr>
</tbody>
</table>

By Political Party ID

<table>
<thead>
<tr>
<th>Party</th>
<th>Strongly favor</th>
<th>Somewhat favor</th>
<th>Somewhat oppose</th>
<th>Strongly oppose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democrats</td>
<td>46%</td>
<td>24%</td>
<td>15%</td>
<td>11%</td>
</tr>
<tr>
<td>Independents</td>
<td>34%</td>
<td>24%</td>
<td>13%</td>
<td>26%</td>
</tr>
<tr>
<td>Republicans</td>
<td>11%</td>
<td>13%</td>
<td>11%</td>
<td>61%</td>
</tr>
</tbody>
</table>

NOTE: Question wording modified. See topline for full question wording. Don’t know/Refused responses not shown.
SOURCE: Kaiser Family Foundation Health Tracking Poll (conducted September 13-18, 2017)