On Rural Health Care and their IMPACT

Jamie Orlikoff
President, Orlikoff & Associates, Inc.
4800 S. Chicago Beach Drive
Suite 307N
Chicago Il 60615-2054
773-268-8009
j.orlikoff@att.net

Well Known U.S. Healthcare Crisis

- In 2010 we spent $2.6 trillion on health care, or $8,402 per person.
- The share of economic activity (GDP) devoted to health care has increased from 7.2% in 1970 to 17.9% in 2009 and 2010.
- Health care costs per capita have grown an average 2.4% faster than the GDP since 1970.
- Half of health care spending is used to treat just 5% of the population.

Source: Commonwealth Fund National Scorecard on U.S. Health System Performance, 2011.
Role of Health Spending in the Federal Budget
9.1. Health expenditure per capita, 2013 (or nearest year)

Note: Expenditure excludes investments, unless otherwise stated.
1. Includes investments.
2. Data refers to 2012.


StatLink: http://dx.doi.org/10.1787/888933281252
Benefit for the Cost?

Maternal-mortality rate, per 100,000 Live Births

[Graph showing maternal mortality rates from 1990 to 2013 for Developed Countries, Germany, Japan, and Britain. The rates are decreasing over time, with Developed Countries showing the steepest decline.

Maternal-mortality rate, per 100,000 Live Births

United States Maternal Mortality Rate 2006-10
Per 100,000 live births

- Black
- Other Races
- White
- Hispanic

Sources: Creanga et al. Obstetrics & Gynecology
Why Change?

If food prices had risen at medical inflation rates since the 1930s

<table>
<thead>
<tr>
<th>Item</th>
<th>2009</th>
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</thead>
<tbody>
<tr>
<td>1 dozen eggs</td>
<td>$85.08</td>
</tr>
<tr>
<td>1 pound apples</td>
<td>$12.97</td>
</tr>
<tr>
<td>1 pound sugar</td>
<td>$14.53</td>
</tr>
<tr>
<td>1 roll toilet paper</td>
<td>$25.67</td>
</tr>
<tr>
<td>1 dozen oranges</td>
<td>$114.47</td>
</tr>
<tr>
<td>1 pound butter</td>
<td>$108.29</td>
</tr>
<tr>
<td>1 pound bananas</td>
<td>$17.02</td>
</tr>
<tr>
<td>1 pound bacon</td>
<td>$129.94</td>
</tr>
<tr>
<td>1 pound beef shoulder</td>
<td>$46.22</td>
</tr>
<tr>
<td>1 pound coffee</td>
<td>$68.08</td>
</tr>
<tr>
<td><strong>10 Item Total</strong></td>
<td><strong>$622.27</strong></td>
</tr>
</tbody>
</table>

*Source: American Institute for Preventive Medicine*
Two-thirds of people in human history who have reached the age of 65 are alive right now!

Dr. Robyn I. Stone, LeadingAge
Aging of the Population, 2010-2050

Projections of the Change in Population by Age for the United States: 2010 to 2050

- Under 18: 75.2 mil to 101.6 mil, +35.1%
- 18 to 44 Years: 113.8 mil to 150.4 mil, +32.2%
- 45 to 64 Years: 81.0 mil to 98.5 mil, +21.6%
- 65+ Years: 40.2 mil to 88.5 mil, +120.1%

Source: U.S. Census Bureau, 2008
U.S. COMPARATIVE POPULATION
BY AGE     2015-2035

Source: Dept. of Commerce, Bureau of
Census, 2015
Is THIS Our Future?
U.S. Population growth mostly driven by the elderly:

- 65+ cohort will grow 28% in the next decade
  - 10,000 baby-boomers turn 65 every day (that’s one every 7 seconds)
  - This will continue for the next 18 years

- 65+ cohort will be 15% of total U.S. population by 2016
- Much higher ED use compared to other age cohorts
- 25% of Medicare beneficiaries have five or more chronic conditions, see an average of 13 physicians and fill 50 prescriptions per year.
What happens at age 57?

GOOD NEWS: Not-for-Profits See Ratings Upgrade to Stable from Negative

• Moody’s had a Negative rating for Hospitals and Systems since 2008, First Ratings Upgrade since then.

• "The stable outlook expresses our view that fundamental business, financial and economic conditions for the not-for-profit and public healthcare sector will neither erode significantly nor improve materially over the next 12 to 18 months”

GOOD NEWS: Not-for-Profits See Ratings Upgrade to Stable from Negative

- “Very strong growth in operating cash flow.” Following several years of flat growth, operating cash flow growth increased to 12.3% in 2014 from 0.3% in 2013. The metric remains solid at 11.5% through March 2015. Inpatient Volumes grew about 3% through First Quarter of 2015.

- Driving Factors: Significant Increases in the Number of Insured Individuals; a Reduction in Bad Debt, particularly in states which expanded Medicaid eligibility; Pent up Demand among newly insured; Strong Flu Season in 2014/2015; Improving Economy - all drove increases in Inpatient Volumes.

Hey, Wait a Minute! Are Those Storms Clouds Ahead?
Obamacare state rates could soar

Analysis of numbers submitted to feds: 43-55% hike for some

BY LISA SCHENCKER
Chicago Tribune

Illinois consumers are one step closer to facing sky-high increases for individual health insurance plans purchased through the Affordable Care Act’s marketplace.

A number of insurance companies withdraw from the Obamacare exchange because of financial losses, limiting choices as people prepare to enroll for 2017.

Rates could increase by an average of 44 percent for the lowest-priced bronze plans, 45 percent for silver plans and 14 percent for gold plans.
STUNNED BY THE PRICE HIKE OF OUR EPIDERMAL TREATMENT?
WE HAVE A NEW PRODUCT THAT CAN TREAT THAT!
Storm Clouds on the Horizon?

• While these factors are anticipated to continue, momentum is expected to taper to levels at or below historical levels.

• "The not-for-profit and public healthcare sector industry faces long-term challenges stemming from who pays for care, how providers are reimbursed, and changes in patient behavior. These risks may weigh on profitability and growth."

CMS Aggressively Moves Away from Fee For Service

- Track 1 Value-Based Payments = 85% of all Medicare Payments by end of 2016, and 90% by end of 2018.
- Track 2 Alternative Payment Models = 30% of all Medicare Payments by end of 2016, and 50% of all Medicare Payments by end of 2018.

Over Half of Hospitals Take Medicare 30 Day Readmission Penalties, losing a combined $420 million. Five conditions: heart attack, heart failure, pneumonia, chronic lung problems or elective hip or knee replacements.

In the fourth year of federal readmission penalties, 2,592 hospitals will receive lower payments for every Medicare patient that stays in the hospital — readmitted or not — starting in October, 2015.
CMS Value-Based Payment

• Average Medicare payment reduction is 0.61% per patient stay. 38 hospitals took the maximum cut of 3 percent. A total of 506 hospitals lost 1 percent of their Medicare payments or more.

• Most of the 2,232 hospitals spared penalties this year were excused NOT because of few readmissions, but because of automatic exemptions — VA; Children’s, Critical Access Hospitals, or low volume.

Kaiser Health News, August 3, 2015. CMS.
An Example of CMS Alternative Payment Model


- Establishes bundled payments covering hospitalizations, professional fees, and all clinically related Medicare Part A and Part B services for 90 days after discharge, including skilled nursing facility care, home care, and hospital readmissions.

CMS Alternative Payment Model: CCJR

• Bundled payment appeals to policymakers because it can cover a much wider spectrum of providers than models such as ACOs, which require a large base of primary care physicians and strong capital reserves.
• In 2013, more than 400,000 Medicare beneficiaries received hip or knee replacements at a cost of more than $7 billion for hospital stays alone. The initial hospitalization accounts for only about 55% of total episode costs; Medicare also spends about $6 billion during the 90-day post-acute period.

Hospitals would be financially accountable for quality. CMS proposes three quality measures: 30-day all-cause risk-standardized readmission rates, risk-standardized complication rates, and patient-experience scores on the HCAHPS.

Hospitals would have to score above the 30th percentile nationally on ALL quality measures in order to keep the savings they generate. About half of CCJR hospitals will fail to meet at least one of the three thresholds and will be ineligible for savings awards.
MACRA

• *Bipartisan* bill passed in 2015 to replace Medicare SGR
• Reimbursements for physicians and other providers impacted
• Replaced PQRS, VM and MU
• Payment systems under MACRA
  — MIPS (Merit Based Incentive Payment)
  — QPs (qualified providers)
• Final rules to be released fall 2016
• Data collection to begin January 2017, with payment changes beginning January 2019

MACRA = Medicare Advantage and CHIP Reauthorization Act; SGR = Sustainable Growth Rate; PQRS = Physician Quality Reporting System; VM = Value Modifier; MU = Meaningful Use
MACRA - MIPS

• Merit Incentive Payment System built on four “Domains”:
  • Resource Utilization
  • Quality
  • Clinical Process Improvement
  • Meaningful Use
Implications of MACRA

- Drive Radical Transformation of Physician Practice via Payment System Change
- Provide Physicians Opportunity to Make Money for participating in Alternative Payment Models (APMs)
- Accelerate Bundled Payment Use by Physicians, and Drive Use by Commercial Payers
- Increase Need for Coordination of Care Across Continuum; EHR connectivity
Trends Driving Health Costs Higher

• Insurers are Winning Big Rate Increases
• In the first quarter of 2015 many health insurers reported significant underwriting losses. Yet, The increase in high-deductible plans tends to delay underwriting losses until the deductible is met, typically well beyond the first half of the year.
• Consolidation of BOTH Insurers and Providers is Reducing Competition in local markets, where it matters most.
• Pharmaceutical costs are rising dramatically due to specialty branded drugs and price increases for generics. Prescription drug spend increased 13% in 2015, the largest annual increase since 2003. This was driven by a 30.9% increase in overall spending on expensive specialty medications (5.8% increase in use and 25% price inflation) and an overall 6.5% increase in the price of traditional medications. Pharmacy now accounts for over 15% of healthcare costs for employers. Trend likely to continue.
Trends Driving Health Costs Higher

“The relative stability we have enjoyed in healthcare costs over the last few years is about to come to an end. Real pain will be felt throughout the industry for providers, insurers, and ultimately the consumer. Those on the margins financially will become casualties, leaving the consumer caught in the middle between increasingly large insurers and provider systems.”
So...What is the Plan to Stop or Slow Down the (seemingly) Inexorable Growth in US Health Costs?
“Patient’s Have More Skin in the Game”

• Moody's pegged the increased popularity of high-deductible health plans for leading people to postpone care or seek out lower cost retail clinics.
CONSUMERISM – The Great Risk Transfer

Consumer-directed health plan enrollment has risen from 18% in 2013 to 23% of all covered employees in 2014, with average family deductible of $5,000
The number of people covered by an employer-sponsored high-deductible plan skyrocketed from just 4 percent in 2005 to 31 percent in 2011.

That percentage will keep rising, especially as people sign up for bronze and silver plans (which are typically classified as high-deductible plans) through the Affordable Care Act exchanges.

Fitch Ratings February 20, 2014; Kaiser Family Foundation;
Problem: Consumers Don’t Have Cash!

- 77 million Americans have defaulted on debt and are in collection of some kind. The vast majority of the millions receiving coverage through the Exchanges have deductibles greater than $2500, and annual out-of-pocket payment significantly higher than that.

- Forty-four percent of American households are “liquid asset poor”, meaning that they have three months or less of their household expenses in savings. And 51% do not have enough cash to pay off their outstanding credit card balances.

Jeff Goldsmith “The Death of “Reimbursement” and What It Means for Strategy” Future Scan 2015;
The U.S. regained the 8.7 Million jobs lost in the Great Recession, BUT the average wage of those jobs has dropped 23%!

Source: U.S. Conference of Mayors
August 12, 2014
Health Care Costs for a Family of Four Increased 5.4% in 2014, an Average Bump of $1,185 per Family and a Total Cost of $23,215, with Employers Paying $13,520 and Employees Paying $9,695.

Ninth Straight Year Annual Costs Have Increased by at Least $1,100. In 2013 Growth Was 6.3%, and in the Past Decade the Cost of Healthcare for That Family of Four as Measured by MMI Has Increased by 107%, from $11,192 in 2004 to $23,215 in 2014.

Employer Health Insurance Cost Increase Averaged 4% in 2015; But Employee Cost Increased 9%!
A problem for at Least HALF of Americans

• Only 11% of households with $2500 deductibles meet the deductible in a year, and only 4% of those with $5000 deductibles actually meet theirs.

“Thus, when people have major cost sharing responsibilities, they shy away from using healthcare if they possibly can, and they don’t pay their medical bills when care use is unavoidable”

-Jeff Goldsmith
Cumulative Increases in Health Insurance Premiums, Workers’ Contributions to Premiums, Inflation, and Workers’ Earnings, 1999-2013

Who Will Determine “Value” Payments?

“The final arbiter of value in a consumer-driven marketplace is going to be the hard-pressed American consumer and where they choose to spend limited family cash.”

-Jeff Goldsmith

Jeff Goldsmith “The Death of “Reimbursement” and What It Means for Strategy” Future Scan 2015;
Disruption is a predictable pattern across many industries in which fledgling companies use new technology to offer cheaper and inferior alternatives to products sold by established players (think Toyota taking on Detroit decades ago)
Disruptive Competitor??
Retailers have the advantage of experience in engaging with consumers.

Disruptive Innovators: Friend or Foe?

"That's where we're going now: full primary care services in five to seven years."

Vice President
Health and wellness payer relations
Walmart

4,600+
Number of Walmart stores in the United States

33%
Estimated portion of the U.S. population that visits Walmart every week
Walgreens, Providence Health to coordinate care through retail clinics

- A clinical collaboration to coordinate patient care through 25 new retail clinics in Oregon and Washington
- Providence Health will own and operate the clinics inside Walgreens stores. The integrated healthcare option, called Providence Express Care at Walgreens or Swedish Express Care at Walgreens, is a move intended to take retail care beyond urgent, episodic care to more coordinated health services
Walgreens, Providence Health to coordinate care through retail clinics

“This is a reflection of our efforts to develop deeper and more strategic relationships with our health system partners," Jeff Koziel, Walgreens group vice president for Healthcare Clinics, said in a statement. "Collaboration among providers is key in today's healthcare environment, to help ensure continuity of patient care and to provide greater convenience and access for patients. We look forward to working with Providence to expand the retail clinic footprint at Walgreens, and to help manage patients for both pharmacy and medical needs."

August 20, 2015 Becker’s Hospital Report
Consumers Expectations Changing Markets
Virtual Care

No appointment needed.
Get treated without leaving home.
$35 cost; no hidden fees.

Request Virtual Visit

24/7 Access
OSF OnCall is a convenient virtual urgent care clinic that is available any time of the day or night.
Get a diagnosis and treatment without an appointment.

What We Treat
Consult with board-certified physicians and nurse practitioners.
Our physicians and nurse practitioners can also prescribe medications when clinically appropriate.

Quick Care
Patients are typically seen by a provider in 30 minutes or less.
Save the time and expense of a trip to the doctor’s office. With just a few clicks, you can get better and back to business.
04 April 2013
Take Care Clinics Expand Scope of Health Care Services to Include Chronic Condition Management and Additional Preventive Health Offerings

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<thead>
<tr>
<th>Code</th>
<th>Service Description</th>
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<td>86644</td>
<td>CMV Antibody, IgG</td>
<td>$9.90</td>
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<td>86645</td>
<td>CMV Antibody, IgM</td>
<td>$11.58</td>
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<tr>
<td>80053</td>
<td>Comp. Metabolic Panel</td>
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<td>Complement Component 3 Antigen</td>
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<td>86180</td>
<td>Complement Component 4 Antigen</td>
<td>$8.25</td>
</tr>
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</table>
Concierge Medicine For The Poorest

The number of doctors enrolled in Medicare last year has hardly changed since 2005, and participants have increased less than 5%. Doctors have recently averted a 27% cut in Medicare payments, but that will only last until the end of the year. There are...
Consumerism

Revenue Transition

**Significant SHIFT:** Transition to Retail Health and Public Health Utility

- **Government**
  - Medicare
  - Medicaid
  - Subsidy

- **Commercial**
  - Employer
  - Private Exchange

- **Patient**
  - Private
  - Personal

**PAYER MIX**

- 100%
- 75%
- 50%
- 25%

**YEAR**

- 2000
- 2010
- 2020

**HEALTH**

- Retail Health

**INSURANCE COVERAGE**

**PUBLIC HEALTH UTILITY**
Consumerism

Revenue Transition

The Changing ALGEBRA: The payment system is evolving
Payment models are changing in different ways, at different rates, in different markets

1st Generation – Past

(Volume \uparrow) equals Margin

2nd Generation – Present

(Per Unit Cost \downarrow) + (Volume \uparrow) equals Margin

3rd Generation – Future

((Per Unit Cost \downarrow) + (Total Cost of Care \downarrow)) + ((Volume FFS \uparrow) + (Volume FFV \uparrow)) \times
(Quality \uparrow) equals Margin
How you can find a cheaper MRI

HealthEngine enables people to shop by price for medical treatments

BY KRISTEN SCHORSCH

In a world where people can comparison-shop for everything from an apartment to toothpaste with a few taps on a screen, good luck finding how much a hip replacement or MRI business focused on the small percentage of people with private insurance in the U.K. and Ireland, saving customers and their employers money by having hospitals and other facilities compete for one fee for a bundle of services. He sold that company in 2011 for an undisclosed amount to private-equity investors.

Chicago-based HealthEngine, which is anticipating HealthEngine's founder and
Of the 22 Chicago hospitals evaluated, six received A's. Two received B's, and the remaining 14 got a C or below.

Which Chicago hospitals are the safest and why

BY KATHERINE DAVIS

One of Chicago's highest-profile hospitals gets only average marks in a new patient safety report.

Leapfrog Group, a nonprofit that monitors safety and quality in American acute care hospitals, gave grades of A through F in its latest Hospital Safety report, gauging hospitals' track record of preventing avoidable deaths due to causes such as infections and miscommunication over medications. Scores are assigned by patient safety experts based on data, mostly from 2015 and 2014, compiled from Medicare, the American Hospital Association and from the hospitals themselves.

Of the 22 Chicago hospitals evaluated, six received A's. Two received B's, and the remaining 14 got a C or below.

Among the top-performing hospitals are Advocate Illinois Masonic Medical Center in Lakeview, Edward Hospital in Naperville and Rush University Medical Center in Chicago.

AVOIDABLE HOSPITAL DEATHS

Nonprofit Leapfrog Group graded American hospitals' safety and quality. Hospitals that received an A performed the best, and if all hospitals performed as well, 33,459 lives a year could be saved.

INCREASED RISK OF HOSPITAL DEATH

At B, C, D and F-graded hospitals compared to A-graded hospitals.

8.5% 35.2% 49.8% 49.8%

<table>
<thead>
<tr>
<th>Grade</th>
<th>Death Rate</th>
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<tbody>
<tr>
<td>B</td>
<td>8.5%</td>
</tr>
<tr>
<td>C</td>
<td>35.2%</td>
</tr>
<tr>
<td>D</td>
<td>49.8%</td>
</tr>
<tr>
<td>F</td>
<td>49.8%</td>
</tr>
</tbody>
</table>

AVOIDABLE DEATHS: 33,459 a year could be saved if all hospitals performed as well as A-rated hospitals.

also ranked very well in national comparisons of hospital safety.

"We would expect that a hospital's rate of that should be zero," Mobley says. "They actually scored well below zero and well below the national average for that measure."

Additionally, Mount Sinai scored poorly on preventing blood clots and collapsed lungs during surgery.

Dianne Hunter, director of public relations and communications at Mount Sinai, says in a statement: "Sinai Health System takes patient safety and healthcare quality very seriously, and our quality scores typically meet or exceed the national average. We are always looking at ways to improve, and this data will inform our ongoing efforts."

For all hospitals in Illinois, 43
• What Happens When we ALL Have $5,000.00 Deductibles and 20% Co-Pays???
A Brief Economics Lesson: Supply and Demand

“If the Supply of any good is insufficient, and its price is too high, then demand for that good should decrease, which should lead to a decline in its price.”

Thomas Piketty

Capital in the Twenty-First Century
Annual Percent Change in Hospital Prices

http://healthaffairs.org/blog/2014/06/12/how-much-market-power-do-hospitals-systems-have/
## The Law of Supply and Demand?

<table>
<thead>
<tr>
<th>Inpatient Demand Side</th>
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<th>2013</th>
<th>% Change</th>
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<tbody>
<tr>
<td>Admissions</td>
<td>36.1 M</td>
<td>33.6 M</td>
<td>(7%)</td>
</tr>
<tr>
<td>Admissions per 1000 of Population</td>
<td>159.1</td>
<td>106.6</td>
<td>(33%)</td>
</tr>
<tr>
<td>Average Length of Stay</td>
<td>7.6</td>
<td>5.4</td>
<td>(29%)</td>
</tr>
<tr>
<td>Average Daily Census</td>
<td>747 k</td>
<td>500 k</td>
<td>(33%)</td>
</tr>
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<table>
<thead>
<tr>
<th>Inpatient Supply Side</th>
<th>1980</th>
<th>2013</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Staffed Beds</td>
<td>988 k</td>
<td>796 k</td>
<td>(19%)</td>
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<tr>
<td>Staffed Beds per 1000</td>
<td>4.3</td>
<td>2.5</td>
<td>(42%)</td>
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<tr>
<td>Number of Community Hospitals</td>
<td>5,830</td>
<td>4,974</td>
<td>(15%)</td>
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</table>
The Law of Supply and Demand?

Does That Apply to Rural Hospitals Too??
• Fifty-seven rural hospitals closed from 2010 to September 2015
• 283 more are on the brink of closure; > 10% of Rural’s
• Since January 2013, more rural hospitals have closed than in the previous 10 years combined.
• More than a third of rural hospitals operated at a deficit in 2013.

WHY?

• Sequestration
• Decreased volume - In 2013, rural hospitals with < 100 beds had an occupancy rate of only 37%, compared with a 63% occupancy rate for urban facilities.
• A 35% cut in uncompensated care, and a 25% cut in DSH payments

WHY?

• Medicaid Expansion under ACA, or the Lack Thereof
• In Non-Expansion states, 16.5% of rural hospitals are vulnerable to closure
• In Expansion states, it is 8.5%
• About 75% of closures since 2010 have been in states that didn't expand Medicaid.

Pick on Someone Your Own Size!
Some Data on Insurer Consolidation

• The Combined Aetna and Humana will control 26% of the Medicare Advantage lives across the county with a high concentration in Florida, Ohio, Texas, North Carolina and Pennsylvania.

• The Centene-HealthNet merger impact will be more limited although in California, the combined entity will hold a 16% market share.

• The combined Anthem-Cigna merger is projected to hold about 23% of the nation's commercial covered lives and 6% of Medicare Advantage lives.

• Some states like Virginia, Kentucky, North Carolina, Texas and Ohio will experience a more significant consolidation of payer lives than other states.
And What About Population Health? ACOs?

- ACOs: “Where The Rubber Meets the Sky”!! (Nate Kaufman)

- Only 30% of MSSP ACOs Received a Bonus
- 45% of Pioneer ACOs Dropped Out – and HHS plans to Expand the “Successful” Pioneer ACO program!
- 50% Dropout Rate for Bundled Payment Pilots.
“Prestigious medical journals rejected stunning study on deaths among middle-aged whites”

Washington Post Nov. 3, 2015
US Mortality Rate

per 100,000 people aged 45-54

Source: Anne Case and Angus Deaton; PNAS (By The New York Times)
INCREASING CAUSES OF DEATHS

per 100,000 white Americans, 45-54

Source: Anne Case and Angus Deaton; PNAS (By The New York Times)
The mortality rate for white men and women ages 45-54 with less than a college education increased markedly between 1999 and 2013, most likely because of problems with legal and illegal drugs, alcohol and suicide, the researchers concluded. Before then, death rates for that group dropped steadily, and at a faster pace.
An increase in the mortality rate for any large demographic group in an advanced nation has been virtually unheard of in recent decades, with the exception of Russian men after the collapse of the Soviet Union.
“There’s this widening between people at the top and the people who have a ho-hum education and they’re not tooled up to compete in a technological economy. … Not only are these people struggling economically, but they’re experiencing this health catastrophe too, so they’re being hammered twice.”

Angus Deaton of Princeton University

Lead author of study, quoted in Washington Post, Nov. 3, 2015
"An increasingly pessimistic view of their financial future combined with the increased availability of opioid drugs has created this kind of perfect storm of adverse outcomes," said Jonathan Skinner, a professor of economics at Dartmouth College.
The Triple Aim

Population Health

Experience of Care

Per Capita Cost
Adverse Childhood Experiences (ACE) Are Strong Predictors of The Future

An ACE score of four is associated with:
- Seven-fold increase in alcoholism
- Doubling of risk of being diagnosed with cancer
- Four-fold increase in emphysema

An ACE score above six was associated with a 30-fold increase in attempted suicide
Changing Business Model

- 5+ years ago, Providers began to recognize three ways to earn revenue:
  1. Maximize unit reimbursement
  2. For given unit reimbursement, maximize quantity
  3. Take financial risk for managing the health of a population, lowering total costs and serve a greater number of unique patients
Risk Pyramid

- Full Capitation
- Risk-sharing
- Shared savings
- Value-Based purchasing
- Fee-for service

Increasing Risk
Which activity is riskier?
“Court orders physician to dole out $500k for trash talking sedated patient”

What About Quality and Safety?
How’s This for Patient Centric?

Tiffany Ingham, MD To Anesthetized Patient:

"After five minutes of talking to you in pre-op, I wanted to punch you in the face and man you up a little bit."

Patient is a “retard” whose arm rash is “probably tuberculosis in the penis”

"I'm going to mark 'hemorrhoids' even though we don't see them and probably won't." She did write a diagnosis of hemorrhoids on the patient's chart.
“Chicago Consumers’ Checkbook: Surgeon Ratings. First Ever National Website Identifying Surgeons with Good Outcomes in Wide Range of Major Surgeries”
Surgeon Ratings

“Based on our analysis of millions of Medicare claims records over a four-year period…Our research reveals that bad outcomes vary dramatically from surgeon to surgeon…”

“For major small and large bowel surgery, death rates ranged from less than six percent for the best-performing one-tenth of surgeons to more than 20 percent for the worst-performing one tenth.”

“For total hip and knee replacement, where deaths are rare, the best-performing one-tenth of surgeons had overall bad-outcome rates (deaths, complications, readmissions) of less than 8%, while the worst-performing one-tenth had overall bad-outcome rates of more than 21%.”

Hospital Medical Errors Now the THIRD LEADING CAUSE OF DEATH in the U.S.

Between 210,000 to 400,000 Deaths per year due to Preventable Harm! Just in HOSPITALS!!
AVOIDABLE DEATH IN HOSPITALS

206,000+
avoidable deaths in hospitals

Your Risk of Death at a Hospital

A
Compared to an A hospital, your risk of dying increases...

8.5%

B

35.2%

C

49.8%

D F

33,459 lives
could be saved every year if B, C, D, and F hospitals improved their patient safety record to that achieved by A hospital.

While “A” hospitals have better performance on safety than hospitals with lower grades, they still have opportunities for improvement and to save lives.
“At 3pm Friday, local autocrat C. Montgomery Burns was shot following a tense confrontation at Town Hall. Burns was rushed to a nearby hospital where he was pronounced dead.

--Kent Brockman
Newscaster, The Simpsons
So, what can we expect?

- Growing shift of health care costs to consumers/patients.
- System, hospital and physician top line revenue pressure will continue to grow. More Consolidation!! Leading to Growth of MEGA SYSTEMS!
- Bad debt migration: from uncompensated care to patients with insurance (with high deductibles, co-pays, premium shares) who can’t or won’t pay.
- Patients with increased out of pocket expense will pull back on demand and look for cheaper alternatives. Self-Rationing!
- Healthcare much more sensitive to Economic Tides
• Develop a Tolerance for Risk and Uncertainty
• Encourage Experimentation
• Embrace new delivery methods
• Acknowledge and Harness the power of the Consumer
• Expand the physical experience into the online world
• Find new revenue opportunities
• Create Governance 2.0!
Every System is Perfectly Designed to Achieve Exactly the Results it Gets
You Must Have CHAOS Within You to Give Birth to a Dancing Star –

Friedrich Nietzsche 1844-1900